CELGENE CORP /DE/
Form POS AM
December 30, 2005

Registration No. 333-75636

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

POST-EFFECTIVE AMENDMENT NO. 1
TO
FORM S-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

CELGENE CORPORATION
(Exact name of Registrant as specified in its charter)

DELAWARE	86 Morris Avenue	22-2711928
(State or other jurisdiction of incorporation or organization)	Summit, New Jersey 07901 (908) 673-9000	(I.R.S. Employer Identification No.)

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

JOHN W. JACKSON
CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER
CELGENE CORPORATION
86 MORRIS AVENUE, SUMMIT, NEW JERSEY 07901
(908) 673-9000
(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

COPIES OF COMMUNICATIONS TO:
Robert A. Cantone, Esq.
Proskauer Rose LLP
1585 Broadway, New York, New York 10036-8299
(212) 969-3000

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: From time to time or at one time after the effective date of this Registration Statement as determined by the Registrant.

If the only securities being registered on this Form are being offered pursuant to dividend or interest or interest investment plans, please check the following box. |_|

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. |X|

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. |_|

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. |_|

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. |X|

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. |_|

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

PROSPECTUS

$500,000,000

CELGENE CORPORATION

COMMON STOCK
DEBT SECURITIES

Celgene Corporation may offer from time to time common stock and debt securities separately or together. The securities will have a maximum aggregate offering price of $500,000,000, in amounts, at prices and on terms determined at the time of the offering of any such security. The specific terms and amounts of the securities will be fully described in supplements to this prospectus. Please read any prospectus supplements and this prospectus carefully before you invest. This prospectus may not be used to sell securities unless accompanied by a prospectus supplement.

Our common stock is traded on the NASDAQ National Market under the symbol "CELG." On December 27, 2005, the last reported sale price for our common stock on the NASDAQ National Market was $57.48 per share.

INVESTING IN OUR COMMON STOCK OR DEBT SECURITIES INVOLVES RISKS. SEE "RISK FACTORS" BEGINNING ON PAGE 7.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The securities may be sold directly by us to investors, through agents designated from time to time or to or through underwriters or dealers. See "Plan of Distribution." If any underwriters are involved in the sale of any securities in respect of which this prospectus is being delivered, the names of such underwriters and any applicable commissions or discounts will be set forth in a prospectus supplement. The net proceeds we expect to receive from such sale also will be set forth in a prospectus supplement.

December 30, 2005

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ABOUT THIS PROSPECTUS

This prospectus is part of a Registration Statement on Form S-3 that we filed with the Securities and Exchange Commission utilizing a "shelf" registration process. Under this shelf process, we may offer any combination of common stock or debt securities, or either common stock or debt securities only, described in this prospectus in one or more offerings up to a total amount of $500,000,000. This prospectus provides you with a general description of the securities we may

offer. Each time we use this prospectus to offer securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. If there is any inconsistency between the information in this prospectus and any prospectus supplement, you should rely on the information in that prospectus supplement. Additionally, in the event there is a material change to information contained in this prospectus, we will file a post-effective amendment setting forth an explanation of such change. You should read both this prospectus and any prospectus supplement together with additional information described below under the heading "Where You Can Find More Information."

In this prospectus and any prospectus supplement, unless otherwise indicated, the terms "Celgene," "we," "us" and "our" refer and relate to Celgene Corporation and its consolidated subsidiaries.

PROSPECTUS SUMMARY

You should read the following summary together with the more detailed information, including the consolidated financial statements and the notes to the consolidated financial statements and other information, incorporated by reference in this prospectus.

CELGENE CORPORATION

We are a multi-national integrated biopharmaceutical company, incorporated in 1986 as a Delaware corporation. We are primarily engaged in the discovery, development and commercialization of innovative therapies designed to treat cancer and immune-inflammatory-related diseases. Over the last several years, total revenues have steadily grown led by sales of THALOMID(R) (thalidomide), our lead product, which is currently marketed for the treatment of erythema nodosum leprosum, or (ENL), but more widely used off-label for treating multiple myeloma and other cancers. The sales growth of THALOMID(R) has enabled us to make substantial investments in research and development, which has advanced our broad portfolio of drug candidates in our product pipeline, including a pipeline of IMiDs(R) compounds, which are a class of compounds proprietary to Celgene and having certain immunomodulatory and other biologically important properties.

We had total revenue of $387.6 million for the nine months ended September 30, 2005 and $377.5 million for the year ended December 31, 2004, and net income of $59.7 million for the nine months ended September 30, 2005 and $52.8 million for the year ended December 31, 2004. We had an accumulated deficit of $174.7 million at September 30, 2005 and have since our inception in 1986 financed our working capital requirements primarily through product sales, private and public sales of our debt and equity securities, income earned on the investment of the proceeds from the sale of such securities and revenues from research contracts and license payments.

On December 27, 2005, the U.S. Food and Drug Administration, or the FDA, approved REVLIMID(R) (lenalidomide), our most clinically advanced IMiD(R) drug, for the treatment of patients with transfusion-dependent anemia due to low-or intermediate-1- risk myelodysplastic syndromes, or MDS, associated with a deletion 5q cytogenetic abnormality with or without additional cytogenetic abnormalities. REVLIMID(R) will be distributed through contracted pharmacies under the RevAssist(sm) program, which is a proprietary risk-management distribution program tailored specifically to help ensure the safe use of REVLIMID(R). We believe that REVLIMID(R) has significant commercial sales potential as a result of the compelling clinical data presented at major medical

meetings, the clinical findings reported in major peer-reviewed medical publications, and REVLIMID(R)'s multiple regulatory filing strategies. As we begin to execute our REVLIMID(R) launch activities in the United States, we believe it has the potential to increase sales growth and profitability by leveraging our established U.S. hematological-oncology sales force.

We are dedicated to innovative research and development in order to bring new therapies to market. We are involved in research in several scientific areas that may deliver proprietary next-generation therapies, such as cellular signaling biology, immunomodulation and placental stem cell research. The drugs we develop are designed to treat life-threatening diseases or chronic debilitating conditions where patients are poorly served by current therapies. Building on our growing knowledge of the biology behind hematological and solid tumor cancers, we are investing in a range of innovative therapeutic programs that are investigating ways to attack the disease source through multiple mechanisms of action and intracellular pathways.

Celgene products and investigational drug candidates that are targeting a variety of critical unmet medical needs are as follows:

COMMERCIAL STAGE PROGRAMS

Our commercial programs include pharmaceutical sales of REVLIMID(R), THALOMID(R), and ALKERAN(R) and sales of FOCALIN(TM) to Novartis Pharma AG, or Novartis; a licensing agreement with Novartis for FOCALIN XR(TM) and the entire RITALIN(R) family of drugs; a licensing and product supply agreement with Pharmion for its sales of thalidomide; and sales of biotherapeutic products and services and bio-medical devices including: LIFEBANK(TM), BIOVANCE(TM) and AMBIODRY(TM) through our Cellular Therapeutics subsidiary.

REVLIMID(R) (LENALIDOMIDE): REVLIMID(R) is an oral immunomodulatory drug recently granted approval by the FDA for the treatment of patients with transfusion-dependent anemia due to

low- or intermediate-1-risk myelodysplastic syndromes associated with a deletion 5q cytogenetic abnormality with or without additional cytogenetic abnormalities. REVLIMID(R) will be distributed through contracted pharmacies under the RevAssist(sm) program, which is a proprietary risk-management distribution program tailored specifically for REVLIMID(R). The FDA based its decision to grant market approval on data from the open label Phase II trial (MDS-003) that evaluated REVLIMID(R) in transfusion-dependent patients with myelodysplastic syndromes with deletion 5q chromosomal abnormality - the largest trial in this patient population reported to date - supported by a recommendation for approval on September 14, 2005 from the Oncologic Drugs Advisory Committee (ODAC). As a condition of approval, we agreed to timely complete specified post-marketing studies relating to the safety and effectiveness of REVLIMID(R) for its approved conditions of use.

Other efforts directed toward gaining additional regulatory approval of REVLIMID(R) include the acceptance of our Marketing Authorization Application, or MAA, on October 26, 2005 by the European Medicines Agency, or EMEA, as a treatment for the same indication approved in the United States and plans to submit a Supplemental New Drug Application, or sNDA, to the FDA, and an MAA to the EMEA as a treatment in multiple myeloma based on clinical data from two Phase III Special Protocol Assessment, or SPA, trials (MM-009 and MM-010), in the first quarter of 2006.

REVLIMID(R) continues to be investigated in clinical trials as a potential

treatment for blood cancers that affect more than 700,000 patients worldwide. The most advanced clinical studies evaluating REVLIMID(R) are Phase III trials - in the United States (MM-009) and in Europe (MM-010) for previously treated multiple myeloma patients, and Phase III trials in Europe (MDS-004) in myelodysplastic syndromes, or MDS. There are more than 50 clinical trials currently evaluating REVLIMID(R) either alone or in combination with one or more other therapies in the treatment of a broad range of debilitating diseases, including multiple myeloma, myelodysplastic syndromes, chronic lymphocytic leukemia, amyloidosis, myeloid fibrosis and solid tumor cancers. The Southwest Oncology Group, the Eastern Cooperative Oncology Group and the Cancer and Leukemia Group B, three of the largest adult cancer clinical trial organizations in the world, selected REVLIMID(R) for large clinical studies in randomized controlled Phase III trials designed to evaluate the safety and efficacy of REVLIMID(R) in multiple myeloma.

THALOMID(R) (THALIDOMIDE): THALOMID(R), which had net product sales totaling $282.0 million for the nine months ended September 30, 2005 and $308.6 million for the year ended December 31, 2004, was approved by the FDA in July 1998 for the treatment of acute cutaneous manifestations of moderate to severe erythema nodosum leprosum, or ENL, an inflammatory complication of leprosy. Although leprosy is relatively rare in the United States, the disease afflicts millions worldwide. ENL occurs in about 30% of leprosy patients and is characterized by skin lesions, acute inflammation, fever and anorexia. While approved for the treatment of ENL, THALOMID(R) is widely prescribed for treating multiple myeloma and other cancers based on clinical results presented at major medical meetings, clinical findings published in peer-reviewed medical journals and inclusion in the National Comprehensive Cancer Network, or NCCN, guidelines.

Working with the FDA, we developed S.T.E.P.S.(R), or "SYSTEM FOR THALIDOMIDE EDUCATION AND PRESCRIBING SAFETY," which is a proprietary strategic comprehensive education and risk-management distribution program with methods for the safe and appropriate use of THALOMID(R).

In November 2005, we received an approvable letter from the FDA in response to our THALOMID(R) sNDA, which we filed in December 2003, for the treatment of multiple myeloma. The FDA has requested revised product labeling with the specific indication of newly diagnosed multiple myeloma and updated safety information, as well as additional patient information to finalize its review. Multiple myeloma is an incurable disease, and it is the second most common blood cancer, affecting approximately 50,000 people in the United States. About 14,000 new cases of multiple myeloma are diagnosed each year and there are an estimated 11,000 deaths per year in the United States. THALOMID(R) is under development as a potential treatment for multiple cancers, and there are more than 100 clinical studies worldwide examining the potential of this compound as a single agent or in combination therapy.

ALKERAN(R): In March 2003, we entered into a supply and distribution agreement with GlaxoSmithKline, or GSK, to distribute, promote and sell in the United States ALKERAN(R) (melphalan), a therapy approved by the FDA for the palliative treatment of multiple myeloma and of carcinoma of the ovary. This agreement is strategically valuable to us because it provides us with an approved oncology product that complements our drug candidates, REVLIMID(R) and THALOMID(R), both of which are continuing to demonstrate favorable results in late-stage clinical trials for the treatment of multiple myeloma. ALKERAN(R) use in combination with other therapies for the treatment of hematological diseases continues to grow, driven by clinical data reported at major medical conferences around the world. Under

the terms of the agreement, we purchase ALKERAN(R) tablets and ALKERAN(R) for injection from GSK and distribute the products in the United States under the Celgene label. The agreement has been extended through March 31, 2009 and is automatically extendable by successive one-year periods, unless at least one year prior to the renewal date either party will advise the other party that it elects not to extend the agreement.

RITALIN(R) FAMILY OF DRUGS: We have a major collaboration with Novartis concerning the entire RITALIN(R) family of drugs. We discovered and developed FOCALIN(TM) and FOCALIN XR(TM), using advanced single-isomer chemistry technology, which are formulated by isolating the active d-isomer of methylphenidate, which provides favorable tolerability and dosing flexibility at only half the dose of RITALIN(R). Isomers are any of two or more chemical substances that are composed of the same elements in the same proportions but differ in properties because of differences in the arrangement of atoms. On November 15, 2001, FOCALIN(TM) was approved by the FDA for the treatment of attention deficit hyperactivity disorder, or ADHD, in children and adolescents. On May 27, 2005, FOCALIN XR(TM), an extended release version, was approved by the FDA for the treatment of ADHD in adults, adolescents and children.

We licensed the worldwide rights (excluding Canada) to FOCALIN(TM) and FOCALIN XR(TM) to Novartis in exchange for milestone payments, a FOCALIN(TM) product supply agreement and royalties on FOCALIN XR(TM) and the entire RITALIN(R) family of drugs including RITALIN(R), RITALIN LA(R) and RITALIN SR(R).

PRECLINICAL- AND CLINICAL-STAGE PIPELINE:

Our preclinical- and clinical-stage pipeline of new drug candidates, in addition to our cell therapies, is highlighted by multiple classes of small molecule, orally administered therapeutic agents designed to selectively regulate disease-associated genes and proteins. The drug candidates in our pipeline are at various stages of preclinical and clinical development. Successful results in preclinical or Phase I/II clinical studies may not be an accurate predictor of the ultimate safety or effectiveness of a drug candidate.

- PHASE I CLINICAL TRIALS

  If the FDA allows a request to initiate clinical investigations of a new drug candidate to become effective, Phase I human clinical trials can begin. These tests usually involve between 20 and 80 healthy volunteers or patients. The tests study a drug's safety profile, and may include preliminary determination of a drug candidate's safe dosage range. The Phase I clinical studies also determine how a drug is absorbed, distributed, metabolized and excreted by the body, and the duration of its action.

- PHASE II CLINICAL TRIALS

  In Phase II clinical trials, controlled studies are conducted on a limited number of patients with the targeted disease. An initial evaluation of the drug's effectiveness on patients is performed and additional information on the drug's safety and dosage range is obtained.

- PHASE III CLINICAL TRIALS

  This phase typically includes controlled multi-center trials and involves a larger target patient population to ensure that study results are statistically significant. During the Phase III clinical trials, physicians monitor patients to determine efficacy and to gather further information on safety.

IMiDs(R): IMiDs(R) are novel small molecule, orally available compounds that

modulate the immune system and other biologically important targets through multiple mechanisms of action. We have advanced four IMiDs(R) into development: REVLIMID(R) (CC-5013), ACTIMID(TM) (CC-4047) and CC-11006 are being evaluated in human clinical trials and CC-10015 is advancing toward potential clinical testing.

Our IMiDs(R) class of drug candidates are covered by an extensive and comprehensive intellectual property estate of U.S. and foreign-issued patents and pending patent applications including composition-of-matter, use and other patents and patent applications.

ACTIMID(TM): is one of the most potent IMiD(R) compounds that we are developing. ACTIMID(TM) is in Phase II trials to determine its potential safety and efficacy as an orally available treatment for multiple myeloma and prostate cancer. ACTIMID(TM) and REVLIMID(R) have different activity profiles which may lead to their evaluation in different diseases or stages of disease.

CC-11006: is a molecule we have identified as a potential treatment for chronic inflammatory diseases, many of which have unmet medical needs. CC-11006 entered Phase I human clinical trials in 2004. Following the completion of Phase I trials, we will evaluate our development options.

TNF alfa INHIBITORS: Our TNF alfa inhibitors potentially provide an oral approach for treating chronic inflammatory diseases. Our lead TNF alfa inhibitor investigational compound is CC-10004. Data from Phase II proof-of-principal trials support our decision to evaluate CC-10004 in pilot studies based on its ability to inhibit TNF alfa in serious inflammatory diseases such as psoriatic arthritis, rheumatoid arthritis and other immune-inflammatory indications. During 2005, CC-10004 completed Phase II clinical trials in exercise-induced asthma and psoriasis after successfully completing Phase I testing in healthy human volunteers. The clinical data demonstrated that CC-10004 is well tolerated with good bioavailability and pharmacokinetics in humans.

BENZOPYRANS: CC-8490, our lead investigational compound in this category, is in Phase I clinical trials for glioblastoma, a form of brain cancer, led by investigators at the National Cancer Institute. In Phase I trials in healthy human volunteers, CC-8490 has been shown to be well tolerated. Animal studies have demonstrated that the compound could have an important effect on solid tumors such as non-small cell lung cancer and colon cancer.

KINASE INHIBITORS: We have multiple target and drug discovery projects underway in the field of kinase inhibition. Kinases are molecules used by cells to regulate gene expression and protein production. Our kinase inhibitor platform includes inhibitors of the c-Jun N-terminal kinase pathway, or JNK. This pathway has been associated with the regulation of a number of important disease indications. CC-401, our lead JNK inhibitor, successfully completed a Phase I trial in healthy volunteers. We are currently evaluating the clinical potential of CC-401 in acute myelogenous leukemia (AML), a blood cancer, in a Phase II clinical trial.

LIGASE INHIBITORS: We are conducting extensive discovery research in the field of ligases, intracellular mechanisms that control the degradation of selected proteins within cells. We are identifying drug targets and compounds that regulate ligase pathways with the goal of controlling cellular proliferation and survival. Such compounds have the potential to be an important new class of anti-cancer and anti-inflammatory therapeutics.

PLACENTAL STEM CELLS: Stem cell based therapies offer the potential to provide

disease-modifying outcomes for serious diseases which today lack adequate therapy. At the Cellular Therapeutics subsidiary of Celgene (CCT), we are researching stem cells derived from the human placenta and umbilical cord. Our studies of placental stem cells over the past two years have uncovered biological activities with therapeutic promise. In December 2004, we filed an investigational new drug application (IND) with the FDA for our initial stem cell trial in sickle cell anemia. In sickle cell anemia, our research has shown that our IMiDs(R) can interact with stem cells and modulate them in such a way that they differentiate into erythrocytes, or red blood cells. We have also discovered a method of expanding the stem cell population in cord blood, to help generate the increased number and type of stem cells that may be necessary for treating patients with cancer and other indications in the future.

CCT has developed proprietary methods for producing placental biomaterials for organ and tissue repair that include products such as BIOVANCE(TM) and AMBIODRY(TM). Also, CCT has developed proprietary technology for collecting, processing and storing placental stem cells with potentially broad therapeutic applications in cancer, autoimmune, cardiovascular, neurological and other diseases.

SIGNIFICANT ALLIANCES

From time to time we enter into strategic alliances with third parties whereby we either (a) grant rights to certain of our compounds or (b) acquire rights to compounds owned by other pharmaceutical or biotechnology companies, in exchange for (1) rights to receive payments or (2) obligations to make payments to the partnering companies in the form of upfront payments, milestone payments contingent upon the achievement of pre-determined criteria and/or research and development funding. Under these arrangements, one of the parties may also purchase product and pay royalties on product sales. The following are our most significant alliances:

- NOVARTIS: In April 2000, we entered into an agreement with Novartis in which we granted to Novartis an exclusive worldwide license (excluding Canada) to develop and market FOCALIN(TM) (d-methylphenidate, or d- MPH) and FOCALIN XR(TM), the long-acting drug formulation. We have retained the exclusive commercial rights to FOCALIN(TM) and FOCALIN XR(TM) for oncology-related disorders, such as chronic fatigue associated with chemotherapy. We also granted Novartis rights to all of our related intellectual property and patents, including new formulations of the currently marketed RITALIN(R). Under the agreement, we have received upfront and regulatory achievement milestone payments totaling $55.0 million and are entitled to additional payments upon attainment of certain other milestone events. We also sell FOCALIN(TM) to Novartis as well as receive royalties on all of Novartis's FOCALIN(TM) and RITALIN(R) family of ADHD-related products. The research portion of the agreement ended in June 2003.

- PHARMION: In November 2001, we licensed to Pharmion Corporation exclusive rights relating to the development and commercial use of our intellectual property covering thalidomide. Under the terms of the agreement, we receive a royalty/license fee of 8% of Pharmion's net thalidomide sales in the licensed territory. In April 2003, we entered into an amendment to the agreement whereby Pharmion agreed to provide an aggregate of $8.0 million in research funding through December 2005 for the further clinical development of THALOMID(R). Separately in December 2004, following our acquisition of Penn T Limited, our wholly-owned subsidiary Celgene UK Manufacturing II Limited, or CUK II, (formerly known as "Penn T Limited")

entered into an amended thalidomide supply agreement with Pharmion whereby in exchange for a reduction in Pharmion's purchase price of thalidomide to 15.5% of its net sales of thalidomide, we received a one-time payment of $77.0 million. Under the December 2004 agreement, we also received a one-time payment of $3.0 million in return for granting license rights to Pharmion to develop and market thalidomide in additional territories and eliminating certain of our license termination rights. Under the agreements, as amended in December 2004, the territory licensed to Pharmion is for all countries other than the United States, Canada, Mexico, Japan and all provinces of China, other than Hong Kong. The agreements with Pharmion terminate upon the ten-year anniversary following receipt of the first regulatory approval for thalidomide in the United Kingdom.

Pharmion has also committed to providing funding to support further clinical development studies of thalidomide. Under these research and development agreements, Pharmion is required to pay us an additional $1.2 million during the three months ended December 31, 2005 and $2.7 million in each of 2006 and 2007.

On December 29, 2005, we held 1,939,600 shares of Pharmion common stock received in connection with the conversion of a five-year Senior Convertible Promissory Note purchased in April 2003 under a Securities Purchase Agreement with Pharmion and the exercise of warrants received in connection with the November 2001 thalidomide license and April 2003 Securities Purchase Agreement.

- GLAXOSMITHKLINE: In March 2003, we entered into a supply and distribution agreement with GSK to distribute, promote and sell ALKERAN(R) (melphalan), a therapy approved by the FDA for the palliative treatment of multiple myeloma and carcinoma of the ovary. Under the terms of the agreement, we purchase ALKERAN(R) tablets and ALKERAN(R) for infusion from GSK and distribute the products in the United States under the Celgene label. The agreement requires us to purchase certain minimum quantities each year under a take-or-pay arrangement. The agreement has been extended through March 31, 2009. The agreement is automatically extendable by successive one-year periods, unless at least one year prior to the renewal date, either party advises the other party that it elects not to extend the

agreement. On December 29, 2005, the remaining minimum purchase requirements under the agreement totaled $102.0 million, consisting of $13.7 million from the initial agreement and the following subsequent extensions:

- April 1, 2006 - December 31, 2006 $21,000,000
- January 1, 2007 - December 31, 2007 $29,050,000
- January 1, 2008 - December 31, 2008 $30,525,000
- January 1, 2009 - March 31, 2009 $7,725,000

Our principal executive offices are located at 86 Morris Avenue, Summit, New Jersey 07901, and our telephone number is (908) 673-9000. Additional information regarding us is set forth in our Annual Report on Form 10-K for the fiscal year ended December 31, 2004 (which is incorporated by reference in this prospectus).

RISK FACTORS

YOU SHOULD CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS, AS WELL AS THE OTHER INFORMATION CONTAINED IN THIS PROSPECTUS OR ANY SUPPLEMENTAL PROSPECTUS HERETO OR INCORPORATED HEREIN BY REFERENCE IN THIS PROSPECTUS, BEFORE PURCHASING ANY OF OUR COMMON STOCK OR DEBT SECURITIES.

ALTHOUGH WE ARE CURRENTLY PROFITABLE, WE HAVE A HISTORY OF OPERATING LOSSES AND AN ACCUMULATED DEFICIT.

For the nine months ended September 30, 2005, we posted net income of $59.7 million. For the years ended December 31, 2004 and December 31, 2003, we posted net income of $52.8 million and $25.7 million, respectively. Prior to 2003, we had sustained losses in each year since our incorporation in 1986. In addition, we had an accumulated deficit of $174.7 million at September 30, 2005 compared with $234.4 million at December 31, 2004. We expect to make substantial expenditures to further develop and commercialize our products. We also expect that our rate of spending will accelerate as the result of increased clinical trial costs and expenses associated with regulatory approval and commercialization of products now in development and products discovered, licensed or acquired by us in the future.

WE MAY EXPERIENCE SIGNIFICANT FLUCTUATIONS IN OUR QUARTERLY OPERATING RESULTS.

We have historically experienced, and expect to continue for the foreseeable future to experience, significant fluctuations in our quarterly operating results. These fluctuations are due to a number of factors, many of which are outside our control, and may result in volatility of our stock price. Future operating results will depend on many factors, including:

- demand for our products;
- regulatory approvals for our products;
- the timing and level of research and development and sales and marketing, including product launch, costs;
- the timing and level of reimbursement from third-party payors for our products;
- the timing of the introduction and market acceptance of new products by us or competing companies;
- the development or expansion of business infrastructure in new clinical and geographic markets;
- the acquisition of new products and companies;
- tax rates in the jurisdictions in which we operate;
- the timing and recognition of certain research and development milestones and license fees; and
- our ability to control our costs.

IF WE ARE UNSUCCESSFUL IN DEVELOPING AND COMMERCIALIZING OUR PRODUCTS, OUR BUSINESS, FINANCIAL CONDITION AND RESULTS OF OPERATIONS COULD BE MATERIALLY ADVERSELY AFFECTED WHICH COULD HAVE A NEGATIVE IMPACT ON THE VALUE OF OUR SECURITIES.

Many of our products and processes are in the early or mid-stages of research and development and will require the commitment of substantial financial

resources, extensive research, development, preclinical testing, clinical trials, manufacturing scale-up and regulatory approval prior to being ready for sale. With the exception of REVLIMID(R), THALOMID(R), ALKERAN(R), FOCALIN(TM) and FOCALIN XR(TM) (the extended release version) and AMBIODRY(TM), all of our other product candidates will require further development, clinical testing and regulatory approvals before initial commercial marketing in the United States and internationally.

Moreover, REVLIMID(R) requires further preclinical and clinical testing as a condition of approval and all of our commercially available products will require further development, clinical testing and regulatory approvals as we seek approvals in new indications and geographic markets. If it becomes too expensive to sustain our present commitment of resources on a long-term basis, we will be unable to continue certain necessary research and development activities. Furthermore, we cannot be certain that our clinical testing will render satisfactory results, or that we will receive required regulatory approvals for our new products or new indications. If any of our products, even if developed and approved, cannot be successfully commercialized, our business, financial condition and results of operations could be materially adversely affected which could have a negative impact on the value of our common stock or debt securities obligations.

DURING THE NEXT SEVERAL YEARS, WE WILL BE VERY DEPENDENT ON THE COMMERCIAL SUCCESS OF REVLIMID(R), THALOMID(R), ALKERAN(R), AND FOCALIN XR(TM).

At our present and anticipated level of operations, we may not be able to maintain profitability without continued growth in our revenues. The growth of our business during the next several years will be largely dependent on the commercial success of REVLIMID(R) and our other products. REVLIMID(R) was approved by the FDA on December 27, 2005 for the treatment of certain myelodysplastic syndromes, or MDS associated with a deletion 5q cytogenetic abnormality. REVLIMID(R) will be distributed through contracted pharmacies under the RevAssist(sm) program, which is a proprietary risk-management distribution program tailored specifically to help ensure the safe use of REVLIMID(R). We do not have long-term data on the use of the product and cannot predict whether REVLIMID(R) will gain widespread acceptance, which will mostly depend on the acceptance of regulators, physicians, patients and other key opinion leaders as a relatively safe and effective drug that has certain advantages as compared to existing or future therapies. In addition, some of our products compete with one another as therapies designed to treat cancer. For example, market acceptance of REVLIMID(R) may result to the detriment of THALOMID(R) and ALKERAN(R). We are also seeking to market REVLIMID(R) in Europe as well as for other indications in the United States. A delay in gaining the requisite regulatory approvals could negatively impact our growth plans and the value of our common stock or debt securities obligations.

THALOMID(R) is currently approved as a therapy for the treatment of ENL. However, the market for the use of THALOMID(R) in patients suffering from ENL is relatively small and we are dependent on revenues generated from its off-label use in treating multiple myeloma and other forms of cancer. We have filed an sNDA with the FDA seeking to market THALOMID(R) as a treatment in multiple myeloma and are awaiting the FDA's response. If THALOMID(R) does not receive market approval, we may not be able to maintain its market acceptance over time. In addition, if adverse experiences are reported in connection with the use of THALOMID(R) by patients, this could undermine physician and patient comfort with the product, could limit the commercial success of the product and could even impact the acceptance of our other products, including REVLIMID(R). Also, we are dependent upon sales of ALKERAN(R), which we license from GSK, and royalties

based on Novartis' sales of FOCALIN XR(TM), which we cannot directly impact.

Our revenues and profits would be negatively impacted if generic versions of any of these products were to be approved and launched.

WE FACE THE RISK OF PRODUCT LIABILITY CLAIMS.

We may be subject to a variety of product liability or other claims based on allegations that the use of our technology or products has resulted in adverse effects, whether by participants in our clinical trials, by patients using our products or by other persons exposed to our products. Thalidomide, when used by pregnant women, has resulted in serious birth defects. Therefore, necessary and strict precautions must be taken by physicians prescribing the drug and pharmacies dispensing the drugs to women with childbearing potential. These precautions may not be observed in all cases or, if observed, may not be effective. Use of thalidomide has also been associated, in a limited number of cases, with other side effects, including nerve damage. Although we have product liability insurance that we believe is sufficient, we may be unable to maintain existing coverage or obtain additional coverage on commercially reasonable terms if required, or our coverage may be inadequate to protect us in the event of a multitude of claims being asserted against us. Our obligation to defend against or pay any product liability or other claim may be expensive and divert the efforts of our management and technical personnel.

IF OUR PRODUCTS ARE NOT ACCEPTED BY THE MARKET, DEMAND FOR OUR PRODUCTS WILL DETERIORATE OR NOT MATERIALIZE AT ALL.

It is necessary that our and our distribution partners' products, including REVLIMID(R), THALOMID(R), ALKERAN(R), FOCALIN(TM) and FOCALIN XR(TM), achieve and maintain market acceptance. A number of factors

can render the degree of market acceptance of our products uncertain, including the products' efficacy, safety and advantages, if any, over competing products, as well as the reimbursement policies of third-party payors, such as government and private insurance plans. In particular, thalidomide, when used by pregnant women, has resulted in serious birth defects, and the negative history associated with thalidomide and birth defects may decrease the market acceptance of THALOMID(R). In addition, the products that we are attempting to develop through our Celgene Cellular Therapeutics subsidiary may represent substantial departures from established treatment methods and will compete with a number of traditional drugs and therapies which are now, or may be in the future, manufactured and marketed by major pharmaceutical and biopharmaceutical companies. Furthermore, public attitudes may be influenced by claims that stem cell therapy is unsafe, and stem cell therapy may not gain the acceptance of the public or the medical community. If our products are not accepted by the market, demand for our products will deteriorate or not materialize at all.

WE HAVE NO COMMERCIAL MANUFACTURING FACILITIES AND IF THE THIRD-PARTY MANUFACTURERS UPON WHOM WE RELY FAIL TO PRODUCE ON A TIMELY BASIS THE RAW MATERIALS OR FINISHED PRODUCTS IN THE VOLUMES THAT WE REQUIRE OR FAIL TO MEET QUALITY STANDARDS AND MAINTAIN NECESSARY LICENSURE FROM REGULATORY AUTHORITIES, WE MAY BE UNABLE TO MEET DEMAND FOR OUR PRODUCTS, POTENTIALLY RESULTING IN LOST REVENUES.

We do not currently manufacture any of our products on a commercial scale and have contracted with third-party manufacturers to supply the raw materials and finished products to meet our needs. Although a site has been purchased in Neuchatel, Switzerland and we are constructing a drug product manufacturing

facility, we intend to continue to utilize outside manufacturers as needed to produce certain of our products on a commercial scale.

The active pharmaceutical ingredient, or API, for THALOMID(R) is manufactured by Eagle Picher Pharmaceutical Services, a Division of Eagle-Picher Incorporated, which has filed to reorganize under Chapter 11 of the Bankruptcy Code. We currently have adequate supplies of API for THALOMID(R) on hand to support our projected long-term requirements and do not believe that the Eagle-Picher Chapter 11 bankruptcy filing will result in any supply disruptions for the foreseeable future. We rely on two drug product manufacturers, Penn Pharmaceuticals Services Limited (PPSL) and Institute of Drug Technology Australia Limited for the formulation and encapsulation of the finished dosage form of THALOMID(R) capsules, and on one contract packager, Sharp Corporation, for the packaging of the final product.

The API for FOCALIN(TM) is currently obtained from two suppliers, Johnson Matthey Inc. and Seigfried USA, Inc., and we rely on a single manufacturer, Mikart, Inc., for the tableting and packaging of FOCALIN(TM) finished product. We obtain the API for FOCALIN XR(TM) from Johnson Matthey Inc., which in turn is supplied to Novartis for the manufacture of FOCALIN XR(TM) finished product.

We have entered into an agreement with Evotec OAI Limited for the supply of REVLIMID(R) API, and have contracted with OSG Norwich Pharmaceuticals and PPSL for the manufacture of REVLIMID(R) finished product.

The FDA requires that all suppliers of pharmaceutical bulk material and all manufacturers of pharmaceuticals for sale in or from the United States achieve and maintain compliance with the FDA's current Good Manufacturing Practices (cGMP) regulations and guidelines. Failure of our third-party manufacturers to comply with applicable regulations could result in sanctions being imposed on them or us, including fines, injunctions, civil penalties, disgorgement, suspension or withdrawal of approvals, license revocation, seizures or recalls of products, operating restrictions and criminal prosecutions, any of which could significantly and adversely affect supplies of our products. In addition, before any product batch produced by our manufacturers can be shipped, it must conform to release specifications pre-approved by regulators for the content of the pharmaceutical product. If the operations of one or more of our manufacturers were to become unavailable for any reason, any required FDA review and approval of the operations of an alternative supplier could cause a delay in the manufacture of our products. If our outside manufacturers do not meet our requirements for quality, quantity or timeliness, or do not achieve and maintain compliance with all applicable regulations, demand for our products or our ability to continue supplying such products could substantially decline.

WE HAVE LIMITED MARKETING AND DISTRIBUTION CAPABILITIES.

Although we have a 179-person U.S. pharmaceutical commercial organization to support our products, we may be required to seek one or more corporate partners to provide marketing services with respect to certain of our products.

Any delay in securing these resources could substantially delay or curtail the marketing of these products. We have contracted with Ivers Lee Corporation, d/b/a Sharp, a specialty distributor, to distribute THALOMID(R) and REVLIMID(R). If Sharp does not perform its obligations, our ability to distribute THALOMID(R) may be severely restricted.

WE RECEIVE SIGNIFICANT REVENUES FROM COLLABORATIONS AND MAY BE DEPENDENT ON COLLABORATIONS AND LICENSES WITH THIRD PARTIES.

Our ability to fully commercialize our preclinical and clinical-stage pipeline, if developed, may depend to some extent upon our entering into collaborations with other pharmaceutical and biopharmaceutical companies with the requisite experience and financial and other resources to obtain regulatory approvals and to manufacture and market such products. Our collaborations and licenses include an exclusive license (excluding Canada) to Novartis for the development and commercialization of FOCALIN(TM) and FOCALIN XR(TM); an agreement with Pharmion Corporation to expand the THALOMID(R) franchise internationally; and an agreement with GSK enabling us to distribute, promote and sell ALKERAN(R). Our present and future arrangements may be jeopardized if any or all of the following occur:

- we are not able to enter into additional joint ventures or other arrangements on acceptable terms, if at all;
- our joint ventures or other arrangements do not result in a compatible working relationship;
- our partners change their business priorities, fail to perform as agreed upon or experience financial difficulties that disrupt necessary business operations;
- our joint ventures or other arrangements do not lead to the successful development and commercialization of any products;
- we are unable to obtain or maintain proprietary rights or licenses to technology or products developed in connection with our joint ventures or other arrangements; or
- we are unable to preserve the confidentiality of any proprietary rights or information developed in connection with our joint ventures or other arrangements.

WE MAY CONTINUE TO MAKE STRATEGIC ACQUISITIONS OF OTHER COMPANIES BUSINESSES OR PRODUCTS AND THESE ACQUISITIONS INTRODUCE SIGNIFICANT RISKS AND UNCERTAINTIES, INCLUDING RISKS RELATED TO INTEGRATING THE ACQUIRED BUSINESSES AND PRODUCTS AND TO ACHIEVING BENEFITS FROM THE ACQUISITIONS.

In order to take advantage of external growth opportunities, we have made, and may continue to make, strategic acquisitions that involve significant risks and uncertainties. These risks and uncertainties include: (1) the difficulty in integrating newly-acquired businesses and operations in an efficient and effective manner; (2) the challenges in achieving strategic objectives, cost savings and other benefits from acquisitions; (3) the risk that the technologies acquired do not evolve as anticipated; (4) contracts, agreements, assets and liabilities are not as represented; (5) the potential loss of key employees of the acquired businesses; (6) the risk of diverting the attention of senior management from our other operations; (7) the risks of entering new markets in which we have limited experience; (8) difficulties in expanding information technology systems and other business processes to accommodate the acquired businesses; and (9) future impairments of goodwill and other intangibles of an acquired business.

Many acquisition candidates in the biopharmaceuticals industry carry high price to earnings valuations. As a result, acquiring a business that has a high valuation may be dilutive to our earnings, especially when the acquired business has little or no revenue.

Key employees of acquired businesses may receive substantial value in connection with a transaction in the form of change-in-control agreements, acceleration of stock options and the lifting of restrictions on other equity-based compensation

rights. To retain such employees and integrate the acquired business, we may offer additional, sometimes costly, retention incentives.

THE HAZARDOUS MATERIALS WE USE IN OUR RESEARCH, DEVELOPMENT AND OTHER BUSINESS OPERATIONS COULD RESULT IN SIGNIFICANT LIABILITIES WHICH COULD EXCEED OUR INSURANCE COVERAGE AND FINANCIAL RESOURCES.

We use certain hazardous materials in our research, development and general business activities. While we believe we are currently in substantial compliance with the federal, state and local laws and regulations governing the use of these materials, we cannot be certain that accidental injury or contamination will not occur. Any such accident or contamination could result in substantial liabilities that could exceed our insurance coverage and financial resources. Additionally, the cost of compliance with environmental and safety laws and regulations may increase in the future, requiring us to expend more financial resources either in compliance or in purchasing supplemental insurance coverage.

THE PHARMACEUTICAL INDUSTRY IS SUBJECT TO EXTENSIVE GOVERNMENT REGULATION WHICH PRESENTS NUMEROUS RISKS TO US.

The discovery, preclinical development, clinical trials, manufacturing, marketing and labeling of pharmaceuticals and biologics are all subject to extensive regulation by numerous governmental authorities and agencies in the United States and other countries. If we or our contractors and collaborators are delayed in receiving, or are unable to obtain at all, necessary governmental approvals, we will be unable to effectively market our products.

The testing, marketing and manufacturing of our products require regulatory approval, including approval from the FDA and, in some cases, from the U.S. Environmental Protection Agency or governmental authorities outside of the United States that perform roles similar to those of the FDA and EPA. Certain of our pharmaceutical products, such as FOCALIN(TM), fall under the Controlled Substances Act of 1970 that requires authorization by the U.S. Drug Enforcement Agency, or DEA, of the U.S. Department of Justice in order to handle and distribute these products. The regulatory approval process presents several risks to us:

- In general, preclinical tests and clinical trials can take many years, and require the expenditure of substantial resources, and the data obtained from these tests and trials can be susceptible to varying interpretation that could delay, limit or prevent regulatory approval;

- Delays or rejections may be encountered during any stage of the regulatory process based upon the failure of the clinical or other data to demonstrate compliance with, or upon the failure of the product to meet, a regulatory agency's requirements for safety, efficacy and quality or, in the case of a product seeking an orphan drug indication, because another designee received approval first;

- Requirements for approval may become more stringent due to changes in regulatory agency policy, or the adoption of new regulations or legislation;

- The scope of any regulatory approval, when obtained, may significantly limit the indicated uses for which a product may be marketed and reimbursed and may impose significant limitations in the nature of warnings, precautions and contra-indications that could materially affect the sales and profitability of the drug;

- Pricing and reimbursement controls;

- Approved drugs, as well as their manufacturers, are subject to continuing and ongoing review, and discovery of previously unknown problems with these products or the failure to adhere to manufacturing or quality control requirements may result in restrictions on their manufacture, sale or use or in their withdrawal from the market;

- Regulatory authorities and agencies may promulgate additional regulations restricting the sale of our existing and proposed products;

- Once a product receives marketing approval, the FDA may not permit us to market that product for broader or different applications, or may not grant us approval with respect to separate product applications that represent extensions of our basic technology. In addition, the FDA may withdraw or modify existing approvals in a significant manner or promulgate additional regulations restricting the sale of our present or proposed products;

- Products, such as REVLIMID(R), that are subject to accelerated approval can be subject to an expedited withdrawal if the post-marketing study commitments are not completed with due diligence, the post-marketing restrictions are not adhered to or are shown to be inadequate to assure the safe use of the drug, or evidence demonstrates that the drug is not shown to be safe and effective under its conditions of use. Additionally, promotional materials for such drugs are subject to enhanced surveillance, including pre-approval review of all promotional materials used within 120 days following marketing approval and a requirement for the submissions 30 days prior to initial dissemination of all promotional materials disseminated after 120 days following marketing approval.

- Our labeling and promotional activities relating to our products are regulated by the FDA and state regulatory agencies and, in some circumstances, by the DEA, and are subject to associated risks. If we fail to comply with FDA regulations prohibiting promotion of off-label uses and the promotion of products for which marketing clearance has not been obtained, the FDA, or the Office of the Inspector General of the

Department of Health and Human Services or the state Attorneys General could bring an enforcement action against us that could inhibit our marketing capabilities as well as result in significant penalties.

The FDA's Center for Biologics Evaluation and Research currently regulates under 21 CFR Parts 1270 and 1271 human tissue intended for transplantation that is recovered, processed, stored or distributed by methods that do not change tissue function or characteristics and that is not currently regulated as a human drug, biological product or medical device. Certain stem cell activities fall within this category. Part 1270 requires tissue establishments to screen and test donors, to prepare and follow written procedures for the prevention of the spread of communicable disease and to maintain records. It also provides for inspection by the FDA of tissue establishments. Part 1271 requires human cells, tissue and cellular and tissue-based product establishments (HCT/Ps) to register with the agency and list their HCT/Ps.

Currently, we are required to be, and are, licensed to operate in New York and New Jersey, two of the states in which we currently collect placentas and umbilical cord blood for our allogeneic and private stem cell banking

businesses. If other states adopt similar licensing requirements, we would need to obtain such licenses to continue operating. If we are delayed in receiving, or are unable to obtain at all, necessary licenses, we will be unable to provide services in those states and this would impact negatively on our revenues.

WE MAY NOT BE ABLE TO PROTECT OUR INTELLECTUAL PROPERTY AND OUR PRODUCTS MAY BE SUBJECT TO GENERIC COMPETITION.

Our success depends, in part, on our ability to obtain and enforce patents, protect trade secrets, obtain licenses to technology owned by third parties and to conduct our business without infringing upon the proprietary rights of others. The patent positions of pharmaceutical and biopharmaceutical firms, including ours, can be uncertain and involve complex legal and factual questions.

Under the current U.S. patent laws, patent applications in the United States are maintained in secrecy from four to eighteen months, and publication of discoveries in the scientific and patent literature often lag behind actual discoveries. Thus, we may discover sometime in the future that we, or the third parties from whom we have licensed patents or patent applications, were not the first to make and/or file the inventions covered by the patents and patent applications in which we have or seek rights. In the event that a third party has also filed a patent application for any of the inventions claimed in our patents or patent applications, or those we have licensed-in, we could become involved in an interference proceeding declared by the U.S. Patent and Trademark Office to determine priority of invention or an opposition proceeding in other places such as Europe. Such an interference or opposition could result in the loss of an issued U.S. or foreign patent, respectively, or loss of any opportunity to secure U.S. patent protection for that invention. Even if the eventual outcome is favorable to us, such proceedings could result in substantial cost and delay to us and limit the scope of the claimed subject matter.

In addition, the coverage sought in a patent application may not be obtained or may be significantly reduced before the patent is issued. Consequently, if our pending applications, or pending application that we have licensed-in from third parties, do not result in the issuance of patents or if any patents that are issued do not provide significant proprietary protection or commercial advantage, our ability to sustain the necessary level of intellectual property rights upon which our success depends may be restricted.

Moreover, different countries have different procedures for obtaining patents, and patents issued in different countries provide different degrees of protection against the use of a patented invention by others. Therefore, if the issuance to us or our licensors, in a given country, of a patent covering an invention is not followed by the issuance in other countries of patents covering the same invention, or if any judicial interpretation of the validity, enforceability or scope of the claims in a patent issued in one country is not similar to the interpretation given to the corresponding patent issued in another country, our ability to protect our intellectual property in other countries may be limited.

Furthermore, even if our patents, or those we have licensed-in, are issued, our competitors may still challenge the scope, validity or enforceability of such patents in court, requiring us to engage in complex, lengthy and costly litigation. Alternatively, our competitors may be able to design around such patents and compete with us using the resulting alternative technology. If any of our issued or licensed patents are infringed, we may not be successful in enforcing our or our licensor's intellectual property rights or defending the validity or enforceability of our issued patents and subsequently not be able to develop or market applicable products exclusively.

FDA regulatory exclusivity for thalidomide has expired so that generic drug companies can file an abbreviated new drug application, or ANDA, to seek approval to market thalidomide in the United States. However, such an ANDA filer will need to challenge the validity or enforceability of our United States patents relating to our S.T.E.P.S.(R) program or to demonstrate that they do not use an infringing risk management program. We cannot predict whether an ANDA challenge to our patents will be made, nor can we predict whether our S.T.E.P.S.(R) patents can be circumscribed or invalidated or otherwise rendered unenforceable. However, if such an ANDA was filed and approved by the FDA, and the generic company was successful in challenging our patents listed in the Orange Book for THALOMID(R), the generic company would be permitted to sell a generic thalidomide product.

Further, we rely upon unpatented proprietary and trade secret technology that we try to protect, in part, by confidentiality agreements with our collaborative partners, employees, consultants, outside scientific collaborators, sponsored researchers and other advisors. If these agreements are breached, we may not have adequate remedies for any such breach. Despite precautions taken by us, others may obtain access to or independently develop our proprietary technology or such technology may be found to be non-proprietary or not a trade secret.

Our right to practice the inventions claimed in certain patents that relate to THALOMID(R) arises under licenses granted to us by others, including The Rockefeller University and Children's Medical Center Corporation, or CMCC. In addition to these patents, which relate to thalidomide, we have also licensed from CMCC certain patents relating to thalidomide analogs. In December 2002, we entered into an exclusive license agreement with CMCC and EntreMed Inc. pursuant to which CMCC exclusively licensed to us certain patents and patent applications that relate to analogs, metabolites, precursors and hydrolysis products of thalidomide, and all stereoisomers thereof. Our license under the December 2002 agreement is worldwide and royalty-bearing, and we have complete control over the prosecution of the licensed thalidomide analog patent rights. Under this December 2002 agreement, we are obligated to comply with certain milestones, for a REVLIMID(R) approval and royalties with respect to sales of REVLIMID(R). The December 2002 agreement also grants us an option for a certain time period, to inventions in the field of thalidomide analogs that may be developed at CMCC in the laboratory of Dr. Robert D'Amato, pursuant to the terms and conditions of a separate Sponsored Research Agreement negotiated between CMCC and us.

Further, while we believe these confidentiality agreements and license agreements to be valid and enforceable, our rights under these agreements may not continue or disputes concerning these agreements may arise. If any of the foregoing should occur, we may be unable to rely upon our unpatented proprietary and trade secret technology, or we may be unable to use the third-party proprietary technology we have licensed-in, either of which may prevent or hamper us from successfully pursuing our business.

On August 19, 2004, we, together with our exclusive licensee Novartis, filed an infringement action in the United States District Court of New Jersey against Teva Pharmaceuticals USA, Inc., in response to notices of Paragraph IV certifications made by Teva in connection with the filing of an ANDA for FOCALIN(TM). The notification letters contend that United States Patent Nos. 5,908,850, and 6,355,656, or '656 patent, are invalid. The '656 patent is currently the subject of reexamination proceedings in the United States Patent and Trademark Office. After the suit was filed, Novartis listed another patent, United States Patent No. 6,528,530, or '530 patent, in the Orange Book in association with the FOCALIN(TM) NDA. The '530 patent is currently not part of the patent infringement action against Teva. This case does not involve an ANDA

for RITALIN LA(R) or FOCALIN XR(TM) as such an ANDA has not been filed. Recently, Teva amended its answer to contend that the '850 patent was not infringed by the filing of its ANDA, and that the '850 patent is not enforceable due to an allegation of inequitable conduct. Fact discovery is set to expire on February 28, 2006. No trial date has been set. If successful, Teva will be permitted to sell a generic version of FOCALIN(TM), which could significantly reduce our sales of FOCALIN(TM) to Novartis.

It is also possible that third-party patent applications and patents could issue with claims that broadly cover certain aspects of our business or of the subject matter claimed in the patents or patent applications owned or optioned by us or licensed to us, which may limit our ability to conduct our business or to practice under our patents, and may impede our efforts to obtain meaningful patent protection of our own. If patents are issued to third parties that contain competitive or conflicting claims, we may be legally prohibited from pursuing research, development or commercialization of potential products or be required to obtain licenses to these patents or to develop or obtain alternative technology. We may be legally prohibited from using patented technology, may not be able to obtain any license to the patents and technologies of third parties on acceptable terms, if at all, or may not be able to obtain or develop alternative technologies. Consequently, if we cannot successfully defend against any patent infringement suit that may be brought against us by a third-party, we may lose the ability to continue to conduct our business as

we presently do, or to practice certain subject matter delineated by patent claims that we have exclusive rights to, whether by ownership or by license, and that may have a material adverse effect on our business.

We rely upon trademarks and service marks to protect our rights to the intellectual property used in our business. On October 29, 2003, we filed a lawsuit against Centocor, Inc. to prevent Centocor's use of the term "I.M.I.D.s" in connection with Centocor's products, which use, we believe, is likely to cause confusion with our IMiDs(R) registered trademark for compounds being developed by us to treat cancer and inflammatory diseases. If we are not successful in this suit, it may be necessary for us to adopt a different trademark for that class of compounds and thereby lose the value we believe we have built in the "IMiDs(R)" mark.

On January 15, 2004, an opposition proceeding was brought by Celltech R&D Ltd. against granted European Patent 0728143 which we have licensed from the University of California relating to JNK 1 and JNK 2 polypeptides. This proceeding is directed solely to our claims for JNK 2 and not JNK 1. An oral hearing occurred in October of 2005 in which the European Patent Office advised us of its intent to revoke certain of our claims. We await a written decision. The written decision may be appealed. We do have other JNK1 and JNK European patent application claims pending.

THE PHARMACEUTICAL AND BIOTECH INDUSTRY IS HIGHLY COMPETITIVE AND SUBJECT TO RAPID AND SIGNIFICANT TECHNOLOGICAL CHANGE.

The pharmaceutical industry in which we operate is highly competitive and subject to rapid and significant technological change. Our present and potential competitors include major pharmaceutical and biotechnology companies, as well as specialty pharmaceutical firms, including but not limited to:

- Amgen, which potentially competes with our TNF alfa and kinase inhibitors;
- Novartis, which potentially competes with our IMiDs(R) and kinase

programs;

- Bristol Myers Squibb Co., which potentially competes in clinical trials with our IMiDs(R) and TNF alfa inhibitors;
- Genentech, Inc., which potentially competes in clinical trials with our IMiDs(R) and TNF alfa inhibitors;
- AstraZeneca plc, which potentially competes in clinical trials with our IMiDs(R) and TNF alfa inhibitors;
- Millennium Pharmaceuticals, Inc., which potentially competes in clinical trials with our IMiDs(R) and TNF alfa inhibitors as well as with THALOMID(R);
- Vertex Pharmaceuticals Inc. and Pfizer Inc., which potentially compete in clinical trials with our kinase inhibitors; and
- Biogen IDEC Inc. and Genzyme Corporations, both of which are generally developing drugs that address the oncology and immunology markets.

Many of these companies have considerably greater financial, technical and marketing resources than we. We also experience competition from universities and other research institutions, and in some instances, we compete with others in acquiring technology from these sources. The pharmaceutical industry has undergone, and is expected to continue to undergo, rapid and significant technological change, and we expect competition to intensify as technical advances in the field are made and become more widely known. The development of products or processes by our competitors with significant advantages over those that we are seeking to develop could cause the marketability of our products to stagnate or decline.

SALES OF OUR PRODUCTS ARE DEPENDENT ON THIRD-PARTY REIMBURSEMENT.

Sales of our products will depend, in part, on the extent to which the costs of our products will be paid by health maintenance, managed care, pharmacy benefit and similar health care management organizations, or reimbursed by government health administration authorities, private health coverage insurers and other third-party payors. These

health care management organizations and third-party payors are increasingly challenging the prices charged for medical products and services. Additionally, the containment of health care costs has become a priority of federal and state governments, and the prices of drugs have been a focus in this effort. If these organizations and third-party payors do not consider our products to be cost-effective or competitive with other available therapies, they may not reimburse providers or consumers of our products or, if they do, the level of reimbursement may not be sufficient to allow us to sell our products on a profitable basis.

WE HAVE GROWN RAPIDLY, AND IF WE FAIL TO ADEQUATELY MANAGE THAT GROWTH OUR BUSINESS COULD BE ADVERSELY IMPACTED.

We have an aggressive growth plan that has included substantial and increasing investments in research and development, sales and marketing and facilities. We plan to continue to grow and our plan has a number of risks, some of which we cannot control. For example:

- we will need to generate higher revenues to cover a higher level of operating expenses, and our ability to do so may depend on factors that we do not control;

- we will need to assimilate new staff members;

- we will need to manage complexities associated with a larger and faster growing organization; and

- we will need to accurately anticipate demand for the products we manufacture and maintain adequate manufacturing capacity, and our ability to do so may depend on factors that we do not control.

THE PRICE OF OUR COMMON STOCK MAY FLUCTUATE SIGNIFICANTLY, WHICH MAY MAKE IT DIFFICULT FOR YOU TO SELL THE COMMON STOCK WHEN YOU WANT OR AT PRICES YOU FIND ATTRACTIVE.

There has been significant volatility in the market prices for publicly traded shares of biopharmaceutical companies, including ours. We expect that the market price of our common stock will continue to fluctuate. The intra-day price of our common stock fluctuated from a high of $63.27 per share to a low of $24.70 per share for the 11 months ended November 30, 2005. On December 27, 2005, our common stock closed at a price of $57.48 per share. The price of our common stock may not remain at or exceed current levels. The following key factors may have an adverse impact on the market price of our common stock:

- results of our clinical trials or adverse events associated with our marketed products;

- announcements of technical or product developments by our competitors;

- market conditions for pharmaceutical and biotechnology stocks;

- market conditions generally;

- governmental regulation;

- health care legislation;

- public announcements regarding medical advances in the treatment of the disease states that we are targeting;

- patent or proprietary rights developments;

- changes in pricing and third-party reimbursement policies for our products; or

- fluctuations in our operating results.

In addition, the stock market in general has experienced extreme volatility that has often been unrelated to the operating performance of a particular company. These broad market fluctuations may adversely affect the market price of our common stock.

THE NUMBER OF SHARES OF OUR COMMON STOCK ELIGIBLE FOR FUTURE SALE COULD ADVERSELY AFFECT THE MARKET PRICE OF OUR COMMON STOCK.

Future sales of substantial amounts of our common stock or debt or other

securities convertible into common stock could adversely affect the market price of our common stock. As of December 29, 2005, there were outstanding stock options and warrants for 25,430,361 shares of common stock, of which 24,976,654 were currently exercisable at an exercise price range between $0.08 per share and $71.34 per share, with a weighted average exercise price of $26.98 per share. These amounts include outstanding options and warrants of Anthrogenesis Corp. (which is now our Celgene Cellular Therapeutics subsidiary) that we assumed as part of our acquisition of Anthrogenesis on December 31, 2002 and that were converted into outstanding options and warrants of our common stock pursuant to an exchange ratio. In addition, in June 2003, we issued $400.0 million of unsecured convertible notes that are currently convertible into 16,511,180 shares of our common stock at the conversion price. The conversion of some or all of these notes will dilute the ownership interest of existing stockholders.

OUR SHAREHOLDER RIGHTS PLAN AND CERTAIN CHARTER AND BY-LAW PROVISIONS MAY DETER A THIRD-PARTY FROM ACQUIRING US AND MAY IMPEDE THE STOCKHOLDERS' ABILITY TO REMOVE AND REPLACE OUR MANAGEMENT OR BOARD OF DIRECTORS.

Our board of directors has adopted a shareholder rights plan, the purpose of which is to protect stockholders against unsolicited attempts to acquire control of us that do not offer a fair price to all of our stockholders. The rights plan may have the effect of dissuading a potential acquirer from making an offer for our common stock at a price that represents a premium to the then current trading price.

Our board of directors has the authority to issue, at any time, without further stockholder approval, up to 5,000,000 shares of preferred stock, and to determine the price, rights, privileges and preferences of those shares. An issuance of preferred stock could discourage a third-party from acquiring a majority of our outstanding voting stock. Additionally, our board of directors has adopted certain amendments to our by-laws intended to strengthen the board's position in the event of a hostile takeover attempt. These provisions could impede the stockholders' ability to remove and replace our management and/or board of directors.

Furthermore, we are subject to the provisions of Section 203 of the Delaware General Corporation Law, an anti-takeover law, which may also dissuade a potential acquirer of our common stock.

FORWARD-LOOKING STATEMENTS

Certain statements contained or incorporated by reference in this prospectus are forward-looking statements concerning our business, financial condition, results of operations, economic performance and financial condition. Forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and within the meaning of Section 21E of the Securities Exchange Act of 1934 are included, for example, in the discussions about:

- our strategy;
- new product discovery, development or product introduction;
- product manufacturing;
- product sales, royalties and contract revenues;
- expenses and net income;

- our credit risk management;

- our liquidity;

- our asset/liability risk management; and

- our operational and legal risks.

These and other forward-looking statements involve risks and uncertainties. Actual results may differ materially from those expressed or implied in those statements. Factors that could cause such differences include, but are not limited to, those discussed under the preceding section called "Risk Factors."

USE OF PROCEEDS

Unless otherwise indicated in a prospectus supplement, the net proceeds from the sale of securities offered by this prospectus will be used for general corporate purposes, including further development of our lead clinical programs, expansion of our international operations, capital expenditures and to meet working capital needs. We expect from time to time to evaluate the acquisition of businesses, products and technologies for which a portion of the net proceeds may be used. We will use a prospectus supplement in connection with the sale of securities offered by this prospectus to further specify how we intend to use any proceeds generated by such sale.

RATIO OF EARNINGS TO FIXED CHARGES

The following table shows our historical ratio of earnings to fixed charges, or deficiency of earnings, for each of the five most recent fiscal years and for the nine months ended September 30, 2005 (dollars in thousands):

	NINE MONTHS ENDED SEPTEMBER 30, 2005	YEARS ENDED DECEMBER 31, 2004	2003	2002	2001	2000
Ratio of earnings to fixed charges (1)	11.1	7.4	5.3	--	--	--
Deficiency of earnings available to cover fixed charges (2)	--	--	--	$(91,590)	$(4,136)	$(18,813)

(1) For purposes of computing the ratio of earnings to fixed charges, earnings consist of the sum of our pretax income from continuing operations before loss from equity investees and fixed charges. Fixed charges consist of interest expense, amortization of debt discount, premium and expense, capitalized interest and a portion of lease payments considered to represent an interest factor.

(2) There was a deficiency of earnings available to cover fixed charges for the years 2000-2002 because we incurred net losses in each of those years.

DESCRIPTION OF CAPITAL STOCK

Our authorized capital stock consists of 275,000,000 shares of common stock, par value $.01 per share, and 5,000,000 shares of preferred stock, par value $.01 per share, of which 520 shares have been designated Series A convertible preferred stock and 20,000 shares have been designated as Series B convertible preferred stock. As of December 27, 2005, there were 171,120,633 shares of common stock outstanding, no shares of Series A convertible preferred stock outstanding and no shares of Series B convertible preferred stock outstanding.

COMMON STOCK

Holders of common stock are entitled to one vote for each share held on all matters submitted to a vote of stockholders, and do not have cumulative voting rights. Holders of common stock are entitled to receive ratably such dividends, if any, as may be declared by our board of directors out of funds legally available therefor, and subject to any preferential dividend rights of any then outstanding preferred stock. Upon our liquidation, dissolution or winding up, the holders of common stock are entitled to receive ratably our net assets available after the payment of all debts and other liabilities and subject to any liquidation preference of any then outstanding preferred stock. Holders of common stock have no preemptive, subscription or conversion rights. There are no redemption or sinking fund provisions applicable to the common stock. The outstanding shares of common stock are, and any shares offered by us in this offering will be when issued and paid for, fully paid and non-assessable.

PREFERRED STOCK

Our board of directors has the authority, subject to certain restrictions, without further stockholder approval, to issue, at any time and from time to time, shares of preferred stock in one or more series. Each such series shall have such number of shares, designations, preferences, voting powers, qualifications, and special or relative rights or privileges as shall be determined by our board of directors, which may include, among others, dividend rights, voting rights, redemption and sinking fund provisions, liquidation preferences, conversion rights and preemptive rights, to the full extent now or hereafter permitted by the laws of the State of Delaware.

The rights of the holders of common stock will be subject to, and may be adversely affected by, the rights of holders of any preferred stock that may be issued in the future. Such rights may include voting and conversion rights which could adversely affect the holders of the common stock. Satisfaction of any dividend preferences of outstanding preferred stock would reduce the amount of funds available, if any, for the payment of dividends on common stock. Holders of preferred stock would typically be entitled to receive a preference payment.

SHAREHOLDER RIGHTS PLAN

Our board of directors has adopted a shareholder rights plan. The shareholder rights plan was adopted to give our board of directors increased power to negotiate in our best interests and to discourage appropriation of control of us at a price that is unfair to our stockholders. It is not intended to prevent fair offers for acquisition of control determined by our board of directors to be in the best interests of us and our stockholders, nor is it intended to prevent a person or group from obtaining representation on or control of our board of directors through a proxy contest, or to relieve our board of directors of its fiduciary duty to consider any proposal for our acquisition in good

faith.

The shareholder rights plan involves the distribution of one "right" as a dividend on each outstanding share of our common stock to all holders of record on September 26, 1996, and an ongoing distribution of one right with respect to each share of our common stock issued subsequently. Each right shall entitle the holder to purchase one-tenth of a share of common stock. The rights trade in tandem with the common stock until, and become exercisable upon, the occurrence of certain triggering events, and the exercise price is based on the estimated long-term value of our common stock. The exercise of these rights becomes economically attractive upon the triggering of certain "flip-in" or "flip-over" rights which work in conjunction with the shareholder rights plan's basic provisions. The flip-in rights will permit their holders to purchase shares of common stock at a discounted rate, resulting in substantial dilution of an acquiror's voting and economic interests in us. The flip-over element of the shareholder rights plan involves some mergers or significant asset purchases, which trigger certain rights to purchase shares of the acquiring or surviving company at a discount. The shareholder rights plan contains a "permitted offer" exception which allows

offers determined by our board of directors to be in our best interests and our stockholders to take place free of the diluting effects of the shareholder rights plan's mechanisms.

Our board of directors retains the right, at all times prior to acquisition of 15% or more of our voting common stock by an acquiror, to discontinue the shareholder rights plan through the redemption of all rights, or to amend the shareholder rights plan in any respect. In August 2003, we amended the shareholder rights plan to provide that a qualified institutional investor (as defined in the amendment) will not trigger any rights under the plan until it beneficially owns at least 17% of the shares of our outstanding common stock, rather than 15%.

DELAWARE LAW AND SOME BY-LAW PROVISIONS

Our board of directors has adopted certain amendments to our by-laws intended to strengthen our board of directors' position in the event of a hostile takeover attempt. These by-law provisions have the following effects:

- they provide that only persons who are nominated in accordance with the procedures set forth in the by-laws shall be eligible for election as our directors, except as may be otherwise provided in the by-laws;

- they provide that only business brought before the annual meeting by our board of directors or by a stockholder who complies with the procedures set forth in the by-laws may be transacted at an annual meeting of stockholders;

- they provide that only the chairman of the board, if any, the chief executive officer, the president, the secretary or a majority of our board of directors may call special meetings of our stockholders;

- they establish a procedure for our board of directors to fix the record date whenever stockholder action by written consent is undertaken; and

- they require a vote of holders of two-thirds of the outstanding shares of common stock to amend certain by-law provisions.

Furthermore, we are subject to the provisions of Section 203 of the Delaware

General Corporation Law, an anti-takeover law. In general, the statute prohibits a publicly held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. For purposes of Section 203, a "business combination" includes a merger, asset sale or other transaction resulting in a financial benefit to the interested stockholder, and an "interested stockholder" is a person who, together with affiliates and associates, owns, or within three years prior, did own, 15% or more of the corporation's voting stock.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the common stock is American Stock Transfer & Trust Company. It is located at 59 Maiden Lane, New York, NY 10038, and its telephone number is (718) 921-8200.

DESCRIPTION OF DEBT SECURITIES

The following is a summary of the general terms of the debt securities covered by this prospectus. We will file a prospectus supplement that may contain additional terms when we issue debt securities under one or more senior or subordinated indentures. The terms presented here, together with the terms in a related prospectus supplement, which could be different from the terms described below, will be a description of the material terms of the debt securities. You should also read the applicable indenture. We have filed forms of indentures with the SEC as exhibits to the registration statement of which this prospectus is a part. All capitalized terms have the meanings specified in the indentures. The indentures are substantially identical except for the subordination provisions described below under "Subordinated Debt Securities." The terms and provisions of the debt securities below will most likely be modified by the documents that set forth the specific terms of the debt securities issued.

We may issue, from time to time, debt securities, in one or more series, that will consist of either our senior or subordinated debt. The debt securities we offer will be issued under an indenture or indentures between us and a trustee. Debt securities, whether senior or subordinated, may be issued as convertible debt securities or exchangeable debt securities.

GENERAL

Debt securities may be issued in separate series without limitation as to aggregate principal amount. We may specify a maximum aggregate principal amount for the debt securities of any series.

We are not limited as to the amount of debt securities we may issue under the indentures. The prospectus supplement will set forth:

- whether the debt securities will be senior or subordinated,
- the offering price,
- the title,
- any limit on the aggregate principal amount,
- the person who shall be entitled to receive interest, if other than the

record holder on the record date,

- the date the principal will be payable,

- the interest rate, if any, the date interest will accrue, the interest payment dates and the regular record dates,

- the place where payments may be made,

- any mandatory or optional redemption provisions,

- any obligation to redeem or purchase the debt securities pursuant to a sinking fund,

- if applicable, the method for determining how the principal, premium, if any, or interest will be calculated by reference to an index or formula,

- conversion or exchange provisions, if any, including conversion or exchange prices or rates and adjustments thereto,

- if other than U.S. currency, the currency or currency units in which principal, premium, if any, or interest will be payable and whether we or the holder may elect payment to be made in a different currency,

- the portion of the principal amount that will be payable upon acceleration of stated maturity, if other than the entire principal amount,

- if the principal amount payable at stated maturity will not be determinable as of any date prior to stated maturity, the amount which will be deemed to be the principal amount,

- any defeasance provisions if different from those described below under "Satisfaction and Discharge; Defeasance,"

- any conversion or exchange provisions,

- whether the debt securities will be issuable in the form of a global security,

- any subordination provisions, if different than those described below under "Subordinated Debt Securities,"

- any deletions of, or changes or additions to, the events of default or covenants, and

- any other specific terms of such debt securities.

Unless otherwise specified in a prospectus supplement:

- the debt securities will be registered debt securities, and

- registered debt securities denominated in U.S. dollars will be issued in denominations of $1,000 or an integral multiple of $1,000.

Debt securities may be sold at a substantial discount below their stated principal amount, bearing no interest or interest at a rate which at time of issuance is below market rates.

EXCHANGE AND TRANSFER

Debt securities may be transferred or exchanged at the office of the security registrar or at the office of any transfer agent designated by us.

We will not impose a service charge for any transfer or exchange, but we may require holders to pay any tax or other governmental charges associated with any transfer or exchange.

In the event of any potential redemption of debt securities of any series, we will not be required to:

- issue, register the transfer of, or exchange, any debt security of that series during a period beginning at the opening of business 15 days before the day of mailing of a notice of redemption and ending at the close of business on the day of the mailing, or

- register the transfer of or exchange any debt security of that series selected for redemption, in whole or in part, except the unredeemed portion being redeemed in part.

We may initially appoint the trustee as the security registrar. Any transfer agent, in addition to the security registrar, initially designated by us will be named in a prospectus supplement. We may designate additional transfer agents or change transfer agents or change the office of the transfer agent. However, we will be required to maintain a transfer agent in each place of payment for the debt securities of each series.

GLOBAL SECURITIES

The debt securities of any series may be represented, in whole or in part, by one or more global securities. Each global security will:

- be registered in the name of a depositary that we will identify in a prospectus supplement,

- be deposited with the depositary or nominee or custodian, and

- bear any required legends.

No global security may be exchanged in whole or in part for debt securities registered in the name of any person other than the depositary or any nominee unless:

- the depositary has notified us that it is unwilling or unable to continue as depositary or has ceased to be qualified to act as depositary,

- an event of default is continuing, or

- any other circumstances described in a prospectus supplement.

As long as the depositary, or its nominee, is the registered owner of a global security, the depositary or nominee will be considered the sole owner and holder of the debt securities represented by the global security for all purposes under the indenture. Except in the above limited circumstances, owners of beneficial interests in a global security:

- will not be entitled to have the debt securities registered in their names,

- will not be entitled to physical delivery of certificated debt securities, and

- will not be considered to be holders of those debt securities under the indentures.

Payments on a global security will be made to the depositary or its nominee as the holder of the global security. Some jurisdictions have laws that require that certain purchasers of securities take physical delivery of such securities in definitive form. These laws may impair the ability to transfer beneficial interests in a global security.

Institutions that have accounts with the depositary or its nominee are referred to as "participants." Ownership of beneficial interests in a global security will be limited to participants and to persons that may hold beneficial interests through participants. The depositary will credit, on its book-entry registration and transfer system, the respective principal amounts of debt securities represented by the global security to the accounts of its participants.

Ownership of beneficial interests in a global security will be shown on and effected through records maintained by the depositary, with respect to participants' interests, or any participant, with respect to interests of persons held by participants on their behalf.

Payments, transfers and exchanges relating to beneficial interests in a global security will be subject to policies and procedures of the depositary.

The depositary policies and procedures may change from time to time. Neither we nor the trustee will have any responsibility or liability for the depositary's or any participant's records with respect to beneficial interests in a global security.

PAYMENT AND PAYING AGENTS

The provisions of this paragraph will apply to the debt securities unless otherwise indicated in a prospectus supplement. Payment of interest on a debt security on any interest payment date will be made to the person in whose name the debt security is registered at the close of business on the regular record date. Payment on debt securities of a particular series will be payable at the office of a paying agent or paying agents designated by us. However, at our option, we may pay interest by mailing a check to the record holder. The corporate trust office will be designated as our sole paying agent.

We may also name any other paying agents in a prospectus supplement. We may designate additional paying agents, change paying agents or change the office of any paying agent. However, we will be required to maintain a paying agent in each place of payment for the debt securities of a particular series.

All moneys paid by us to a paying agent for payment on any debt security which remain unclaimed at the end of two years after such payment was due will be repaid to us. Thereafter, the holder may look only to us for such payment.

REDEMPTION

We may reserve the right to redeem and pay, or may covenant to redeem and pay, the debt securities of any series or any part thereof prior to the stated

maturity at such time and on such terms as provided for in the debt securities. The provisions described herein will apply to any optional and mandatory redemption of debt securities unless otherwise indicated in a prospectus supplement.

If less than all of the debt securities of a series are to be redeemed, the trustee will select the securities of the series to be redeemed in a manner that the trustee deems fair and appropriate, in denominations larger than $1,000. We will mail a notice of redemption at least 30 days but not more than 60 days before the redemption date by first-class mail to each holder whose debt securities are to be redeemed. The notice will identify the debt securities to be redeemed and will state:

- the redemption date;

- the redemption price;

- the name and address of the paying agent;

- that the debt securities called for redemption must be surrendered to the paying agent to collect the redemption price;

- that interest on the debt securities called for redemption ceases to accrue on and after the redemption date; and

- any other required information.

Once the notice of redemption is mailed, the debt securities called for redemption will become due and payable on the redemption date at the redemption price. The paying agent will pay the redemption price plus accrued interest to the redemption date to the holder of the redeemed debt securities upon surrender of such debt securities.

CONSOLIDATION, MERGER AND SALE OF ASSETS

We may not consolidate with or merge into any other person, in a transaction in which we are not the surviving corporation, or convey, transfer or lease our properties and assets substantially as an entirety to, any person, unless:

- the successor, if any, is a U.S. corporation, limited liability company, partnership, trust or other entity,

- the successor assumes our obligations on the debt securities and under the indenture,

- immediately after giving effect to the transaction, no default or event of default shall have occurred and be continuing, and

- certain other conditions are met.

EVENTS OF DEFAULT

Unless we inform you otherwise in a prospectus supplement, the indenture will define an event of default with respect to any series of debt securities as one or more of the following events:

(1) failure to pay principal of or any premium on any debt security of that series when due,

(2) failure to pay any interest on any debt security of that series for 30 days when due,

(3) failure to deposit any sinking fund payment when due,

(4) failure to perform any other covenant in the indenture continued for 60 days after being given the notice required in the indenture,

(5) our bankruptcy, insolvency or reorganization, and

(6) any other event of default specified in a prospectus supplement.

An event of default of one series of debt securities is not necessarily an event of default for any other series of debt securities. If an event of default, other than an event of default described in clause (5) above, shall occur and be continuing, either the trustee or the holders of at least 25% in aggregate principal amount of the outstanding securities of that series may declare the principal amount of the debt securities of that series to be due and payable immediately.

If an event of default described in clause (5) above shall occur, the principal amount of all the debt securities of that series will automatically become immediately due and payable. Any payment by us on the subordinated debt securities following any such acceleration will be subject to the subordination provisions described below under "Subordinated Debt Securities."

After acceleration the holders of a majority in aggregate principal amount of the outstanding securities of that series may, under certain circumstances, rescind and annul such acceleration if all events of default, other than the non-payment of accelerated principal, or other specified amount, have been cured or waived.

Other than the duty to act with the required care during an event of default, the trustee will not be obligated to exercise any of its rights or powers at the request of the holders unless the holders shall have offered to the trustee reasonable indemnity. Generally, the holders of a majority in aggregate principal amount of the outstanding debt securities of any series will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the trustee or exercising any trust or power conferred on the trustee.

A holder will not have any right to institute any proceeding under the indentures, or for the appointment of a receiver or a trustee, or for any other remedy under the indentures, unless:

(1) the holder has previously given to the trustee written notice of a continuing event of default with respect to the debt securities of that series,

(2) the holders of at least 25% in aggregate principal amount of the outstanding debt securities of that series have made a written request and have offered reasonable indemnity to the trustee to institute the proceeding, and

(3) the trustee has failed to institute the proceeding and has not received direction inconsistent with the original request from the holders of a majority in aggregate principal amount of the outstanding debt securities of that series within 60 days after the original request.

Holders may, however, sue to enforce the payment of principal, premium or interest on any debt security on or after the due date or to enforce the right,

if any, to convert any debt security without following the procedures listed in (1) through (3) above.

We will furnish the trustee an annual statement by our officers as to whether or not we are in default in the performance of the indenture and, if so, specifying all known defaults.

MODIFICATION AND WAIVER

We and the trustee may make modifications and amendments to the indentures with the consent of the holders of a majority in aggregate principal amount of the outstanding securities of each series affected by the modification or amendment.

However, neither we nor the trustee may make any modification or amendment without the consent of the holder of each outstanding security of that series affected by the modification or amendment if such modification or amendment would:

- change the stated maturity of any debt security,
- reduce the principal, premium, if any, or interest on any debt security,
- reduce the principal of an original issue discount security or any other debt security payable on acceleration of maturity,
- reduce the rate of interest on any debt security,
- change the currency in which any debt security is payable,
- impair the right to enforce any payment after the stated maturity or redemption date,
- waive any default or event of default in payment of the principal of, premium or interest on any debt security,
- waive a redemption payment or modify any of the redemption provisions of any debt security,
- adversely affect the right to convert any debt security, or
- change the provisions in the indenture that relate to modifying or amending the indenture.

SATISFACTION AND DISCHARGE; DEFEASANCE

We may be discharged from our obligations on the debt securities of any series that have matured or will mature or be redeemed within one year if we deposit with the trustee enough cash to pay all the principal, interest and any premium due to the stated maturity date or redemption date of the debt securities.

Each indenture contains a provision that permits us to elect:

- to be discharged from all of our obligations, subject to limited exceptions, with respect to any series of debt securities then outstanding, and/or
- to be released from our obligations under the following covenants and from the consequences of an event of default resulting from a breach of these covenants:

(1) the subordination provisions under the subordinated indenture, and

(2) covenants as to payment of taxes and maintenance of corporate existence.

To make either of the above elections, we must deposit in trust with the trustee enough money to pay in full the principal, interest and premium on the debt securities. This amount may be made in cash and/or U.S. government obligations. As a condition to either of the above elections, we must deliver to the trustee an opinion of counsel that the holders of the debt securities will not recognize income, gain or loss for Federal income tax purposes as a result of the action.

If any of the above events occurs, the holders of the debt securities of the series will not be entitled to the benefits of the indenture, except for the rights of holders to receive payments on debt securities or the registration of transfer and exchange of debt securities and replacement of lost, stolen or mutilated debt securities.

NOTICES

Notices to holders will be given by mail to the addresses of the holders in the security register.

GOVERNING LAW

The indentures and the debt securities will be governed by, and construed under, the law of the State of New York.

REGARDING THE TRUSTEE

The indenture limits the right of the trustee, should it become a creditor of us, to obtain payment of claims or secure its claims.

The trustee is permitted to engage in certain other transactions. However, if the trustee acquires any conflicting interest, and there is a default under the debt securities of any series for which they are trustee, the trustee must eliminate the conflict or resign.

SUBORDINATED DEBT SECURITIES

Payment on the subordinated debt securities will, to the extent provided in the indenture, be subordinated in right of payment to the prior payment in full of all our senior indebtedness.

Upon any distribution of our assets upon any dissolution, winding up, liquidation or reorganization, the payment of the principal of and interest on the subordinated debt securities will be subordinated in right of payment to the prior payment in full in cash or other payment satisfactory to the holders of senior indebtedness of all senior indebtedness. In the event of any acceleration of the subordinated debt securities because of an event of default, the holders of any senior indebtedness would be entitled to payment in full in cash or other payment satisfactory to such holders of all senior indebtedness obligations before the holders of the subordinated debt securities are entitled to receive any payment or distribution. The indenture requires us or the trustee to promptly notify holders of designated senior indebtedness if payment of the subordinated debt securities is accelerated because of an event of default.

We may not make any payment on the subordinated debt securities, including upon redemption at the option of the holder of any subordinated debt securities or at our option, if:

- a default in the payment of the principal, premium, if any, interest, rent or other obligations in respect of designated senior indebtedness occurs and is continuing beyond any applicable period of grace (called a "payment default"), or

- a default other than a payment default on any designated senior indebtedness occurs and is continuing that permits holders of designated senior indebtedness to accelerate its maturity, and the trustee receives a notice of such default (called a "payment blockage notice") from us or any other person permitted to give such notice under the indenture (called a "non-payment default").

We may resume payments and distributions on the subordinated debt securities:

- in the case of a payment default, upon the date on which such default is cured or waived or ceases to exist, and

- in the case of a non-payment default, the earlier of the date on which such nonpayment default is cured or waived or ceases to exist and 179 days after the date on which the payment blockage notice is received by the trustee, if the maturity of the designated senior indebtedness has not been accelerated.

No new period of payment blockage may be commenced pursuant to a payment blockage notice unless 365 days have elapsed since the initial effectiveness of the immediately prior payment blockage notice and all scheduled payments of principal, premium and interest, including any liquidated damages, on the debt securities that have come due have been paid in full in cash. No non-payment default that existed or was continuing on the date of delivery of any payment blockage notice shall be the basis for any later payment blockage notice unless the non-payment default is based upon facts or events arising after the date of delivery of such payment blockage notice.

If the trustee or any holder of the notes receives any payment or distribution of our assets in contravention of the subordination provisions on the subordinated debt securities before all senior indebtedness is paid in full in cash, property or securities, including by way of set-off, or other payment satisfactory to holders of senior indebtedness, then such payment or distribution will be held in trust for the benefit of holders of senior indebtedness or their representatives to the extent necessary to make payment in full in cash or payment satisfactory to the holders of senior indebtedness of all unpaid senior indebtedness.

In the event of our bankruptcy, dissolution or reorganization, holders of senior indebtedness may receive more, ratably, and holders of the subordinated debt securities may receive less, ratably, than our other creditors (including our trade creditors). This subordination will not prevent the occurrence of any event of default under the indenture.

As of December 29, 2005, no senior indebtedness was outstanding. We are not prohibited from incurring debt, including senior indebtedness, under the indenture. We may from time to time incur additional debt, including senior indebtedness.

We are obligated to pay reasonable compensation to the trustee and to indemnify

the trustee against certain losses, liabilities or expenses incurred by the trustee in connection with its duties relating to the subordinated debt securities. The trustee's claims for these payments will generally be senior to those of noteholders in respect of all funds collected or held by the trustee.

CONVERSION OR EXCHANGE RIGHTS

Debt securities may be convertible into or exchangeable for shares of our common stock. The terms and conditions of conversion or exchange will be stated in the applicable prospectus supplement. The terms will include, among others, the following:

- the conversion or exchange price,

- the conversion or exchange period,

- provisions regarding the convertibility or exchangeability of the debt securities, including who may convert or exchange,

- events requiring adjustment to the conversion or exchange price,

- provisions affecting conversion or exchange in the event of our redemption of the debt securities, and

- any anti-dilution provisions, if applicable.

NO INDIVIDUAL LIABILITY OF STOCKHOLDERS, OFFICERS OR DIRECTORS

The indentures provide that none of our past, present or future stockholders, officers or directors, or stockholders, officers or directors of any successor corporation, in their capacity as such shall have any individual liability for any of our obligations, covenants or agreements under the debt securities or the applicable indenture.

NO CHANGE IN CONTROL PUT OPTIONS

The indentures do not provide that debt securities may be put to us at the option of the debtholder in the event of a change in control, highly leveraged transaction or other events. If we decide subsequently to provide such put options, an appropriate disclosure will be provided by prospectus supplement, including whether we maintain other indebtedness with similar features and the potential difficulties, if any, in meeting such simultaneous obligations.

NO SECURED INDEBTEDNESS

As of the date of the prospectus, we have no secured indebtedness, and none of our subsidiaries have any outstanding indebtedness. An appropriate disclosure will be provided by prospectus supplement to disclose any subsequent change in the foregoing.

PLAN OF DISTRIBUTION

We may sell the securities separately or together:

- through one or more underwriters or dealers in a public offering and sale by them,

- directly to investors, or

- through agents.

We may sell the securities from time to time in one or more transactions at a fixed price or prices, which may be changed from time to time:

- at market prices prevailing at the time of sale,

- at prices related to such prevailing market prices, or

- at negotiated prices.

We may engage in at-the-market offerings of our common stock. An at-the-market offering is an offering of our common stock at other than a fixed price to or through a market maker. Under Rule 415(a)(4) promulgated under the Securities Act, the total value of at-the-market offerings made under this prospectus may not exceed 10% of the aggregate market value of our common stock held by non-affiliates.

We will describe the method of distribution of the securities in the applicable prospectus supplement. In the event there is a material change to our plan of distribution for securities offered pursuant to this prospectus, we will file a post-effective amendment to this prospectus setting forth an explanation of such change.

Underwriters, dealers or agents may receive compensation in the form of discounts, concessions or commissions from us or our purchasers (as their agents in connection with the sale of securities). These underwriters, dealers or agents may be considered to be underwriters under the Securities Act. As a result, discounts, commissions or profits on resale received by the underwriters, dealers or agents may be treated as underwriting discounts and commissions. The applicable prospectus supplement will identify any such underwriter, dealer or agent, and describe any compensation received by them from us.

Underwriters, dealers and agents may be entitled to indemnification by us against certain civil liabilities, including liabilities under the Securities Act, or to contribution with respect to payments made by the underwriters, dealers and agents.

We may grant underwriters who participate in the distribution of securities an option to purchase additional securities to cover over-allotments, if any, in connection with the distribution.

All debt securities will be new issues of securities with no established trading market. Underwriters involved in the public offering and sale of debt securities may make a market in the debt securities. However, they are not obligated to make a market and may discontinue market making activity at any time. No assurance can be given as to the liquidity of the trading market for any debt securities.

Underwriters or agents and their associates may be customers of, engage in transactions with or perform services for us in the ordinary course of business.

LEGAL MATTERS

Proskauer Rose LLP, New York, New York, will pass on the validity of the

issuance of the securities offered in this prospectus.

EXPERTS

The consolidated financial statements and schedule of Celgene Corporation and subsidiaries as of December 31, 2004 and 2003, and for each of the years in the three-year period ended December 31, 2004, and management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2004 have been incorporated by reference herein in reliance upon the reports of KPMG LLP, independent registered public accounting firm, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing.

KPMG LLP's report dated March 18, 2005, on management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting as of December 31, 2004, contains an explanatory paragraph that states management has not evaluated the effectiveness of internal control over financial reporting at Penn T Limited, which was acquired on October 21, 2004. KPMG LLP's audit of internal control over financial reporting of Celgene Corporation and subsidiaries also excludes an evaluation of the internal control over financial reporting of Penn T Limited.

KPMG LLP's audit report dated March 18, 2005 covering the December 31, 2004 consolidated financial statements also contains an explanatory paragraph that states the Company's 2003 and 2002 consolidated financial statements have been restated.

The statements in this prospectus that relate to U.S. patent rights licensed from The Rockefeller University and Children's Medical Center Corporation under the caption "Risk Factors - We may not be able to protect our intellectual property" have been reviewed and approved by Jones Day as our special patent counsel for these matters, and are included herein in reliance upon their review and approval as patent council.

With the exception of the statements regarding stem cell related activities, the statements describing legal and regulatory requirements in this prospectus under the caption "Risk Factors - The pharmaceutical industry is subject to extensive government regulation which presents numerous risks to us" have been reviewed and, assuming the accuracy of the factual statements made, approved by Kleinfeld, Kaplan & Becker, as experts in such matters, and are included herein in reliance upon such review and approval.

The statements in this prospectus that relate to trademarks under the caption "Risk Factors - We may not be able to protect our intellectual property" have been reviewed by Cozen O'Conner as our special trademarks counsel for these matters and are included herein in reliance upon such review and approval.

WHERE YOU CAN FIND MORE INFORMATION

We file reports with the Securities and Exchange Commission, or the SEC, on a regular basis that contain financial information and results of operations. You may read or copy any document that we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information about the

Public Reference Room by calling the SEC for more information at 1-800-SEC-0330. Our SEC filings are also available at the SEC's web site at http://www.sec.gov.

Our common stock is listed on the NASDAQ National Market and we are required to file reports, proxy statements and other information with NASDAQ. You may read any document we file with NASDAQ at the offices of the NASDAQ Stock Market, Inc. which is located at 1735 K Street, N.W., Washington, D.C. 20006.

INCORPORATION BY REFERENCE

The SEC allows us to "incorporate by reference" the information we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus, and information that we file later with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below that we have filed with the SEC and any future filings that we will make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 prior to the termination of this offering.

1. Our Annual Report on Form 10-K and Form 10-K/A for the fiscal year ended December 31, 2004;

2. Our Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 2005, June 30, 2005 and September 30, 2005;

3. Our Current Reports on Form 8-K filed with the SEC on March 29, 2005, June 16, 2005, September 13, 2005, September 14, 2005, December 14, 2005 and December 28, 2005; and

4. The description of our common stock contained in our Registration Statement on Form 8-A filed with the SEC on September 16, 1996.

You may request a copy of these filings, at no cost, by writing or telephoning our Secretary at the following address:

Celgene Corporation
86 Morris Avenue
Summit, NJ 07901
(908) 673-9000

This prospectus is part of a registration statement we filed with the SEC. You should rely only on the information or representations provided in this prospectus. We have authorized no one to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information in this prospectus is accurate as of any date other than the date on the front of the document.

$500,000,000

CELGENE CORPORATION

COMMON STOCK
DEBT SECURITIES

NO DEALER, SALESPERSON OR OTHER PERSON IS AUTHORIZED TO PROVIDE YOU WITH INFORMATION OR TO REPRESENT ANYTHING NOT CONTAINED IN THIS PROSPECTUS. YOU MUST NOT RELY ON ANY UNAUTHORIZED INFORMATION OR REPRESENTATIONS. WE ARE OFFERING TO SELL, AND SEEKING OFFERS TO BUY, ONLY THE SECURITIES OF CELGENE CORPORATION COVERED BY THIS PROSPECTUS, AND ONLY UNDER CIRCUMSTANCES AND IN JURISDICTIONS WHERE IT IS LAWFUL TO DO SO. THE INFORMATION CONTAINED IN THIS PROSPECTUS IS CURRENT ONLY AS OF ITS DATE, REGARDLESS OF THE TIME OF DELIVERY OF THIS PROSPECTUS OR OF ANY SALE OF THE SHARES.

December 30, 2005

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 14. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

An estimate (other than the SEC registration fee) of the fees and expenses of issuance and distribution (other than discounts and commissions) of the securities offered hereby (all of which will be paid by Celgene Corporation ("Celgene") is as follows:

SEC registration fee $119,500*
Trustee's fees and expenses ..... $ 5,000
Legal fees and expenses ..... $ 80,000
Accounting feO Technologies Inc.; Franklin Electric Company, Inc.; Integrated Electrical Se
2006, in our common stock, the NASDAQ Market Index and Industrial Electrical Equipment Group. The

Item 6. ***Selected Financial Data***

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

In December 2009, we acquired Powell Canada. Powell Canada is headquartered in Edmonton, Alberta, Canada and provides electrical, maintenance and services. Powell Canada is also a manufacturer of switchgear

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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.

	Years Ended September 30,				
	2011	2010	2009	2008	2007
	(In thousands, except per share data)				
Statements of Operations:					
Revenues	$ 562,397	$ 550,692	$ 665,851	$ 638,704	$ 564,282
Cost of goods sold	462,467	408,635	520,802	512,298	468,691
Gross profit	99,930	142,057	145,049	126,406	95,591
Selling, general and administrative expenses	85,058	84,457	79,954	80,416	73,639
Amortization of intangible assets	4,752	4,477	3,460	3,585	3,607
Impairments	7,158	7,452			
Operating income	2,962	45,671	61,635	42,405	18,345
Gain on sale of investment	(1,229)				
Interest expense, net	194	610	976	2,537	2,943
Income before income taxes	3,997	45,061	60,659	39,868	15,402
Income tax provision	6,712	19,894	20,734	14,072	5,468
Net income (loss)	(2,715)	25,167	39,925	25,796	9,934
Net (income) loss attributable to noncontrolling interest		(159)	(208)	51	(21)
Net income (loss) attributable to Powell Industries, Inc.	$ (2,715)	$ 25,008	$ 39,717	$ 25,847	$ 9,913
Basic earnings per share attributable to Powell Industries, Inc.	$ (0.23)	$ 2.17	$ 3.48	$ 2.29	$ 0.90
Diluted earnings per share attributable to Powell Industries, Inc.	$ (0.23)	$ 2.14	$ 3.43	$ 2.26	$ 0.88

	As of September 30,				
	2011	2010	2009	2008	2007
	(In thousands)				
Balance Sheet Data:					
Cash and cash equivalents	$ 123,466	$ 115,353	$ 97,403	$ 10,134	$ 5,257
Property, plant and equipment, net	59,637	63,676	61,036	61,546	67,401
Total assets	421,676	400,712	404,840	397,634	341,015
Long-term debt and capital lease obligations, including current maturities	5,441	6,885	9,492	41,758	35,836
Total stockholders equity	275,343	277,303	246,761	206,874	173,549
Total liabilities and stockholders equity	421,676	400,712	404,840	397,634	341,015

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

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

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, excluding debt assumed of $15.1 million and acquisition-related expenses. Powell Canada is headquartered in Edmonton, Alberta,

Canada, and provides electrical, maintenance and services. Powell Canada is also a manufacturer of switchgear and related products,

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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.

Overview

We develop, design, manufacture and service custom engineered-to-order equipment and systems for the management and control of electrical energy and other critical processes. Headquartered in Houston, Texas, we serve the transportation, environmental, energy, industrial and utility industries. Our business operations are consolidated into two business segments: Electrical Power Products and Process Control Systems. Revenues and costs are primarily related to engineered-to-order equipment and systems which precludes us from providing detailed price and volume information.

The markets in which Powell participates in are capital-intensive and cyclical in nature. Cyclicality is driven by customer demand, global economic markets and potential environmental or regulatory impacts which affect the manner in which our customers proceed with capital projects. Our customers analyze various factors including the short-term demand for oil and electrical energy, the overall banking environment, federal and state budgets, the outlook for offshore drilling and related regulatory actions and the drive towards environmental controls over the type and way energy is produced and utilized. These factors over the last two fiscal years have contributed to decisions by customers to delay or to change where they place new capital projects, which decreased our backlog of orders to $282.3 million entering fiscal 2011, down $83.5 million from the beginning of fiscal 2010. However, during fiscal 2011, orders received were $725.2 million compared to $466.8 million during fiscal 2010 and our backlog has increased to $443.0 million at September 30, 2011. Some of our recent orders received are for large petrochemical and offshore oil and gas construction projects which will take several months to produce, most of which were awarded in competitive bid situations. This increased competition, along with higher commodity prices, will continue to place downward pressure on gross profit margins as we work to fulfill these orders in fiscal 2012 and 2013. Project execution challenges and integration efforts at Powell Canada could also negatively impact net income in fiscal 2012.

Results of Operations

Twelve Months Ended September 30, 2011 (Fiscal 2011) Compared to Twelve Months Ended September 30, 2010 (Fiscal 2010)

Revenue and Gross Profit

Consolidated revenues increased $11.7 million to $562.4 million in Fiscal 2011 compared to $550.7 million in Fiscal 2010. Revenues increased primarily as a result of the $25.0 million full year impact of revenues from Powell Canada which was acquired in the first quarter of Fiscal 2010. Domestic revenues decreased by 3.6% to $378.9 million in Fiscal 2011 compared to $393.3 million in Fiscal 2010, primarily due to reduced manufacturing and service activities because of the lower level of backlog at the beginning of Fiscal 2011. International revenues increased from $157.6 million in Fiscal 2010 to $183.5 million in Fiscal 2011. Gross profit in Fiscal 2011 decreased by $42.1 million compared to Fiscal 2010, as a result of the competitive pressure on margins, as discussed above, as well as execution-related challenges on certain large projects at Powell Canada. These factors also contributed to the decrease in gross profit as a percentage of revenues to 17.8% in Fiscal 2011, compared to 25.8% in Fiscal 2010.

Electrical Power Products

Our Electrical Power Products business segment recorded revenues of $533.3 million in Fiscal 2011, compared to $517.1 million in Fiscal 2010. Revenues increased as a result of the $25.0 million full year impact of revenues from Powell Canada which was acquired in the first quarter of Fiscal 2010. Excluding the increase related to the revenues at Powell Canada, revenues decreased primarily due to reduced manufacturing and service activities because of the lower level of backlog at the beginning of Fiscal 2011. In Fiscal 2011, revenues from public and private utilities were $166.6 million compared to $148.6 million in Fiscal 2010. Revenues from commercial and industrial customers totaled $320.5 million in Fiscal 2011, a decrease of $10.2 million compared

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to Fiscal 2010. Municipal and transit projects generated revenues of $46.2 million in Fiscal 2011 compared to $37.6 million in Fiscal 2010.

Business segment gross profit, as a percentage of revenues, was 17.2% in Fiscal 2011 compared to 25.1% in Fiscal 2010. This decrease in gross profit as a percentage of revenues resulted primarily from the competitive pressure on margins, as discussed above, as well as execution-related challenges on certain large projects at Powell Canada. Gross profit in Fiscal 2010 benefitted from the favorable execution of large projects, as well as cancellation fees and the successful negotiation of change orders on projects which were substantially completed in prior periods.

Process Control Systems

In Fiscal 2011, our Process Control Systems business segment recorded revenues of $29.1 million, a decrease from $33.6 million in Fiscal 2010. Business segment gross profit, as a percentage of revenues, decreased to 28.2% for Fiscal 2011, compared to 36.5% for Fiscal 2010. This decrease in revenues and gross profit as a percentage of revenues resulted from a less favorable mix of projects.

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

Consolidated Selling, General and Administrative Expenses

Consolidated selling, general and administrative expenses decreased to 15.1% of revenues in Fiscal 2011 compared to 15.3% of revenues in Fiscal 2010. Selling, general and administrative expenses remained relatively unchanged at $85.1 million in Fiscal 2011 compared to $84.5 million in Fiscal 2010. Decreases in short-term and long-term incentive compensation resulting from lower earnings compared to Fiscal 2010 were offset by increased depreciation expense related to the Company s ERP system in Fiscal 2011, compared to Fiscal 2010. Additionally, separation payments of $2.6 million to our former CEO were recorded in selling, general and administrative expenses in the fourth quarter of which $1.2 million was paid in October 2011, with the balance being comprised of deferred payments and compensation expense related to the vesting of outstanding equity-based awards. In the prior year there were acquisition-related costs of $2.4 million related to the acquisition of Powell Canada. Selling, general and administrative expenses decreased as a percentage of revenues in Fiscal 2011 as a result of the increase in revenue of $11.7 million.

Amortization of Intangible Assets

Amortization of intangible assets increased to $4.8 million in Fiscal 2011, compared to $4.5 million in Fiscal 2010. This increase was from the full year impact of the amortization of the intangible assets recorded as a result of acquisitions in Canada.

Gain on sale of investment

Gain on sale of investment resulted from a $1.2 million gain recorded in the second quarter of Fiscal 2011 from cash received for the sale of our 50% equity investment in Kazakhstan which was previously a part of the acquisition of Powell Canada in Fiscal 2010

Impairments

An impairment charge of $7.2 million was recorded in Fiscal 2011 related to the impairment of the intangible assets related to the Powell Canada. This impairment of intangible assets is the result of continued operating losses from Powell Canada and the execution-related challenges on certain large projects, which have reduced the Company s projections for future revenues and cash flows from Powell Canada.

An impairment of goodwill of $7.5 million was recorded in Fiscal 2010 related to the Powell Canada acquisition. The Company s strategic decision to exit the 50% owned joint venture in Kazakhstan and delays in the anticipated growth in capital investments in the Oil Sands Region of western Canada, relative to our expectations, resulted in the impairment charge.

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Interest Income and Expense

Interest expense was $0.4 million in Fiscal 2011, a decrease of approximately $0.5 million compared to Fiscal 2010. The decrease in interest expense was primarily due to lower amounts outstanding under our credit facilities during Fiscal 2011.

Interest income was $0.2 million in Fiscal 2011 compared to $0.3 million in Fiscal 2010.

Income Tax Provision

Our provision for income taxes reflects an effective tax rate on earnings before income taxes of 167.9% in Fiscal 2011 compared to 44.1% in Fiscal 2010. The effective tax rate for Fiscal 2011 has been negatively impacted by our inability to record the tax benefit of $4.5 million related to pre-tax losses in Canada, offset by the favorable impact on our effective tax rate for the domestic production activities deduction and the research and development credit in the United States.

Net Income (Loss) Attributable to Powell Industries, Inc.

In Fiscal 2011, we recorded a net loss of $2.7 million, or a loss of $0.23 per diluted share, compared to net income of $25.0 million, or earnings of $2.14 per diluted share, in Fiscal 2010. The impairment of intangible assets for Powell Canada of $7.2 million, and our inability to record the tax benefits of $4.5 million related to the pre-tax losses in Canada contributed to our net loss in Fiscal 2011. Fiscal 2011 was also negatively impacted by execution-related challenges on certain large projects at Powell Canada. The overall decrease in net income in Fiscal 2011 compared to Fiscal 2010 results from competitive pressure on gross margins compared to Fiscal 2010 which benefitted from the favorable execution of large projects, as well as cancellation fees and the successful negotiation of change orders on projects which were substantially completed in prior periods. Net income for Fiscal 2010 was negatively impacted by the impairment of goodwill of approximately $7.5 million and our inability to record the tax benefit of $3.7 million related to the pre-tax losses in Canada.

Backlog

The order backlog at September 30, 2011, was $443.0 million, compared to $282.3 million at September 30, 2010. New orders placed during Fiscal 2011 totaled $725.2 million compared to $466.8 million in Fiscal 2010. Backlog has increased primarily due to an increase in activity in petrochemical and offshore oil and gas construction projects. Some of our recent orders received are for large petrochemical and offshore oil and gas construction projects which will take several months to produce, and most were awarded in competitive bid situations.

Fiscal 2010 Compared to Twelve Months Ended September 30, 2009 (Fiscal 2009)

Revenue and Gross Profit

Consolidated revenues decreased $115.2 million to $550.7 million in Fiscal 2010 compared to $665.9 million in Fiscal 2009. Revenues decreased as a result of the decrease in demand for our products and services. Domestic revenues decreased by 23.8% to $393.3 million in Fiscal 2010 compared to $516.0 million in Fiscal 2009. International revenues increased from $149.9 million in Fiscal 2009 to $157.6 million in Fiscal 2010. The acquisition of Powell Canada contributed $51.1 million of our international revenues during Fiscal 2010. Gross profit in Fiscal 2010 decreased by $3.0 million compared to Fiscal 2009, primarily as a result of lower revenues.

Consolidated gross profit, as a percentage of revenues, was 25.8% in Fiscal 2010 compared to 21.8% in Fiscal 2009. This increase in gross profit as a percentage of revenues resulted from strong market demand when the projects were negotiated, reduced costs on project completion from operational efficiencies, a reduced work force, reduced warranty costs, cancellation fees for orders that were cancelled from our backlog and the successful negotiation of change orders and the favorable negotiation of a customer claim for which the costs were previously recognized.

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Electrical Power Products

Our Electrical Power Products business segment recorded revenues of $517.1 million in Fiscal 2010, compared to $630.0 million in Fiscal 2009. In Fiscal 2010, revenues from public and private utilities were $148.6 million compared to $154.3 million in Fiscal 2009. The acquisition of Powell Canada contributed $51.1 million of revenue during Fiscal 2010. Revenues from commercial and industrial customers totaled $330.8 million in Fiscal 2010, a decrease of $93.9 million compared to Fiscal 2009. Municipal and transit projects generated revenues of $37.6 million in Fiscal 2010 compared to $51.1 million in Fiscal 2009.

Business segment gross profit, as a percentage of revenues, was 25.1% in Fiscal 2010 compared to 20.6% in Fiscal 2009. This increase in gross profit as a percentage of revenues resulted from strong market demand when the projects were negotiated, reduced costs on project completion from operational efficiencies, a reduced workforce, reduced warranty costs, cancellation fees, as defined in the contract, for orders that were cancelled from our backlog and the successful negotiation of change orders and the favorable negotiation of a customer claim for which the costs were previously recognized.

Process Control Systems

In Fiscal 2010, our Process Control Systems business segment recorded revenues of $33.6 million, a decrease from $35.9 million in Fiscal 2009. Business segment gross profit, as a percentage of revenues, decreased to 36.5% for Fiscal 2010, compared to 43.5% for Fiscal 2009. This decrease in revenues and gross profit as a percentage of revenues is related to the mix of jobs currently in the backlog and revenues of $3.5 million and gross profit of $2.8 million in the third quarter of Fiscal 2009, resulting from a mediated settlement related to a previously completed contract that was in dispute for several years.

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

Consolidated Selling, General and Administrative Expenses

Consolidated selling, general and administrative expenses increased to 15.3% of revenues in Fiscal 2010 compared to 12.0% of revenues in Fiscal 2009. Selling, general and administrative expenses increased to $84.5 million in Fiscal 2010 compared to $80.0 million in Fiscal 2009. This increase was primarily related to the acquisition of Powell Canada and includes acquisition-related costs of $2.4 million. Selling, general and administration expenses increased as a percentage of revenues as a result of our decline in revenues, along with the fact that portions of our sales and administrative support infrastructure is necessary to support our customers, invest in information systems, continue research and development and pursue project opportunities.

Amortization of Intangible Assets

Amortization of intangible assets increased to $4.5 million in Fiscal 2010, compared to $3.5 million in Fiscal 2009. This increase was from the amortization of the intangible assets recorded as a result of the acquisition of Powell Canada.

Impairments

An impairment of goodwill of $7.5 million was recorded in Fiscal 2010 related to the Powell Canada acquisition. The Company s strategic decision to exit the 50% owned joint venture in Kazakhstan and delays in the anticipated growth in capital investments in the Oil Sands Region of western Canada, relative to our expectations, resulted in the impairment charge.

Interest Income and Expense

Interest expense was $0.9 million in Fiscal 2010, a decrease of $0.2 million compared to Fiscal 2009. The decrease in interest expense was primarily due to lower amounts outstanding under our credit facilities in the U.S. and U.K. during Fiscal 2010.

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Interest income was $0.3 million in Fiscal 2010 compared to $0.1 million in Fiscal 2009. This increase resulted from larger cash amounts being invested during Fiscal 2010.

Income Tax Provision

Our provision for income taxes reflects an effective tax rate on earnings before income taxes of 44.1% in Fiscal 2010 compared to 34.2% in Fiscal 2009. The increase in the effective tax rate was primarily related to the valuation allowance recorded related to foreign deferred tax assets.

Net Income Attributable to Powell Industries, Inc.

In Fiscal 2010, we recorded net income of $25.0 million, or $2.14 per diluted share, compared to $39.7 million, or $3.43 per diluted share, in Fiscal 2009. We generated improved gross profits as a percentage of revenues for the Company as a whole as a result of favorable margins on project completion due to operational efficiencies and cancellation fees for orders that were cancelled from our backlog, along with the successful negotiation of change orders and the favorable negotiation of a customer claim in Fiscal 2010 for which costs were previously recognized. Net income for Fiscal 2010 was negatively impacted by the impairment of goodwill of $7.5 million and the valuation allowance recorded on foreign deferred tax assets of $3.7 million. As previously discussed, net income in Fiscal 2009 included the benefit of the $3.5 million mediated settlement, reduced by legal and other expenses of approximately $0.7 million, net of tax, related to a previously completed contract that was in dispute for several years.

Backlog

The order backlog at September 30, 2010, was $282.3 million, compared to $365.8 million at September 30, 2009. New orders placed during Fiscal 2010 totaled $466.8 million compared to $511.2 million in Fiscal 2009. Backlog decreased during the second half of Fiscal 2009 and into Fiscal 2010 due to the ongoing economic downturn which has led our customers to reduce and delay spending on new capital projects. This decline in backlog throughout Fiscal 2010 negatively impacted our revenues in Fiscal 2010 and continued to negatively impact our revenues into Fiscal 2011.

Liquidity and Capital Resources

Cash and cash equivalents increased to $123.5 million at September 30, 2011, as a result of cash flow provided by operations of approximately $15.5 million for Fiscal 2011. As of September 30, 2011, current assets exceeded current liabilities by 2.4 times and our debt to total capitalization ratio was 1.9%.

At September 30, 2011, we had cash and cash equivalents of $123.5 million, compared to $115.4 million at September 30, 2010. We have a $75.0 million revolving credit facility in the U.S., which expires in December 2016. As of September 30, 2011, there were no amounts borrowed under this line of credit. We also have a $19.4 million revolving credit facility in Canada. At September 30, 2011, there was no balance outstanding under the Canadian revolving credit facility. Total long-term debt and capital lease obligations, including current maturities, totaled $5.4 million at September 30, 2011, compared to $6.9 million at September 30, 2010. Letters of credit outstanding were $13.2 million and $15.2 million at September 30, 2011 and 2010, respectively, which reduce our availability under our U.S. credit facility. Amounts available under the U.S. revolving credit facility were $61.8 million at September 30, 2011. Amounts available under the Canadian revolving credit facility were $16.5 million at September 30, 2011. For further information regarding our debt, see Notes H and L of Notes to Consolidated Financial Statements.

Approximately $8.0 million of our cash at September 30, 2011, was held internationally for international operations. It is our intention to indefinitely reinvest all current and future foreign earnings at these locations in order to ensure sufficient working capital and support and expand international operations. We believe that cash and cash equivalents, projected cash flows from operations 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. In the event that management elects to repatriate some or all of the foreign earnings that were previously deemed to be indefinitely reinvested outside the U.S., we would incur additional tax expense upon such repatriation.

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Operating Activities

During Fiscal 2011 and Fiscal 2010, cash provided by operating activities was $15.5 million and $64.1 million, respectively. 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 decrease in Fiscal 2011 cash flow from operations resulted primarily from the net loss and increase in accounts receivable. During Fiscal 2010, cash provided by operating activities was $64.1 million and resulted primarily from net income and decreases in accounts receivable, offset by decreases in accounts payable and income taxes payable. During Fiscal 2009, cash provided by operating activities was $127.0 million and resulted primarily from net income and our increased efforts to manage inventory and billings to customers.

Investing Activities

Investments in property, plant and equipment during Fiscal 2011 totaled $7.3 million compared to $4.4 million and $8.1 million in Fiscal 2010 and 2009, respectively. During Fiscal 2011, we received cash of $1.2 million from the sale of our 50% equity investment in Kazakhstan and established a restricted cash account of $1.0 million for the purchase of land near Houston, Texas, which subsequently occurred in October 2011. During Fiscal 2011, our capital expenditures primarily related to the implementation of ERP systems and construction of a warehouse at one of our U.S. facilities. During Fiscal 2010, we paid cash of $23.4 million, excluding debt assumed and acquisition-related expenses, to acquire Powell Canada. Additionally, $0.6 million was paid to acquire the noncontrolling interest related to our joint venture in Singapore (Powell Asia), which has been strategically realigned from an operating entity to a sales and marketing function within Powell. Our capital expenditures in Fiscal 2009 related primarily to the expansion of one of our operating facilities and for upgrades to our ERP systems.

There were no material proceeds from the sale of fixed assets in Fiscal 2011, 2010 or 2009.

Financing Activities

Net cash used in financing activities was $0.8 million during Fiscal 2011. Net cash used in financing activities was $19.4 million in Fiscal 2010, as we paid down our Canadian revolving line of credit and term loan from the cash flow provided by our operating activities. Net cash used in financing activities was $30.4 million in Fiscal 2009 because we paid down our U.S. and U.K. revolving lines of credit and the term loan from the cash flow provided by our operating activities.

Contractual and Other Obligations

At September 30, 2011, our long-term contractual obligations were limited to debt and leases. The table below details our commitments by type of obligation, including interest if applicable, and the period that the payment will become due (in thousands).

As of September 30, 2011, **Payments Due by Period:**	**Long-Term Debt Obligations**	**Capital Lease Obligations**	**Operating Lease Obligations**	**Total**
Less than 1 year	$ 420	$ 783	$ 3,506	$ 4,709
1 to 3 years	835	284	3,567	4,686
3 to 5 years	826	26	206	1,058
More than 5 years	2,431		1	2,432
Total long-term contractual obligations	$ 4,512	$ 1,093	$ 7,280	$ 12,885

As of September 30, 2011, the total unrecognized tax benefit related to uncertain tax positions was $0.8 million. We estimate that none of this will be paid within the next 12 months. However, we believe that it is reasonably possible that within the next 12 months unrecognized tax benefits will remain unchanged despite the expiration of certain statutes of limitations. We are unable to make reasonably reliable estimates regarding the timing of future cash outflows, if any, associated with the remaining unrecognized tax benefits.

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Other Commercial Commitments

We are contingently liable for secured and unsecured letters of credit of $22.5 million as of September 30, 2011, of which $13.2 million reduces our borrowing capacity.

The following table reflects potential cash outflows that may result from a contingent event related to our letters of credit (in thousands):

As of September 30, 2011,	
Payments Due by Period:	**Letters of Credit**
Less than 1 year	$ 20,656
1 to 3 years	1,539
3 to 5 years	300
More than 5 years	
Total long-term commercial obligations	$ 22,495

We also had performance and maintenance bonds totaling $195.1 million that were outstanding at September 30, 2011. Performance and maintenance bonds are used to guarantee contract performance to our customers.

Outlook

The markets in which Powell participates are capital-intensive and cyclical in nature. Cyclicality is driven by customer demand, global economic markets and potential environmental or regulatory impacts which affect the manner in which our customers proceed with capital projects. Our customers analyze various factors including the short-term demand for oil and electrical energy, the overall banking environment, federal and state budgets, the outlook for offshore drilling and related regulatory actions and the drive towards environmental controls over the type and way energy is produced and utilized. These factors over the last two fiscal years have contributed to decisions by customers to delay or to change where they place new capital projects, which decreased our backlog of orders to $282.3 million entering Fiscal 2011, down $83.5 million from the beginning of Fiscal 2010. However, during the past twelve months, orders received were $725.2 million compared to $466.8 million during the same twelve-month period of Fiscal 2010 and our backlog has increased to $443.0 million at September 30, 2011. Some of our recent orders received are for large petrochemical and offshore oil and gas construction projects which will take several months to produce, most of which were awarded in competitive bid situations. This increased competition, along with higher commodity prices, has continued to place downward pressure on gross profit as we work to fulfill these orders in fiscal 2012 and 2013.

Growth in demand for energy is expected to continue over the long term. New infrastructure investments will be needed to ensure the available supply of petroleum products. New power generation and distribution infrastructure will also be needed to meet the growing demand for electrical energy. New power generation plants will also be needed to replace the aging facilities across the U.S., as those plants reach the end of their life cycle. A heightened concern for environmental damage, together with the uncertainty of gasoline prices, has expanded the popularity of urban transit systems, which should drive demand for investment in transit infrastructure, contingent upon available financing. Opportunities for future projects continue, however, the timing and pricing of many of these projects is difficult to predict. The demand for our products and services should continue to increase as investment in large capital-intensive infrastructure projects begin to receive funding and support. The increase in our backlog to $443.0 million at September 30, 2011 resulted from several large projects awarded related to petrochemical and offshore oil and gas construction projects which will help solidify our backlog going into fiscal 2012.

We believe that cash available and borrowing capacity under our existing credit facility should be sufficient to finance anticipated operational activities, capital improvements and debt repayments for the foreseeable future. During this period of continued economic and market uncertainty, we will continue to monitor the factors that drive our markets. We will strive to maintain our leadership and competitive advantage in the markets we serve while aligning our cost structures with market conditions.

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Effects of Inflation

We have experienced price volatility related to raw materials, primarily copper, aluminum and steel, during the past three years. Fixed-price contracts can limit our ability to pass cost increases to our customers, thus negatively impacting our earnings. We anticipate that the volatility in commodity prices could impact our operations in Fiscal 2012.

Critical Accounting Policies and Estimates

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

Revenue Recognition

Our revenues are primarily generated from engineering and manufacturing of custom products under long-term contracts that may last from one month to several years, depending on the contract. Revenues from long-term contracts are recognized on the percentage-of-completion method of accounting.

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

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

Allowance for Doubtful Accounts

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

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Impairment of Long-Lived Assets

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

Intangible Assets

Goodwill and other intangible assets with indefinite useful lives are no longer amortized, but are evaluated for impairment annually, or immediately if conditions indicate that impairment could exist. The evaluation requires a two-step impairment test to identify potential goodwill impairment and measure the amount of a goodwill impairment loss. The first step of the test compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of the impairment loss. Both steps of the goodwill impairment testing involve significant estimates.

The costs of intangible assets with determinable useful lives are amortized over their estimated useful lives. When certain events or changes in operating conditions occur, an impairment assessment is performed and lives of intangible assets with determinable lives may be adjusted.

See Note E of the Notes to Consolidated Financial Statements for a discussion of our impairment recorded related to the acquisition of Powell Canada.

Accruals for Contingent Liabilities

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

Warranty Costs

We provide for estimated warranty costs at the time of sale based upon historical rates applicable to individual product lines. In addition, specific provisions are made when the costs of such warranties are expected to exceed accruals. We use past experience and historical claims to determine the estimated liability. Actual results could differ from our estimate.

Accounting for Income Taxes

We account for income taxes under the asset and liability method, based on the income tax laws and rates in the countries in which operations are conducted and income is earned. This approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. Developing our provision for income taxes requires significant judgment and expertise in federal, international and state income tax laws, regulations and strategies, including the determination of deferred tax assets and liabilities and, if necessary, any valuation allowances that may be required for deferred tax assets. We record a valuation allowance to reduce our deferred tax assets to the

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amount that is more likely than not to be realized. We believe that the net deferred tax asset recorded as of September 30, 2011, is realizable through future reversals of existing taxable temporary differences and future taxable income. If we were to subsequently determine that we would be able to realize deferred tax assets in the future in excess of our net recorded amount, an adjustment to deferred tax assets would increase earnings for the period in which such determination was made. We will continue to assess the adequacy of the valuation allowance on a quarterly basis. Our judgments and tax strategies are subject to audit by various taxing authorities.

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

See Note I of the Notes to Consolidated Financial Statements for disclosures related to the valuation allowance recorded related to foreign deferred tax assets.

Foreign Currency Translation

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

Derivative Financial Instruments

As part of managing our exposure to changes in foreign currency exchange rates, we periodically utilize foreign exchange forward contracts. The objective of these contracts is to minimize impacts to cash flows and profitability due to changes in foreign currency exchange rates on accounts receivable, accounts payable and forecasted cash transactions. These contracts are recorded in the consolidated balance sheets at fair value, which is based upon an income approach consisting of a discounted cash flow model that takes into account the present value of the future cash flows under the terms of the contracts using current market information, such as foreign currency spot and forward rates, as of the reporting date.

We formally document our hedging relationships, including identifying the hedging instruments and the hedged items, as well as our risk management objectives and strategies for undertaking the hedge transactions. We also formally assess, both at inception and at least quarterly thereafter, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in the cash flows of the hedged item. The effective portion of the change in fair value of a derivative is recorded as a component of accumulated other comprehensive income in the consolidated balance sheets. When the hedged item affects the consolidated statement of operations, the gain or loss included in accumulated other comprehensive income is reported on the same line in the consolidated statements of operations as the hedged item. In addition, any ineffective portion of the changes in the fair value of derivatives used as cash flow hedges is reported in the consolidated statements of operations as the changes occur. If it is determined that a derivative ceases to be a highly effective hedge, or it is probable that the forecasted transaction will not occur, we discontinue hedge accounting and any unrealized gains or losses are recorded in the consolidated statement of operations.

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On January 1, 2009, we adopted accounting guidance that amended and expanded the disclosure requirements related to derivative instruments and hedging activities. This guidance enhances the disclosure requirements for derivative instruments and hedging activities. The guidance is focused on requiring enhanced disclosure on: 1) how and why an entity uses derivative instruments and hedging activities; 2) how derivative instruments and related hedging activities are accounted for and 3) how derivative instruments and related hedging activities affect an entity s cash flows, financial position and performance.

To accomplish the three objectives listed above, we are required to provide: 1) qualitative disclosures regarding the objectives and strategies for using derivative instruments and engaging in hedging activities in the context of our overall risk exposure; 2) quantitative disclosure in tabular format of the fair values of derivative instruments and their gains and losses and 3) disclosures about credit-risk related contingent features in derivative instruments.

New Accounting Pronouncements

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

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

In January 2010, the FASB issued updated guidance to amend the disclosure requirements related to recurring and nonrecurring fair value measurements. This update requires new disclosures about significant transfers of assets and liabilities between Level 1 and Level 2 of the fair value hierarchy (including the reasons for these transfers) and the reasons for any transfers in or out of Level 3. This update also requires a reconciliation of recurring Level 3 measurements about purchases, sales, issuances and settlements on a gross basis. In addition to these new disclosure requirements, this update clarifies certain existing disclosure requirements. For example, this update clarifies that reporting entities are required to provide fair value measurement disclosures for each class of assets and liabilities, rather than each major category of assets or liabilities. This update also clarifies the requirement for entities to disclose information about both the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. This update 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 has not had a material impact on our consolidated financial statements.

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 of 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.

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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.

In September 2011, the FASB issued new accounting guidance which simplifies how an entity is required to test goodwill for impairment. Under this guidance, an entity would be allowed to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. This new guidance includes a number of factors to consider in conducting the qualitative assessment. This guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, our Fiscal 2013. Early adoption is permitted. This guidance is not expected to have a material impact on our reported results of operations or financial position.

Item 7A. ***Quantitative and Qualitative Disclosures About Market Risk***

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

Interest Rate Risk

If we determine 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 would result in a material impact to our financial statements. While we do not currently have any derivative contracts to hedge our exposure to interest rate risk, we have in the past and may in the future enter into such contracts. During each of the past three years, we have not experienced a significant effect on our business due to changes in interest rates.

Foreign Currency Transaction Risk

We have operations that expose us to currency risk in the British Pound Sterling, the Canadian Dollar and to a lesser extent the Euro. Amounts invested in our foreign operations are translated into U.S. Dollars at the exchange rates in effect at the balance sheet date. The resulting translation adjustments are recorded as accumulated other comprehensive income (loss), a component of stockholders equity in our consolidated balance sheets. We believe the exposure to the effects that fluctuating foreign currencies have on our consolidated results of operations is limited because the foreign operations primarily invoice customers and collect obligations in their respective currencies or U.S. Dollars. Our international operations are financed utilizing local credit facilities denominated in local currencies. Additionally, expenses associated with these transactions are generally contracted and paid for in the same local currencies. A 10% unfavorable change in the U.S. Dollar exchange rate, relative to other functional currencies in which we operate, would not materially impact our consolidated balance sheet at September 30, 2011.

During Fiscal 2010 and Fiscal 2011, we entered into nine foreign currency forward contracts to manage the volatility of future cash flows on certain long-term contracts that are denominated in the British Pound Sterling. The contracts were designated as cash flow hedges for accounting purposes. The changes in fair value related to the effective portion of the hedges are recognized as a component of accumulated other comprehensive income on our consolidated balance sheets. At September 30, 2011, all foreign currency forward contracts have been settled, with no balances recorded on our consolidated balance sheets related to these transactions.

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Commodity Price Risk

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

Market Risk

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

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Item 8. ***Financial Statements and Supplementary Data***

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors

and Stockholders of Powell Industries, Inc.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Powell Industries, Inc. and its subsidiaries at September 30, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2011 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of September 30, 2011, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) because material weaknesses in internal control over financial reporting related to the financial close and reporting process, the revenue recognition process for long-term construction projects, the cost accumulation process, and the revenue and accounts receivable process for service contracts, existed as of that date. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The material weaknesses referred to above are described in Management s Report on Internal Control Over Financial Reporting under Item 9A. We considered these material weaknesses in determining the nature, timing, and extent of audit tests applied in our audit of the fiscal year 2011 consolidated financial statements, and our opinion regarding the effectiveness of the Company s internal control over financial reporting does not affect our opinion on those consolidated financial statements. The Company s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in management s report referred to above. Our responsibility is to express opinions on these financial statements and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

/s/ PricewaterhouseCoopers LLP

Houston, Texas

December 12, 2011

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POWELL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	September 30, 2011	2010
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 123,466	$ 115,353
Cash held in escrow	1,000	
Accounts receivable, less allowance for doubtful accounts of $391 and $907, respectively	109,317	91,766
Costs and estimated earnings in excess of billings on uncompleted contracts	51,568	38,064
Inventories, net	36,640	38,244
Income taxes receivable	4,071	6,726
Deferred income taxes	3,580	3,087
Prepaid expenses and other current assets	7,040	8,951
Total Current Assets	336,682	302,191
Property, plant and equipment, net	59,637	63,676
Goodwill	1,003	1,003
Intangible assets, net	15,847	26,132
Other assets	8,507	7,710
Total Assets	$ 421,676	$ 400,712
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Current maturities of long-term debt and capital lease obligations	$ 1,140	$ 1,683
Income taxes payable	881	1,500
Accounts payable	56,893	41,850
Accrued salaries, bonuses and commissions	22,314	25,064
Billings in excess of costs and estimated earnings on uncompleted contracts	44,523	31,009
Accrued product warranty	4,603	5,929
Other accrued expenses	7,370	7,711
Total Current Liabilities	137,724	114,746
Long-term debt and capital lease obligations, net of current maturities	4,301	5,202
Deferred compensation	3,242	2,730
Postretirement benefit obligation	900	532
Other liabilities	166	199
Total Liabilities	146,333	123,409
Commitments and Contingencies (Note L)		
Equity:		
Stockholders Equity:		
Preferred stock, par value $.01; 5,000,000 shares authorized; none issued		
Common stock, par value $.01; 30,000,000 shares authorized; 11,752,393 and 11,676,955 shares issued and outstanding, respectively	117	117
Additional paid-in capital	34,343	33,569
Retained earnings	242,254	244,969
Accumulated other comprehensive income (loss)	(1,371)	(1,352)

Total Stockholders Equity	275,343	277,303
Total Liabilities and Equity	$ 421,676	$ 400,712

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

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POWELL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Year Ended September 30,		
	2011	2010	2009
Revenues	$ 562,397	$ 550,692	$ 665,851
Cost of goods sold	462,467	408,635	520,802
Gross profit	99,930	142,057	145,049
Selling, general and administrative expenses	85,058	84,457	79,954
Amortization of intangible assets	4,752	4,477	3,460
Impairments	7,158	7,452	
Operating income	2,962	45,671	61,635
Gain on sale of investment	(1,229)		
Interest expense	408	870	1,107
Interest income	(214)	(260)	(131)
Income before income taxes	3,997	45,061	60,659
Income tax provision	6,712	19,894	20,734
Net income (loss)	(2,715)	25,167	39,925
Net (income) loss attributable to noncontrolling interest		(159)	(208)
Net income (loss) attributable to Powell Industries, Inc.	$ (2,715)	$ 25,008	$ 39,717
Earnings (loss) per share attributable to Powell Industries, Inc.:			
Basic	$ (0.23)	$ 2.17	$ 3.48
Diluted	$ (0.23)	$ 2.14	$ 3.43
Weighted average shares:			
Basic	11,735	11,545	11,424
Diluted	11,735	11,693	11,591

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

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POWELL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(In thousands)

	Other Comprehensive Income (Loss)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
Balance, September 30, 2008		11,404	$ 114	$ 26,181	$ 180,244	$ 335	$ 206,874
Net income	$ 39,717				39,717		39,717
Foreign currency translation adjustments	(2,867)					(2,867)	(2,867)
Amortization of deferred compensation-ESOP				158			158
Exercise of stock options		31	1	513			514
Stock-based compensation		29		1,623			1,623
Income tax benefit from stock options exercised				291			291
Amortization of restricted stock				476			476
Issuance of restricted stock		16		159			159
Unrealized loss on cash flow hedges, net of tax of $164	(304)					(304)	(304)
Postretirement benefit adjustment, net of tax of $67	120					120	120
Total comprehensive income	36,666				39,717	(3,051)	36,666
Balance, September 30, 2009		11,480	115	29,401	219,961	(2,716)	246,761
Net income	25,008				25,008		25,008
Foreign currency translation adjustments	1,467					1,467	1,467
Exercise of stock options		109	1	1,699			1,700
Stock-based compensation		58	1	791			792
Income tax benefit from stock options exercised				878			878
Amortization of restricted stock				467			467
Issuance of restricted stock		30		333			333
Unrealized loss on cash flow hedges, net of tax of $265	(206)					(206)	(206)
Postretirement benefit adjustment, net of tax of $58	103					103	103
Total comprehensive income	26,372				25,008	1,364	26,372
Balance, September 30, 2010		11,677	117	33,569	244,969	(1,352)	277,303
Net loss	(2,715)				(2,715)		(2,715)
Foreign currency translation adjustments	(19)					(19)	(19)
Exercise of stock options		27		495			495
Stock-based compensation (see Note M)		20		(1,223)			(1,223)
Income tax benefit from stock options exercised				180			180
Amortization of restricted stock				280			280
Issuance of restricted stock		28		1,042			1,042
Unrealized gain on cash flow hedges, net of tax of $94	111					111	111
Postretirement benefit adjustment, net of tax of $60	(111)					(111)	(111)

Total comprehensive income (loss)	$ (2,734)				(2,715)	(19)	(2,734)
Balance, September 30, 2011		11,752	$ 117	$ 34,343	$ 242,254	$ (1,371)	$ 275,343

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

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POWELL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended September 30,		
	2011	**2010**	**2009**
Operating Activities:			
Net income (loss)	$ (2,715)	$ 25,167	$ 39,925
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	10,598	9,154	7,493
Amortization	4,848	4,549	3,469
Impairments	7,158	7,452	
Stock-based compensation	99	1,929	2,256
Bad debt expense	(114)	410	959
Deferred income taxes	(425)	(348)	(1,447)
Gain on sale of investment	(1,229)		
Changes in operating assets and liabilities:			
Accounts receivable, net	(17,616)	39,687	15,392
Costs and estimated earnings in excess of billings on uncompleted contracts	(13,519)	8,243	35,701
Inventories	1,542	12,320	25,884
Prepaid expenses and other current assets	4,514	(5,813)	(3,432)
Other assets	(2,627)	440	(194)
Accounts payable and income taxes payable	14,487	(20,281)	(4,891)
Accrued liabilities	(4,255)	(5,392)	(40)
Billings in excess of costs and estimated earnings on uncompleted contracts	13,553	(13,762)	5,789
Other	1,188	378	120
Net cash provided by operating activities	15,487	64,133	126,984
Investing Activities:			
Proceeds from sale of fixed assets	354	14	30
Purchases of property, plant and equipment	(7,347)	(4,420)	(8,081)
Proceeds from sale of investment	1,229		
Increase in cash held in escrow	(1,000)		
Purchase of noncontrolling interest Powell Asia		(659)	
Acquisition of Powell Canada		(23,394)	
Net cash used in investing activities	(6,764)	(28,459)	(8,051)
Financing Activities:			
Borrowings on US revolving line of credit			50,953
Payments on US revolving line of credit			(69,953)
Payments on UK revolving line of credit			(2,388)
Payments on UK term loan			(4,223)
Borrowings on Canadian revolving line of credit	7,810	891	
Payments on Canadian revolving line of credit	(7,818)	(13,984)	
Payments on Canadian term loan		(2,429)	
Payments on industrial development revenue bonds	(400)	(400)	(400)
Payments on deferred acquisition payable		(4,292)	(5,220)
Payments on short-term and other financing	(1,068)	(1,087)	(13)
Proceeds from exercise of stock options	495	1,700	515
Tax benefit from exercise of stock options	180	209	291

Net cash used in financing activities	(801)	(19,392)	(30,438)
Net increase in cash and cash equivalents	7,922	16,282	88,495
Effect of exchange rate changes on cash and cash equivalents	191	1,668	(1,226)
Cash and cash equivalents at beginning of year	115,353	97,403	10,134
Cash and cash equivalents at end of year	$ 123,466	$ 115,353	$ 97,403

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

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POWELL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. Business and Organization

Powell Industries, Inc. (we, us, our, Powell or the Company) was incorporated in the state of Delaware in 2004 as a successor to a Nevada company incorporated in 1968. The Nevada corporation was the successor to a company founded by William E. Powell in 1947, which merged into the Company in 1977. Our major subsidiaries, all of which are wholly-owned, include: Powell Electrical Systems, Inc.; 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, Redhill Systems Ltd., Nextron Corporation, PCG Technical Services Inc. and Concorde Metal Manufacturing Ltd (the entire business of which is referred to herein as Powell Canada) for $23.4 million, excluding debt assumed of $15.1 million and acquisition-related expenses. Powell Canada is headquartered in Edmonton, Alberta, Canada, and provides electrical, maintenance and 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 D.

B. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Powell and our wholly-owned subsidiaries. The financial position and results of operation of our Singapore joint venture, in which we held a majority ownership, have also been consolidated. As a result of this consolidation, we record noncontrolling interest on our balance sheet for our joint venture partner s share of equity in the joint venture. All significant intercompany accounts and transactions have been eliminated in consolidation.

Reclassifications

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (U.S. GAAP) requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying footnotes. The most significant estimates used in our financial statements affect revenue and cost recognition for construction contracts, the allowance for doubtful accounts, 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.

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Cash and Cash Equivalents

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

Restricted Cash

Cash of $1.0 million was held in escrow at September 30, 2011. This restricted cash was related to a purchase of land which subsequently closed in October 2011 for $6.5 million.

Supplemental Disclosures of Cash Flow Information (in thousands):

	Year Ended September 30,		
	2011	**2010**	**2009**
Cash paid during the period for:			
Interest	$ 102	$ 563	$ 439
Income taxes, net of refunds	3,889	31,993	21,527

Fair Value of Financial Instruments

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

Accounts Receivable

Accounts receivable are stated net of allowances for doubtful accounts. We maintain and continually assess the adequacy of the allowance for doubtful accounts representing our estimate for losses resulting from the inability of our customers to pay amounts due to us. This estimated allowance is based on historical experience of uncollected accounts, the level of past due accounts, the overall level of outstanding accounts receivable, information about specific customers with respect to their inability to make payments and expectations of future conditions that could impact the collectibility of accounts receivable. Future changes in our customers operating performance and cash flows or in general economic conditions could have an impact on their ability to fully pay these amounts, which could have a material impact on our operating results. In most cases, receivables are not collateralized. However, we utilize letters of credit to secure payment on sales when possible. At September 30, 2011 and 2010, accounts receivable included retention amounts of $6.1 million and $9.0 million, respectively. Retention amounts are in accordance with applicable provisions of engineering and construction contracts and become due upon completion of contractual requirements. Approximately $1.9 million of the retained amount at September 30, 2011, is expected to be collected subsequent to September 30, 2012.

Costs and Estimated Earnings in Excess of Billings on Uncompleted Contracts

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

Costs and estimated earnings in excess of billings on uncompleted contracts also include certain costs associated with unapproved change orders. These costs are included when change order approval is probable. Amounts are carried at the lower of cost or net realizable value. No profit is recognized on costs incurred until change order approval is obtained. The amounts recorded involve the use of judgments and estimates; thus, actual recoverable amounts could differ from original assumptions.

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

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Inventories

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

Property, Plant and Equipment

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

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

Intangible Assets Which Are Amortized

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

Goodwill and Indefinite Lived Assets

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

Income Taxes

We account for income taxes under the asset and liability method, based on the income tax laws and rates in the countries in which operations are conducted and income is earned. This approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. Developing our provision for income taxes requires significant judgment and expertise in federal, international and state income tax laws, regulations and strategies, including the determination of deferred tax assets and liabilities and, if necessary, any valuation allowances that may be required for deferred tax assets. We record a valuation allowance to reduce our deferred tax assets to the

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amount that is more likely than not to be realized. We believe that the deferred tax asset recorded as of September 30, 2011, is realizable through future reversals of existing taxable temporary differences and future taxable income. If we were to subsequently determine that we would be able to realize deferred tax assets in the future in excess of our net recorded amount, an adjustment to deferred tax assets would increase earnings for the period in which such determination was made. We will continue to assess the adequacy of the valuation allowance on a quarterly basis. Our judgments and tax strategies are subject to audit by various taxing authorities.

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

Revenue Recognition

Our revenues are primarily generated from engineering and manufacturing of custom products under long-term contracts that may last from one month to several years, depending on the contract. Revenues from long-term contracts are recognized on the percentage-of-completion method of accounting.

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

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

Warranties

We provide for estimated warranty costs at the time of sale based upon historical rates applicable to individual product lines. In addition, specific provisions are made when the costs of such warranties are expected to exceed accruals. Our standard terms and conditions of sale include a warranty for parts and service for the earlier of 18 months from the date of shipment or 12 months from the date of initial operations.

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Research and Development Expense

Research and development costs are charged to expense as incurred. These costs are included as a component of selling, general and administrative expenses on the Consolidated Statements of Operations. Such amounts were $7.5 million, $6.5 million and $6.0 million in fiscal years 2011, 2010 and 2009, respectively.

Foreign Currency Translation

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

Stock-Based Compensation

We measure stock-based compensation cost at the grant date based on the fair value of the stock option or restricted stock award and recognize it as expense over the applicable vesting period of the stock award using the straight-line method. Excess income tax benefits related to share-based compensation expense that must be recognized directly in equity are considered financing rather than operating cash flow activities.

We use the Black-Scholes option pricing model, with expanded guidance for the development of our assumption used as inputs, to estimate the fair value of our stock options. Expected volatility is determined using volatilities based on historical stock prices for a period equal to the expected term. The expected volatility assumption is adjusted if future volatility is expected to vary from historical experience. The expected term of options represents the period of time that options granted are expected to be outstanding and falls between the options vesting and contractual expiration dates. The risk-free interest rate is based on the yield at the date of grant of a zero-coupon U.S. Treasury bond whose maturity period equals the option s expected term. There have been no stock options granted since July 2005.

Derivative Financial Instruments

As part of managing our exposure to changes in foreign currency exchange rates, we periodically utilize foreign exchange forward contracts. The objective of these contracts is to minimize impacts to cash flows and profitability due to changes in foreign currency exchange rates on accounts receivable, accounts payable and forecasted cash transactions. These contracts are recorded in the Consolidated Balance Sheets at fair value, which is based upon an income approach consisting of a discounted cash flow model that takes into account the present value of the future cash flows under the terms of the contracts using current market information as of the reporting date, such as foreign currency spot and forward rates.

We formally document our hedging relationships, including identifying the hedging instruments and the hedged items, as well as our risk management objectives and strategies for undertaking the hedge transaction. We also formally assess, both at inception and at least quarterly thereafter, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in the cash flows of the hedged item. The effective portion of the change in fair value of a derivative is recorded as a component of accumulated other comprehensive income in the Consolidated Balance Sheets. When the hedged item affects the income statement, the gain or loss included in accumulated other comprehensive income is reported on the same line in the Consolidated Statements of Operations as the hedged item. In addition, any ineffective portion of the changes in the fair value of derivatives used as cash flow hedges is reported in the Consolidated Statements of Operations as the changes occur. If it is determined that a derivative ceases to be a highly effective hedge, or it is probable that the forecasted transaction will not occur, we discontinue hedge accounting and any unrealized gains or losses are recorded in the consolidated financial statements.

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On January 1, 2009, we adopted accounting guidance that amended and expanded the disclosure requirements related to derivative instruments and hedging activities. This guidance enhances the disclosure requirements for derivative instruments and hedging activities. The guidance is focused on requiring enhanced disclosure on: 1) how and why an entity uses derivative instruments and hedging activities; 2) how derivative instruments and related hedging activities are accounted for and 3) how derivative instruments and related hedging activities affect an entity s cash flows, financial position and performance.

To accomplish the three objectives listed above, we are required to provide: 1) qualitative disclosures regarding the objectives and strategies for using derivative instruments and engaging in hedging activities in the context of our overall risk exposure; 2) quantitative disclosure in tabular format of the fair values of derivative instruments and their gains and losses and 3) disclosures about credit-risk related contingent features in derivative instruments.

Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss), which is included as a component of stockholders equity net of tax, includes unrealized gains or losses on derivative instruments, postretirement benefit adjustments and currency translation adjustments in foreign consolidated subsidiaries.

New Accounting Standards

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

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

In January 2010, the FASB issued updated guidance to amend the disclosure requirements related to recurring and nonrecurring fair value measurements. This update requires new disclosures about significant transfers of assets and liabilities between Level 1 and Level 2 of the fair value hierarchy (including the reasons for these transfers) and the reasons for any transfers in or out of Level 3. This update also requires a reconciliation of recurring Level 3 measurements about purchases, sales, issuances and settlements on a gross basis. In addition to these new disclosure requirements, this update clarifies certain existing disclosure requirements. For example, this update clarifies that reporting entities are required to provide fair value measurement disclosures for each class of assets and liabilities, rather than each major category of assets or liabilities. This update also clarifies the requirement for entities to disclose information about both the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. This update 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 has not had a material impact on our consolidated financial statements.

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

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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 of 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.

In September 2011, the FASB issued new accounting guidance which simplifies how an entity is required to test goodwill for impairment. Under this guidance, an entity would be allowed to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. This new guidance includes a number of factors to consider in conducting the qualitative assessment. This guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, our Fiscal 2013. Early adoption is permitted. This guidance is not expected to have a material impact on our reported results of operations or financial position.

Subsequent Events

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

C. Fair Value Measurements

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

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

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

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

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

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The following table summarizes the fair value of our assets and liabilities that were accounted for at fair value on a recurring basis as of September 30, 2011 (in thousands):

	Fair Value Measurements at September 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 September 30, 2011
Assets				
Cash equivalents	$ 65,792	$	$	$ 65,792
Total	$ 65,792	$	$	$ 65,792
Liabilities				
Foreign currency forward contracts	$	$	$	$
Total	$	$	$	$

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

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

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

Foreign currency forward contracts are valued using an income approach which consists of a discounted cash flow model that takes into account the present value of future cash flows under the terms of the contracts using observable market spot and forward rates as of our reporting date, and are included in Level 2 inputs in the above tables. We use these derivative instruments to mitigate non-functional currency transaction exposure on certain contracts with customers and vendors. We mitigate derivative credit risk by transacting with highly rated counterparties. We have evaluated the credit and non-performance risks associated with our derivative counterparties and believe them to be insignificant at September 30, 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 the Consolidated Balance Sheets for that period. See Note J for further

discussion regarding our derivative instruments.

D. 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 entire business of which is referred to herein as Powell Canada). Powell Canada is headquartered in Edmonton, Alberta, Canada and provides electrical, maintenance and services in western

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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 acquisition-related expenses of $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, $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.

Additionally, the finalization of the net asset adjustment related to the Kazakhstan transaction and the calculation of the management fee agreement related to the operating results of the Kazakhstan joint venture from December 16, 2009, through March 31, 2010, as defined in the acquisition agreement, resulted in a refund to the Company of $472,000, which was received subsequent to September 30, 2010, and was recorded as a receivable at September 30, 2010, in our consolidated balance sheet.

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 the fact that this information was not material to the consolidated financial results of operations or cash flows of the Company. We received $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 gain on sale of investment in our Consolidated Statements of Operations.

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

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 (see discussion below)	7,180
Intangible assets (see discussion below)	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

Goodwill was initially recorded at $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 $7.5 million was recorded in the fourth quarter of fiscal 2010. See discussion of impairment in Note E.

Intangible assets were initially recorded in the amount of $9.0 million and were being amortized over an initial weighted average life of approximately 8.4 years. During the fourth quarter of fiscal 2011, as a result of the continued operating losses from Powell Canada and the execution-related challenges on certain large projects, which have reduced the projected revenues and cash flows from Powell Canada, all remaining intangible assets recorded related to the acquisition of Powell Canada were deemed to be impaired. An impairment loss of $7.2 million was recorded in the fourth quarter of fiscal 2011. See discussion in Note E.

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

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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 was recorded as an increase in intangible assets of $1.5 million at December 31, 2010, and is being amortized over seven years.

Pro forma results for Powell Canada Acquisition (Unaudited)

The unaudited pro forma data presented below reflects the results of Powell Industries, Inc. and the acquisition of Powell Canada, assuming the acquisition was completed on October 1, 2008, (in thousands, except per share data):

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

Pro forma results for fiscal year 2010 are not included above because the results would not be materially different from the actual results reported, as the results of Powell Canada are included in our consolidated financial statements for 9 1/2 months.

The unaudited pro forma information includes operating results of Powell Canada prior to the acquisition date adjusted to include the pro forma impact of the following:

1) Impact of interest expense as a result of increased borrowings to fund the purchase price;

2) Elimination of the operating results of certain businesses to be disposed of;

3) Impact of amortization expense related to intangible assets; and

4) Adjustment to record no income tax benefit from the losses of Powell Canada.

The unaudited pro forma results above do not purport to be indicative of the results that would have been obtained if the acquisitions had occurred as of the beginning of the periods presented or that may be obtained in the future.

E. Goodwill and Other Intangible Assets

Our intangible assets consist of (1) goodwill, which is not being amortized, and (2) customer relationships (15 years), trademarks (15 years), trade names (10 years), non-compete agreements (5 years), a supply agreement (15 years) and purchased technologies (6 to 7 years) which are amortized over their estimated useful lives. We test for impairment of goodwill annually, or immediately if conditions indicate that impairment could exist.

During the year ended September 30, 2010, we acquired intangible assets and recorded goodwill in connection with our acquisition of Powell Canada and our acquisition of a 50% interest in the operations of a joint venture in Kazakhstan. See Note D for additional information regarding the acquisition. During fiscal year 2010, our impairment analyses for goodwill indicated that an impairment was required. A loss on impairment of $7.5 million was recorded in fiscal year 2010 related to the Powell Canada acquisition. Our strategic decision to exit the 50% owned joint venture in Kazakhstan and delays in the anticipated growth in capital investments in the Oil Sands Region of western Canada, relative to our expectations, resulted in the impairment charge. No impairment was identified as a result of performing our annual impairment test of goodwill for fiscal years 2011 or 2009.

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Goodwill consisted of the following at September 30, 2011 and September 30, 2010 (in thousands):

	September 30, 2011	September 30, 2010
Goodwill	$ 8,183	$ 8,183
Accumulated impairment loss	(7,452)	(7,452)
Foreign currency translation	272	272
Goodwill, net	$ 1,003	$ 1,003

During fiscal year 2011, our impairment analysis indicated that the non-compete agreements, trade name and customer relationships intangible assets related to the Powell Canada acquisition were impaired due to continued operating losses at Powell Canada, which have reduced our projections for future revenues and cash flows. Accordingly, we recognized a loss on impairment of $7.2 million.

Intangible assets balances, subject to amortization, at September 30, 2011 and September 30, 2010 consisted of the following (in thousands):

	September 30, 2011			September 30, 2010		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Supply agreement						
Balance, beginning of period	$ 17,580	$ (4,881)	$ 12,699	$ 17,580	$ (3,709)	$ 13,871
Amortization		(1,171)	(1,171)		(1,172)	(1,172)
Balance, end of period	$ 17,580	$ (6,052)	$ 11,528	$ 17,580	$ (4,881)	$ 12,699
Purchased technology						
Balance, beginning of period	$ 10,272	$ (6,318)	$ 3,954	$ 10,387	$ (5,053)	$ 5,334
Acquisition	1,500		1,500			
Amortization		(1,689)	(1,689)		(1,347)	(1,347)
Foreign currency translation	(25)	248	223	(115)	82	(33)
Balance, end of period	$ 11,747	$ (7,759)	$ 3,988	$ 10,272	$ (6,318)	$ 3,954
Non-compete agreements						
Balance, beginning of period	$ 5,365	$ (3,666)	$ 1,699	$ 4,170	$ (2,643)	$ 1,527
Acquisition				1,160		1,160
Amortization		(920)	(920)		(1,018)	(1,018)
Foreign currency translation	(35)		(35)	35	(5)	30
Impairment (a)	(1,160)	416	(744)			
Balance, end of period	$ 4,170	$ (4,170)	$	$ 5,365	$ (3,666)	$ 1,699
Trade name						
Balance, beginning of period	$ 5,437	$ (938)	$ 4,499	$ 1,147	$ (573)	$ 574
Acquisition				4,215		4,215
Amortization		(583)	(583)		(414)	(414)
Foreign currency translation	(124)	(1)	(125)	75	49	124
Impairment (a)	(4,215)	755	(3,460)			

Balance, end of period	$ 1,098	$ (767)	$ 331	$ 5,437	$ (938)	$ 4,499
Customer relationships						
Balance, beginning of period	$ 3,479	$ (198)	$ 3,281	$	$	$
Acquisition				3,376		3,376
Amortization		(205)	(205)		(178)	(178)
Foreign currency translation	(103)		(103)	103	(20)	83
Impairment (a)	(3,376)	403	(2,973)			
Balance, end of period	$	$	$	$ 3,479	$ (198)	$ 3,281
Total	$ 34,595	$ (18,748)	$ 15,847	$ 42,133	$ (16,001)	$ 26,132

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(a) Represents the $7.2 million impairment charge recorded in fiscal 2011 related to the intangible assets of Powell Canada.
All goodwill and intangible assets disclosed above are reported in our Electrical Power Products business segment.

Amortization of intangible assets recorded for the years ended September 30, 2011, 2010 and 2009, was $4.8 million, $4.5 million and $3.5 million, respectively.

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

Years Ending September 30,	Total
2012	$ 2,772
2013	2,401
2014	1,665
2015	1,643
2016	1,575

F. Earnings Per Share

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

	Year Ended September 30,		
	2011	2010	2009
Numerator:			
Net income (loss) attributable to Powell Industries, Inc.	$ (2,715)	$ 25,008	$ 39,717
Denominator:			
Weighted average basic shares	11,735	11,545	11,424
Dilutive effect of stock options, restricted stock and restricted stock units (1)		148	167
Weighted average diluted shares with assumed conversions	11,735	11,693	11,591
Net earnings (loss) per share:			
Basic	$ (0.23)	$ 2.17	$ 3.48
Diluted	$ (0.23)	$ 2.14	$ 3.43

(1) In fiscal year 2011, these items were excluded from diluted income (loss) per share as the effect would have been anti-dilutive. Approximately 23,000 shares related to outstanding stock options and restricted stock units were excluded from the computation of diluted earnings (loss) per share because they were antidilutive. All options were included in the computation of diluted earnings per share for the years ended September 30, 2010 and 2009, respectively, as the options exercise prices were less than the average market price of our common stock.

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G. Detail of Selected Balance Sheet Accounts

Allowance for Doubtful Accounts

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

	September 30, 2011	2010
Balance at beginning of year	$ 907	$ 1,607
Increase (decrease) to bad debt expense	(114)	422
Deductions for uncollectible accounts written off, net of recoveries	(394)	(1,168)
Increase (decrease) due to foreign currency translation	(8)	46
Balance at end of year	$ 391	$ 907

Warranty Accrual

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

	September 30, 2011	2010
Balance at beginning of year	$ 5,929	$ 7,558
Increase to warranty expense	788	1,118
Deductions for warranty charges	(2,432)	(2,703)
Increase (decrease) due to foreign currency translation	318	(44)
Balance at end of year	$ 4,603	$ 5,929

Inventories

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

	September 30, 2011	2010
Raw materials, parts and subassemblies	$ 38,400	$ 40,325
Work-in-progress	5,892	4,646
Provision for excess and obsolete inventory	(7,652)	(6,727)
Total inventories	$ 36,640	$ 38,244

Cost and Estimated Earnings on Uncompleted Contracts

The components of costs and estimated earnings and related amounts billed on uncompleted contracts are summarized below (in thousands):

	September 30, 2011	2010

Costs incurred on uncompleted contracts	$ 475,525	$ 482,149
Estimated earnings	131,367	138,836
	606,892	620,985
Less: Billings to date	599,847	613,930
Net underbilled position	$ 7,045	$ 7,055
Included in the accompanying balance sheets under the following captions:		
Costs and estimated earnings in excess of billings on uncompleted contracts underbilled	$ 51,568	$ 38,064
Billings in excess of costs and estimated earnings on uncompleted contracts overbilled	(44,523)	(31,009)
Net underbilled position	$ 7,045	$ 7,055

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Property, Plant and Equipment

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

	September 30, 2011	2010	Range of Asset Lives
Land	$ 7,640	$ 7,641	
Buildings and improvements	54,321	52,627	3 - 39 Years
Machinery and equipment	62,456	61,877	3 - 15 Years
Furniture and fixtures	3,203	3,332	3 - 10 Years
Construction in process	2,625	1,384	
	130,245	126,861	
Less: Accumulated depreciation	(70,608)	(63,185)	
Total property, plant and equipment, net	$ 59,637	$ 63,676	

Included in property and equipment are assets under capital lease of $2.9 million and $4.2 million at September 30, 2011 and 2010, with related accumulated depreciation of $1.4 million and $2.2 million, respectively. Depreciation expense, including the depreciation of capital leases, was $10.6 million, $9.2 million and $7.5 million for fiscal years 2011, 2010 and 2009, respectively.

H. Long-Term Debt

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

	September 30, 2011	2010
Industrial development revenue bonds	$ 4,400	$ 4,800
Capital lease obligations	1,041	2,085
Subtotal long-term debt and capital lease obligations	5,441	6,885
Less current portion	(1,140)	(1,683)
Total long-term debt and capital lease obligations	$ 4,301	$ 5,202

The annual maturities of long-term debt as of September 30, 2011, were as follows (in thousands):

Year Ending September 30,	Long-Term Debt Maturities
2012	$ 1,140
2013	676
2014	425
2015	400
2016	400
Thereafter	2,400
Total long-term debt maturities	$ 5,441

US Revolver

In May 2011, we amended our existing credit agreement (Amended Credit Agreement) with a major domestic bank. This amendment to our credit facility was made to expand our US borrowing capacity to provide additional working capital support for the Company, and to terminate the revolving credit facility for the Company s subsidiaries located in the United Kingdom. The Amended Credit Agreement provides for a $75.0 million revolving credit facility (US Revolver). Obligations are collateralized by the stock of certain of our subsidiaries.

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The interest rate for amounts outstanding under the Amended Credit Agreement for the US Revolver is a floating rate based upon the higher of the Federal Funds Rate plus 0.50% or the bank s prime rate. Once the applicable rate is determined, a margin ranging from negative 0.5% to 1.75%, as determined by our consolidated leverage ratio, is added to the applicable rate.

The US Revolver provides for the issuance of letters of credit which reduce the amounts which may be borrowed under the revolver. The amount available under the US Revolver was reduced by $13.2 million for our outstanding letters of credit at September 30, 2011.

There were no borrowings under the US Revolver as of September 30, 2011. Amounts available under the US Revolver were $61.8 million at September 30, 2011. The US Revolver expires on December 31, 2016.

The Amended Credit Agreement contains certain restrictive and maintenance-type covenants, including restrictions on our ability to pay dividends, as well as restriction 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 s principal financial covenants include:

Minimum Fixed Charge Coverage Ratio The Amended Credit Agreement requires that the consolidated fixed charge coverage ratio be greater than 1.25 to 1.00. The consolidated fixed charge calculation is income before interest and income taxes, increased by depreciation and amortization expense (EBITDA) and reduced by income taxes and capital expenditures for the previous 12 months, divided by the sum of payments on long-term debt, excluding the US Revolver and interest expense, during the previous 12 months.

Maximum Leverage Ratio The Amended Credit Agreement requires that the ratio be less than 2.75 to 1.00. The maximum leverage ratio is the sum of total long-term debt and outstanding letters of credit, less industrial development revenue bonds, divided by the EBITDA for the previous 12 months.

The Amended Credit Agreement is collateralized by a pledge of 100% of the voting capital stock of each of our domestic subsidiaries and 66% of the voting capital stock of each non-domestic subsidiary, excluding Powell Canada. The Amended Credit Agreement provides for customary events of default and carries cross-default provisions with other existing debt agreements. If an event of default (as defined in the Amended Credit Agreement) occurs and is continuing, on the terms and subject to the conditions set forth in the Amended Credit Agreement, amounts outstanding under the Amended Credit Agreement may be accelerated and may become immediately due and payable. As of September 30, 2011, we were in compliance with all of the financial covenants of the Amended Credit Agreement.

Canadian Revolver

On December 15, 2009, we entered into a credit agreement with a major international bank (the Canadian Facility) to finance the $15.1 million debt assumed in the acquisition of Powell Canada, and to provide additional working capital support for our operations in Canada. The Canadian Facility provides for a $20 million CAD (approximately $19.4 million) revolving credit facility (the Canadian Revolver), subject to certain limitations including a limitation on borrowings based upon certain financial ratios, as defined in the credit agreement.

The Canadian Revolver provides for the issuance of letters of credit which reduce the amounts which may be borrowed under the Canadian Revolver. As of September 30, 2011, there were no letters of credit outstanding under the Canadian Revolver.

There were no borrowings outstanding under the Canadian Revolver, and $19.4 million was available at September 30, 2011, subject to a borrowing base calculation. The amount available under the Canadian Revolver was reduced to $16.5 million based upon the available borrowing base as defined in the Canadian Facility. The Canadian Facility expires on February 29, 2012. The interest rate for amounts outstanding under the Canadian Revolver is a floating interest rate based upon either the Canadian Prime Rate, or the lender s US Bank Rate. Once the applicable rate is determined, a margin of 0.375% to 1.125%, as determined by our consolidated leverage ratio is added to the applicable rate.

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

The Canadian Facility is secured by the assets of our Canadian operations and provides for customary events of default and carries cross-default provisions with our existing debt agreements. If an event of default (as defined in the Canadian Facility) occurs and is continuing, on the terms and subject to the conditions set forth in the Canadian Facility, amounts outstanding under the Canadian Facility may be accelerated and may become immediately due and payable. As of September 30, 2011, we were in compliance with all of the financial covenants of the Canadian Facility, and no borrowings were outstanding under this facility at September 30, 2011.

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 are in compliance at September 30, 2011. While the Bonds mature in 2021, the reimbursement agreement requires annual redemptions of $400,000 that commenced on October 25, 2002. A sinking fund is used for the redemption of the Bonds. At September 30, 2011, the balance in the restricted sinking fund was approximately $434,000 and was recorded in cash and cash equivalents. The Bonds bear interest at a floating rate determined weekly by the Bonds remarketing agent, which was the underwriter for the Bonds and is an affiliate of the bank. This interest rate was 0.51% per year on September 30, 2011.

I. Income Taxes

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

	Year Ended September 30,		
	2011	**2010**	**2009**
Current:			
Federal	$ 5,470	$ 18,126	$ 18,028
State	939	1,750	2,910
Foreign	563	1,071	1,146
	6,972	20,947	22,084
Deferred:			
Federal	(122)	(1,189)	(930)
State	(76)	23	(113)
Foreign	(62)	113	(307)
	(260)	(1,053)	(1,350)
Total income tax provision	$ 6,712	$ 19,894	$ 20,734

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

	Year Ended September 30,		
	2011	2010	2009
U.S.	$ 19,850	$ 53,467	$ 56,115
Other than U.S.	(15,853)	(8,406)	4,544
Income from continuing operations before provision for income taxes	$ 3,997	$ 45,061	$ 60,659

A reconciliation of the statutory U.S. income tax rate and the effective income tax rate, as computed on earnings before income tax provision in each of the three years presented in the Consolidated Statements of Operations, was as follows:

	Year Ended September 30,		
	2011	2010	2009
Statutory rate	35%	35%	35%
State income taxes, net of federal benefit	14	3	3
International withholding tax	(9)		(1)
Other permanent tax items	5		
Foreign rate differential	33	1	(1)
Domestic production activities deduction	(16)	(2)	(2)
Foreign valuation allowance and other	106	7	
Effective rate	168%	44%	34%

Our provision for income taxes reflects an effective tax rate on earnings before income taxes of 168% in fiscal year 2011 compared to 44% and 34% in fiscal years 2010 and 2009, respectively. The increase in the effective tax rates for fiscal years 2011 and 2010 resulted from a valuation allowance against deferred tax assets in Canada.

We have not recorded deferred income taxes on $16.0 million of undistributed earnings of our foreign subsidiaries because of management s intent to indefinitely reinvest such earnings. Upon distribution of these earnings in the form of dividends or otherwise, we may be subject to U.S. income taxes and foreign withholding taxes. It is not practical, however, to estimate the amount of taxes that may be payable on the eventual remittance of these earnings.

We are subject to income tax in the U.S., multiple state jurisdictions and a few international jurisdictions, primarily the U.K. and in Canada since December 15, 2009. For U.S. Federal income tax purposes, all years prior to 2008 are closed. We do not consider any state in which we do business to be a major tax jurisdiction. We remain open to examination in the U.K. for tax years 2008 to the present.

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

	September 30,	
	2011	2010
Current deferred income taxes:		
Gross assets	$ 6,801	$ 7,252
Gross liabilities	(3,221)	(4,165)
Net current deferred income tax asset	3,580	3,087
Noncurrent deferred income taxes:		

Gross assets	2,133	2,649
Gross liabilities	(114)	(562)
Net noncurrent deferred income tax asset	2,019	2,087
Net deferred income tax asset	$ 5,599	$ 5,174

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At September 30, 2011 and 2010, the noncurrent deferred income tax asset was included in other assets on the Consolidated Balance Sheets.

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

	September 30,	
	2011	2010
Deferred Tax Assets:		
Allowance for doubtful accounts	$ 89	$ 110
Workers compensation	39	200
Stock-based compensation	354	390
Reserve for accrued employee benefits	1,579	1,638
Warranty accrual	935	1,672
Depreciation and amortization	956	1,291
Deferred compensation	1,343	999
Postretirement benefits liability	460	350
Accrued legal	182	84
Other	41	
Uniform capitalization and inventory	4,667	3,813
Goodwill impairment	1,360	2,122
Net operating loss	3,144	903
Gross deferred tax asset	15,149	13,572
Less: valuation allowance	6,215	3,671
Deferred tax asset	8,934	9,901
Deferred Tax Liabilities:		
Uncompleted contracts	(3,221)	(4,164)
Software development costs		(461)
Other	(5)	
Capital lease	(109)	(102)
Deferred tax liability	(3,335)	(4,727)
Net deferred tax asset	$ 5,599	$ 5,174

At September 30, 2011, we had $11.7 million of gross foreign operating loss carryforward, which is subject to a 20-year carryforward. During the fiscal year ended September 30, 2011, we recorded a net valuation allowance of $6.2 million against our Canadian deferred tax assets, which we expect cannot be realized through future reversals of existing taxable temporary differences and our estimate of future taxable income. We believe that our deferred tax assets in other tax jurisdictions are more likely than not realizable through future reversals of existing taxable temporary differences and our estimate of future taxable income.

In the first quarter of fiscal year 2008, we adopted accounting guidance on the accounting for uncertainty in income taxes. Upon adoption of the guidance, we recorded a $0.3 million increase in our tax reserves, an offsetting decrease of $0.2 million to retained earnings for uncertain tax positions and an increase in deferred income tax assets of $0.1 million. As of the adoption date, we had total tax reserves of $1.2 million. This reserve includes an estimate of potential interest and penalties on estimated liabilities for uncertain tax positions, which were recorded as components of income tax expense, in the amount of $220,000 as of September 30, 2011. A reconciliation of the beginning and ending amount of the unrecognized tax liabilities follows (in thousands):

Balance as of September 30, 2010	$ 841

Increases related to tax positions taken during a prior period	155
Decreases related to expectations of statute of limitations	(233)
Balance as of September 30, 2011	$ 763

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Our continuing policy is to recognize interest and penalties related to income tax matters as tax expense. The amount of interest and penalty expense recorded for the year ended September 30, 2011, was not material.

There was no material change in the net amount of unrecognized tax benefits in the year ended September 30, 2011. Management believes that it is reasonably possible that within the next 12 months, the total unrecognized tax benefits will decrease by approximately 33% due to the expiration of certain statutes of limitations in various state and local jurisdictions.

Management believes that an adequate provision has been made for any adjustments that may result from tax examinations. However, the outcome of tax audits cannot be predicted with certainty. If any issues addressed in our tax audits are resolved in a manner not consistent with management s expectations, we could be required to adjust our provision for income tax in the period such resolution occurs. Although timing of the resolution and/or closure of audits is highly uncertain, we do not believe it is reasonably possible that our unrecognized tax benefits would materially change in the next 12 months.

J. Derivative Instruments and Hedging Strategies

We operate in various countries and have operations in the United Kingdom and Canada. These international operations expose us to market risk associated with foreign currency exchange rate fluctuations. We have entered into certain forward contracts to hedge the risk of certain foreign currency rate fluctuations. To the extent we choose to manage volatility associated with the net exposures, we enter into various financial transactions which we account for using the applicable accounting guidance for derivative instruments and hedging activities. Our objective is to hedge the variability in forecasted cash flow due to the foreign currency risk associated with certain long-term sales. As of September 30, 2011, we held no derivatives.

In order for a derivative to qualify for hedge accounting, the derivative must be formally designated as a hedge by documenting the relationship between the derivative and the hedged item. The documentation includes a description of the hedging instrument, the hedge item, the risk being hedged, our risk management objective and strategy for undertaking the hedge, the method for assessing the effectiveness of the hedge and the method for measuring hedge ineffectiveness. Additionally, the hedge relationship must be expected to be highly effective at offsetting changes in either the fair value or cash flows of the hedged item at both inception of the hedge and on an ongoing basis. We assess the ongoing effectiveness of our hedges in accordance with the Cumulative Dollar-Offset Approach, and measure and record hedge ineffectiveness at the end of each fiscal quarter, as necessary.

All derivatives are recognized on the Consolidated Balance Sheets at their fair value and classified based on the instrument s maturity date. There were no outstanding derivatives as of September 30, 2011.

The following table presents the fair value of derivative instruments included with the Consolidated Balance Sheets as of September 30, 2010:

	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value (in thousands)	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Foreign exchange forwards	Prepaid expenses and other current assets	$	Other accrued expenses	$ 47
Total derivatives		$		$ 47

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The following table presents the amounts affecting the Consolidated Statements of Operations for the year ended September 30, 2011:

Derivatives Designated	Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivatives[1] Year Ended September 30, 2011	Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Income	Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Income[1] Year Ended September 30, 2011
Derivatives designated as cash flow hedges:			
Foreign exchange forwards	$ (290)	Revenues	$ 40
Total designated cash flow hedges	$ (290)		$ 40

(1) For the year ended September 30, 2011, we recorded in other (income) expense an immaterial amount of ineffectiveness from cash flow hedges.

Refer to Note C for a description of how the above financial instruments are valued in accordance with the fair value measurement accounting guidance for the year ended September 30, 2011.

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

Derivatives Designated	Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivatives[1] Year Ended September 30, 2010	Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Income	Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Income[1] Year Ended September 30, 2010
Derivatives designated as cash flow hedges:			
Foreign exchange forwards	$ 757	Revenues	$ (89)
Total designated cash flow hedges	$ 757		$ (89)

(1) For the year ended September 30, 2010, we recorded in other (income) expense an immaterial amount of ineffectiveness from cash flow hedges.

Refer to Note C for a description of how the above financial instruments are valued in accordance with the fair value measurement accounting guidance for the year ended September 30, 2010.

K. Employee Benefit Plans

401(k) Plan

We have a defined employee contribution 401(k) plan for substantially all of our U.S. employees. We match 100% of employee contributions up to an employee contribution of 4% of each employee s salary. We recognized expenses of $3.4 million, $2.9 million and $3.0 million in fiscal years 2011, 2010 and 2009, respectively, under this plan primarily related to matching contributions.

Deferred Compensation

We offer an unfunded, non-qualified deferred compensation plan to a select group of management and highly compensated individuals. The plan permits the deferral of up to 50% of a participant s base salary and/or 100% of a participant s annual incentive bonus. The deferrals are held in a separate trust, which has been established to administer the plan. The assets of the trust are subject to the claims of our creditors in the event that we become insolvent. Consequently, the trust qualifies as a grantor trust for income tax purposes (a Rabbi

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Trust). The assets and liabilities of the plan are recorded in other assets and deferred compensation in the accompanying Consolidated Balance Sheets, respectively. Changes in the deferred compensation balance are charged to compensation expense. The plan is not qualified under Section 401 of the Internal Revenue code. There was no compensation expense related to this plan in fiscal year 2011. Total assets held by the trustee and deferred compensation liabilities were $2.3 million at September 30, 2011.

Certain executives were provided an executive benefit plan which provides for fixed payments upon normal retirement on or after age 65 and the completion of at least 10 years of continuous employment. The estimated present value of these payments were accrued over the service life of these individuals, and $1.0 million is recorded in deferred compensation in the accompanying Consolidated Balance Sheets related to this executive benefit plan. To assist in funding the deferred compensation liability, we have invested in corporate-owned life insurance policies. The cash surrender value of these policies is presented in other assets in the accompanying Consolidated Balance Sheets. The cash surrender value of life insurance policies was $4.0 million at September 30, 2011.

Retiree Medical Plan

We have a plan to extend to retirees health benefits which are available to active employees under our existing health plans. This plan is unfunded. The plan provides coverage for employees with at least 10 years of service, age 55 or older but less than 65, who retired on or after January 1, 2000. The retiree is required to pay the COBRA rate less a subsidy provided by us based on years of service at the time of retirement.

For the year ended September 30, 2011, the measurement of postretirement benefit expense was based on assumptions used to value the postretirement benefit liability as of October 1, 2010, our measurement date.

Amounts recognized in accumulated other comprehensive income as of September 30, 2011 and 2010, consisted of the following on a pretax basis (in thousands):

	September 30,	
	2011	**2010**
Net actuarial gain	$ (827)	$ (1,113)
Prior service cost	51	167
Total recognized in accumulated other comprehensive income	$ (776)	$ (946)

Amounts in accumulated other comprehensive income as of September 30, 2011, expected to be recognized as components of net periodic postretirement benefit cost in 2012 were as follows (in thousands):

Net actuarial gain	$ (44)
Prior service cost	115
Total	$ 71

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The following table illustrates the changes in accumulated postretirement benefit obligation, changes in fair value of assets and the funded status of the postretirement benefit plan (in thousands):

	September 30, 2011	2010
Changes in postretirement benefit obligation:		
Balance at beginning of year	$ 663	$ 741
Service cost	40	33
Interest cost	39	39
Actuarial loss (gain)	248	(95)
Benefits paid	(95)	(55)
Balance at end of year	$ 895	$ 663
Change in plan assets:		
Fair value of assets at beginning of year	$	$
Employer contributions	95	55
Benefits paid	(95)	(55)
Fair value of assets at end of year	$	$
Reconciliation of funded status:		
Unfunded liability	$ (895)	$ (663)
Unrecognized prior service cost	51	167
Unrecognized net actuarial gain	(827)	(1,113)
Net liability recognized	$ (1,671)	$ (1,609)

	2011	2010
Weighted-average assumptions used to determine benefit obligations at September 30:		
Discount rate pre-retirement	0.00%	0.00%
Discount rate post-retirement	4.24	4.56
Current year trend rate	10.00	9.00
Ultimate trend rate	5.00	5.00
Year ultimate trend rate reached	2014	2013

If the medical care cost trend rate assumptions were increased or decreased by 1% as of September 30, 2011, the effect of this change on the accumulated postretirement benefit obligation and service and interest costs would be an increase of $64,000 and $10,000 or a decrease of $35,000 and $6,000, respectively.

	Year Ended September 30, 2011	2010	2009
Components of net periodic postretirement benefit cost:			
Service cost	$ 40	$ 33	$ 60
Interest cost	39	39	59
Prior service cost	115	115	115
Net gain recognized	(37)	(49)	(75)
Net periodic postretirement benefit cost	$ 157	$ 138	$ 159

	2011	2010
Weighted-average assumptions used to determine benefit costs at September 30:		
Discount rate pre-retirement	0.00%	0.00%
Discount rate post-retirement	4.56	5.45
Current year trend rate	10.00	9.00
Ultimate trend rate	5.00	5.00
Year ultimate trend rate reached	2013	2012

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Future expected benefit payments as of September 30, 2011, related to postretirement benefits for the subsequent five years were as follows (in thousands):

Year Ending September 30,	Expected Benefit Payments
2012	$ 110
2013	92
2014	79
2015	68
2016	61
2016 through 2021	364

L. Commitments and Contingencies

Long-Term Debt

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

Leases

We lease certain offices, facilities and equipment under operating leases expiring at various dates through 2017. At September 30, 2011, the minimum annual rental commitments under leases having terms in excess of one year were as follows (in thousands):

Years Ending September 30,	Operating Leases
2012	$ 3,506
2013	2,494
2014	1,073
2015	174
2016	32
Thereafter	1
Total lease commitments	$ 7,280

Lease expense for all operating leases was $3.7 million, $3.3 million and $3.1 million for fiscal years 2011, 2010 and 2009, respectively.

Letters of Credit and Bonds

Certain customers require us to post bank letter of credit guarantees or performance bonds issued by a surety. These guarantees and performance bonds assure that we will perform under the terms of our contract. In the event of default, the counterparty may demand payment from the bank under a letter of credit or performance by the surety under a performance bond. To date, there have been no significant expenses related to either for the periods reported. We were contingently liable for secured and unsecured letters of credit of $13.2 million as of September 30, 2011. We also had performance and maintenance bonds totaling $195.1 million that were outstanding, with additional bonding capacity of $404.9 million available, at September 30, 2011.

We have a facility agreement (Facility Agreement) between S&I and a large international bank. The $11.7 million facility agreement provides S&I the ability to enter into forward exchange contracts, currency options and performance bonds. At September 30, 2011, we had outstanding a total of $9.3 million of guarantees under this Facility Agreement.

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

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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.

M. Stock-Based Compensation

We have the following stock-based compensation plans:

We have a Restricted Stock Plan for the benefit of members of the Board of Directors of the Company who, at the time of their service, are not employees of the Company or any of its affiliates. Subject to certain conditions and restrictions as determined by the Compensation Committee of the Board of Directors and proportionate adjustments in the event of stock dividends, stock splits and similar corporate transactions, each eligible director will receive 2,000 shares of restricted stock annually in the third fiscal quarter. In fiscal 2011, 17,500 shares of restricted stock were issued at a price of $33.49 per share. The maximum aggregate number of shares of stock that may be issued under the Restricted Stock Plan is 150,000 and will consist of authorized but unissued or reacquired shares of stock, or any combination thereof. The restricted stock grants vest 50% per year over a two-year period on each anniversary of the grant date. Unless terminated by the Board, the Restricted Stock Plan will terminate at the close of business on December 16, 2014, and no further grants shall be made under the plan after such date. Awards granted before such date shall continue to be subject to the terms and conditions of the plan and the respective agreements pursuant to which they were granted. The total number of shares of common stock available under the plan was 48,879 as of September 30, 2011.

The 2000 Non-Employee Stock Option Plan, as amended, previously had been adopted for the benefit of members of the Board of Directors of the Company who, at the time of their service, were not employees of the Company or any of its affiliates. Following the adoption of the Restricted Stock Plan described above, the Compensation Committee ceased the use of this plan in making new grants to directors. This plan will maintain its effectiveness until all options have been exercised or have expired. The total number of shares of our common stock available under this plan was 33,000 as of September 30, 2011. Stock options granted to the Directors under this plan were non-qualified and were granted at an exercise price equal to the fair market value of the common stock at the date of grant. Generally, options granted had expiration terms of seven years from the date of grant and vested in full one year from the grant date.

The 2006 Equity Compensation Plan (the 2006 Plan) grants any employee of the Company and its subsidiaries and consultants, the right to participate in the plan and receive awards. Awards can take the form of options, stock appreciation rights, stock awards and performance unit awards. The maximum aggregate number of shares of stock that may be issued under the 2006 Plan is 750,000 shares. The total number of shares of common stock available under the plan was 572,000 shares as of September 30, 2011.

During the first quarter of fiscal 2011, 26,000 shares of restricted stock were issued to certain officers and key employees of the Company with a fair value ranging from $30.79 to $32.12 per share under the 2006 Plan. The restricted stock grant vests 33% per year over a three-year period on each anniversary of the grant date. Compensation expense is recognized over a three-year period based on the price per share on the grant date. In conjunction with the separation of our former President and Chief Executive Officer (CEO) in September 2011, the remaining 7,601 shares that were unvested became immediately vested and were expensed in selling, general and administrative expenses.

In October 2009, 10,000 shares of restricted stock were issued to our former CEO at a price of $37.67 per share under the 2006 Plan. The restricted stock grant vests 20% per year over a five-year period on each anniversary of the grant date. Compensation expense is recognized over the five-year vesting period based on the $37.67 price per share on the grant date. In conjunction with the separation of our former CEO in September 2011, the remaining 8,000 shares that were unvested became immediately vested and were expensed in selling, general and administrative expenses.

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In October 2008, October 2009 and October 2010, we granted 32,900, 34,700 and 34,500 restricted stock units (RSUs), respectively, with a fair value of $40.81, $38.36 and $30.79 per unit, respectively, to certain officers and key employees of the Company. An additional 4,500 RSUs were granted in October 2010, with a fair value of $32.12. The RSUs vest over a three-year period from their date of issuance. The fair value of the RSUs was based on the closing price of our common stock as reported on the NASDAQ Global Market (NASDAQ) on the grant dates. The actual amount of the RSUs earned will be based on the cumulative earnings per share as reported relative to established goals for the three-year performance cycle which began October 1 of the year granted, and ranges from 0% to 150% of the target RSUs granted. At September 30, 2011, there were 69,378 RSUs outstanding. The RSUs do not have voting rights of common stock, and the shares of common stock underlying the RSUs are not considered issued and outstanding until actually issued.

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

	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value Per Share
Outstanding at September 30, 2008	118,468	$ 33.40
Granted	32,911	40.48
Expired or cancelled	(23,230)	34.92
Vested/exercised	(33,560)	31.86
Outstanding at September 30, 2009	94,589	36.04
Granted	34,688	38.36
Expired or cancelled		
Vested/exercised	(41,823)	31.86
Outstanding at September 30, 2010	87,454	38.96
Granted	39,048	30.94
Expired or cancelled	(35,746)	36.50
Vested/exercised	(21,378)	37.68
Outstanding at September 30, 2011	69,378	$ 36.10

For the year ended September 30, 2011, we recorded a credit to compensation expense of $1.7 million related to RSUs, as it is unlikely the estimated earnings per share goals will be met for the three-year cumulative performance cycle for all RSU awards currently outstanding. We recorded compensation expense of $1.3 million and $1.7 million related to RSUs for the years ended September 30, 2010 and 2009, respectively.

The 1992 Stock Option Plan, as amended (the 1992 Plan), permits us to grant to key employees non-qualified options and stock grants, subject to certain conditions and restrictions as determined by the Compensation Committee of the Board of Directors and proportionate adjustments in the event of stock dividends, stock splits and similar corporate transactions. The maximum number of shares that may be issued under the 1992 Plan is 2.7 million shares. Stock options are granted at an exercise price equal to the fair market value of the common stock on the date of the grant. Generally, options granted have an expiration date of seven years from the grant date and vest in increments of 20% per year over a five-year period. Pursuant to the 1992 Plan, option holders who exercise their options and hold the underlying shares of common stock for five years, vest in a stock grant equal to 20% of the original option shares. While restricted until the expiration of five years, the stock grant is considered issued at the date of the stock option exercise and is included in earnings per share. During fiscal year 2010, 40,000 shares of restricted stock were issued to option holders who met specified requirements under the 1992 Plan. There were no restricted stock grants under the 1992 Plan during fiscal years 2011 and 2009. There have been no stock options granted since July 2005. There were 470,000 shares available to be granted under this plan as of September 30, 2011.

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

	Stock Options	Weighted Average Exercise Price	Remaining Weighted Average Contractual Term (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding at September 30, 2008	267,300	$ 17.14		
Granted				
Exercised	(29,950)	17.15		
Forfeited				
Outstanding at September 30, 2009	237,350	17.14		
Granted				
Exercised	(108,750)	15.63		
Forfeited				
Outstanding at September 30, 2010	128,600	18.41		
Granted				
Exercised	(27,050)	18.30		
Forfeited	(4,000)	18.44		
Outstanding at September 30, 2011	97,550	$ 18.44	0.73	$ 1,799
Exercisable at September 30, 2011	97,550	$ 18.44	0.73	$ 1,799

The following table summarizes information about stock options outstanding as of September 30, 2011:

	Outstanding			Exercisable	
Range of Exercise Prices	Number Outstanding at 09/30/11	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at 09/30/11	Weighted Average Exercise Price
$18.44	97,550	0.73	$ 18.44	97,550	$ 18.44
Total Options	97,550			97,550	

N. Business Segments

We manage our business through operating segments, which are comprised of two reportable business segments: Electrical Power Products and Process Control Systems. Electrical Power Products includes equipment and systems for the distribution and control of electrical energy. Process Control Systems consists principally of instrumentation, computer controls, communications and data management systems to control and manage critical processes.

The table below reflects certain information relating to our operations by business segment. All revenues represent sales from unaffiliated customers. The accounting policies of the business segments are the same as those described in the summary of significant accounting policies. Corporate expenses are allocated to the operating business segments primarily based on revenues.

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

	Year Ended September 30,		
	2011	2010	2009
Revenues:			
Electrical Power Products	$ 533,339	$ 517,069	$ 630,032
Process Control Systems	29,058	33,623	35,819
Total	$ 562,397	$ 550,692	$ 665,851
Gross profit:			
Electrical Power Products	$ 91,730	$ 129,780	$ 129,480
Process Control Systems	8,200	12,277	15,569
Total	$ 99,930	$ 142,057	$ 145,049
Depreciation and amortization:			
Electrical Power Products	$ 15,188	$ 13,453	$ 10,778
Process Control Systems	162	177	175
Total	$ 15,350	$ 13,630	$ 10,953
Income before income taxes:			
Electrical Power Products	$ 3,888	$ 41,378	$ 53,076
Process Control Systems	109	3,683	7,583
Total	$ 3,997	$ 45,061	$ 60,659

Income before income taxes includes a $1.2 million gain recorded in the second quarter of fiscal 2011 resulting from cash received from the sale of our 50% equity investment in Kazakhstan. This gain was recorded in our Electrical Power Products business segment. Income before taxes for fiscal 2011 includes an impairment charge of $7.2 million, which was recorded in the fourth quarter, to reflect the impairment for the value of the intangible assets that were recorded in relation to the acquisition of Powell Canada. This loss was recorded in our Electrical Power Products business segment.

Income before income taxes for fiscal 2010 includes an impairment charge of $7.5 million to reflect the impairment for the value of goodwill that was recorded in relation to the acquisition of Powell Canada. This loss was recorded in our Electrical Power Products business segment.

The Process Control Systems business segment benefitted from revenues of $3.5 million and gross profit of $2.8 million during fiscal year 2009, resulting from a mediated settlement related to a previously completed contract that was in dispute for several years.

Geographic Information

Revenues are as follows (in thousands):

	Year Ended September 30,		
	2011	2010	2009
Europe (including former Soviet Union)	$ 7,107	$ 25,174	$ 30,582
Far East	17,172	24,998	62,155
Middle East and Africa	46,304	25,880	28,405
North, Central and South America (excluding U.S.)	112,949	81,506	28,737

United States	378,865	393,134	515,972
Total revenues	$ 562,397	$ 550,692	$ 665,851

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The United States is the only country that accounted for more than 10% of consolidated revenues in fiscal years 2011, 2010 or 2009.

	September 30,	
	2011	2010
Long-lived assets:		
United States	$ 47,966	$ 50,211
United Kingdom	6,409	6,937
Canada	5,262	6,528
Total	$ 59,637	$ 63,676

Long-lived assets consist of property, plant and equipment net of accumulated depreciation.

O. Quarterly Results of Operations (Unaudited)

The table below sets forth the unaudited consolidated operating results by fiscal quarter for the years ended September 30, 2011 and 2010 (in thousands, except per share data):

	2011 Quarters				
	First	Second	Third	Fourth	2011
Revenues	$ 124,674	$ 125,111	$ 141,369	$ 171,243	$ 562,397
Gross profit	25,865	24,877	21,864	27,324	99,930
Net income (loss) attributable to Powell Industries, Inc.	2,432	1,733	73	(6,953)	(2,715)
Basic earnings (loss) per share	0.21	0.15	0.01	(0.59)	(0.23)
Diluted earnings (loss) per share	0.21	0.15	0.01	(0.59)	(0.23)

	2010 Quarters				
	First	Second	Third	Fourth	2010
Revenues	$ 135,916	$ 142,135	$ 138,880	$ 133,761	$ 550,692
Gross profit	37,817	36,533	38,244	29,463	142,057
Net income attributable to Powell Industries, Inc.	9,644	9,860	10,286	(4,782)	25,008
Basic earnings per share	0.84	0.86	0.89	(0.41)	2.17
Diluted earnings per share	0.83	0.85	0.88	(0.41)	2.14

The sum of the individual earnings per share amounts may not agree with year-to-date earnings per share as each period s computation is based on the weighted-average number of shares outstanding during the period.

Income before income taxes includes a $1.2 million gain recorded in the second quarter of fiscal 2011 resulting from cash received from the sale of our 50% equity investment in Kazakhstan. Income before taxes for fiscal 2011 includes an impairment charge of $7.2 million, which was recorded in the fourth quarter, to reflect the impairment for the value of the intangible assets that were recorded in relation to the acquisition of Powell Canada.

Income before income taxes for fiscal 2010 includes an impairment charge of $7.5 million to reflect the impairment for the value of goodwill that was recorded in relation to the acquisition of Powell Canada.

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Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

Item 9A. ***Controls and Procedures***

Restatement of Previously Issued Quarterly Financial Statements

On November 8, 2011, we announced that previously issued consolidated financial statements for the second and third quarters of fiscal 2011 contain certain accounting errors that originated at our Canadian operations (Powell Canada), and such financial statements could no longer be relied on. Subsequent to that announcement, we corrected the previously issued consolidated financial statements and filed Forms 10-Q\A for the fiscal periods ended March 31, 2011 and June 30, 2011. The accounting errors were the result of inaccurate recording of customer change orders, an erroneous journal entry, the incorrect close-out of estimated costs on certain jobs, and the incorrect application of a manufacturing overhead rate to construction contracts.

Evaluation of Disclosure Controls and Procedures

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

Management, with the participation of our CEO and CFO, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) as of September 30, 2011, the end of the fiscal period covered by this report. In designing and evaluating disclosure controls and procedures, our management recognizes that any disclosure controls and procedures, no matter how well designed and operated, can only provide reasonable assurance of achieving the desired control objective. As of September 30, 2011, based on the evaluation of these disclosure controls and procedures, and in light of the material weaknesses found in our internal controls over financial reporting, our CEO and CFO have concluded that our disclosure controls and procedures were not effective.

In light of the material weaknesses described below, we have performed additional analysis and other post-closing procedures to ensure our consolidated financial statements are prepared in accordance with generally accepted accounting principles. Accordingly, management concluded that the financial statements fairly present in all material respects our financial condition, results of operations and cash flows as at, and for, the periods presented in this annual report.

Management s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities and Exchange Act of 1934, as amended. Internal control over financial reporting is a process designed by, or under the supervision of, our CEO and CFO, and effected by the Company s board of directors, management or other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

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

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Management of the Company has assessed the effectiveness of our internal control over financial reporting as of September 30, 2011, using the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. In our assessment of the effectiveness of internal control over financial reporting as of September 30, 2011, we determined that control deficiencies existed that constituted material weaknesses, as described below:

1) Financial close and reporting process, Powell Canada Controls over the month-end financial close and reporting process, which provide for the completeness, accuracy, valuation and presentation of account balances at Powell Canada were not effective, which resulted in misstatements to cost of sales, inventory, work in progress and accounts payable. Specifically,

   Significant account reconciliations, including reserve accounts, and trial balance reviews were not performed or reviewed,

   Formal monthly reviews regarding budgeted revenues and costs for long-term construction projects were not held,

   A supervisory review of significant account reconciliations was not performed, and

   Conflicting duties were not appropriately mitigated for individuals that were assigned functions with system access to inventory, receiving, project costing and billing, project management, time entry, receivables and order management.

2) Revenue recognition process for long-term construction projects, Powell Canada Controls over revenue recognition for long-term construction projects to ensure completeness, accuracy, existence, and presentation of revenue, cost and estimated earnings in excess of billings on uncompleted projects, billings in excess of cost and estimated earnings on uncompleted projects, and other accrued expenses at Powell Canada were not effective which resulted in misstatements related to these accounts. Specifically,

   Customer acceptance of change orders was not obtained prior to revenue recognition for certain projects,

   Formal monthly reviews regarding budgeted revenues and costs for long-term construction projects were not held, and

   Conflicting duties were not appropriately mitigated for certain individuals with access to Powell Canada s project budgeting and project costing applications.

3) Cost accumulation process, Powell Canada Controls over the accumulation and reporting of construction job costs, including the application of overhead and recording labor, to provide for the accurate reporting of revenue and cost and estimate earnings in excess of billings on uncompleted projects at Powell Canada were not effective. This resulted in a misstatement related to these accounts. Specifically,

   Formal monthly reviews regarding budgeted revenues and costs for long-term construction projects were not held, and

Conflicting duties were not appropriately mitigated for certain individuals with access to Powell Canada s project costing and payroll applications.

4) Revenue and accounts receivable process for service contracts, Powell Canada The following controls over the revenue and accounts receivable process for service contracts to ensure the completeness, accuracy, existence, valuation, rights and presentation of service contract revenues and accounts receivable were not effective or adequate to prevent or detect material misstatements of these accounts in our consolidated financial statements. Specifically,

Service contract invoices, credit memos and invoice adjustments could be processed without proper authorization and approval,

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A monthly review of service contract credit memos and invoice adjustments was not performed,

Significant reserve accounts were not reviewed, and

Conflicting duties were not appropriately mitigated related to invoicing, collection and processing invoice adjustments.

The material weaknesses described above could result in further misstatements of the aforementioned accounts and disclosures that would result in a material misstatement of the consolidated financial statements that would not be prevented or detected.

As a result of the material weaknesses described above, management has concluded that we did not maintain effective internal control over financial reporting as of September 30, 2011, based on the criteria established in *Internal Control Integrated Framework* issued by COSO.

The effectiveness of the Company s internal control over financial reporting as of September 30, 2011 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Remediation Plan

As of September 30, 2011, there were control deficiencies which constituted material weaknesses in our internal control over financial reporting. Management has taken, and is taking steps to strengthen our internal control over financial reporting. Specifically,

A new Controller and other accounting staff members have been hired at Powell Canada where the control deficiencies exist.

Members of project management and the accounting staff have and will receive additional training related to policies, procedures and internal controls, including Powell s policies regarding monthly reconciliations and supervisory review procedures for all significant accounts.

Additional training has and will be provided related to the ERP business system that was implemented at Powell Canada in April 2011 to foster utilization of tools available for timely review of projects in progress.

User access and segregation of duties will be reviewed to determine and implement the appropriate steps necessary to prevent or mitigate potential conflicts.

A consultant was hired and is on-site to evaluate, make recommendations and implement corrective actions over the contract revenue and cost accumulation processes of Powell Canada s field operations.

Our internal audit department will review and assess progress on the remediation plan noted above.

While we have taken certain actions to address the material weaknesses identified, additional measures may be necessary as we work to improve the overall effectiveness of our internal controls over financial reporting. Through the actions described above, we believe that we are addressing the deficiencies that affected our internal control over financial reporting as of September 30, 2011. However, until the above-described controls have operated for a sufficient period of time, we will not be able to conclude that the material weaknesses have been remediated. We will continue to monitor and assess our remediation activities to address the material weaknesses discussed above through remediation as soon as practicable.

Changes in Internal Control over Financial Reporting

Other than the changes discussed above in the Remediation Plan, there has been no change in our internal control over financial reporting that occurred during our fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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Item 9B. ***Other Information***

None.

PART III

Item 10. ***Directors, Executive Officers and Corporate Governance***

The information required by this item is incorporated in this Annual Report by reference to our definitive proxy statement pursuant to Regulation 14A, to be filed with the Securities and Exchange Commission not later than 120 days after the close of our fiscal year ended September 30, 2011.

We have adopted a Code of Business Conduct and Ethics that applies to all employees, including our executive officers and directors. A copy of our Code of Business Conduct and Ethics may be obtained at the Investor Relations section of our website, www.powellind.com, or by written request addressed to the Secretary, Powell Industries, Inc., 8550 Mosley Drive, Houston, Texas 77075. We will satisfy the requirements under Item 5.05 of Form 8-K regarding disclosure of amendments to, or waivers from, provisions of our code of ethics that apply to the chief executive officer, chief financial officer or controller by posting such information on our website.

Item 11. ***Executive Compensation***

The information required by this item is incorporated in this Annual Report by reference to our definitive proxy statement pursuant to Regulation 14A, to be filed with the Securities and Exchange Commission not later than 120 days after the close of our fiscal year ended September 30, 2011.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

The information required by this item is incorporated in this Annual Report by reference to our definitive proxy statement pursuant to Regulation 14A, to be filed with the Securities and Exchange Commission not later than 120 days after the close of our fiscal year ended September 30, 2011.

Item 13. ***Certain Relationships and Related Transactions, and Director Independence***

The information required by this item is incorporated in this Annual Report by reference to our definitive proxy statement pursuant to Regulation 14A, to be filed with the Securities and Exchange Commission not later than 120 days after the close of our fiscal year ended September 30, 2011.

Item 14. ***Principal Accountant Fees and Services***

The information required by this item is incorporated in this Annual Report by reference to our definitive proxy statement pursuant to Regulation 14A, to be filed with the Securities and Exchange Commission not later than 120 days after the close of our fiscal year ended September 30, 2011.

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PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

1. *Financial Statements.* Reference is made to the Index to Consolidated Financial Statements at Item 8 of this Annual Report.

2. *Financial Statement Schedule.* All schedules are omitted because they are not applicable or the required information is shown in the financial statements or the notes to the financial statements.

3. *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	By-laws of Powell Industries, Inc. (filed as Exhibit 3.2 to our Form 8-A/A filed November 1, 2004, and incorporated herein by reference).
10.1	Powell Industries, Inc., Incentive Compensation Plan (filed as Exhibit 10.1 to our Form 10-K for the fiscal year ended October 31, 2003, and incorporated herein by reference).
10.2	Description of Supplemental Executive Benefit Plan (filed as Exhibit 10 to our Form 10-K for the fiscal year ended October 31, 1984, and incorporated herein by reference).
10.3	1992 Powell Industries, Inc. Stock Option Plan (filed as Exhibit 10.1 to our registration statement on Form S-8 filed on December 21, 2010, and incorporated herein by reference).
10.4	Amendment to 1992 Powell Industries, Inc. Stock Option Plan (filed as Exhibit 10.8 to our Form 10-Q for the quarter ended April 30, 1996, and incorporated herein by reference).
10.5	Amendment to 1992 Powell Industries, Inc. Stock Option Plan (the cover of the 1992 Powell Industries, Inc. Stock Option Plan has been noted to reflect the increase in the number of shares authorized for issuance under the Plan from 2,100,000 to 2,700,000, which increase was approved by the stockholders of the Company at the 2005 Annual Meeting of Stockholders).
10.6	Powell Industries, Inc. Directors Fees Program (filed as Exhibit 10.7 to our Form 10-K for the fiscal year ended October 31, 1992, and incorporated herein by reference).
10.7	Powell Industries, Inc. Executive Severance Protection Plan (filed as Exhibit 10.7 to our Form 10-K for the fiscal year ended October 31, 2002, and incorporated herein by reference).
10.8	Powell Industries, Inc. Non-Employee Directors Stock Option Plan (filed as Exhibit 10.9 to our Form 10-K for the fiscal year ended October 31, 2002, and incorporated herein by reference).
10.9	Powell Industries, Inc. Deferred Compensation Plan (filed as Exhibit 10.9 to our Form 10-K for the fiscal year ended October 31, 2002, and incorporated herein by reference).
10.10	Powell Industries, Inc. Non-Employee Director Restricted Stock Plan (filed as Exhibit 10.3 to our registration statement on Form S-8 filed on December 21, 2010, and incorporated herein by reference).
10.11	Amended Loan Agreement dated October 29, 2004, between Powell Industries, Inc. and Bank of America, N.A. (filed as Exhibit 10.10 to our Form 10-K for the fiscal year ended October 31, 2004, and incorporated herein by reference).
10.12	Credit and Reimbursement Agreement dated April 15, 2004, between Powell Industries, Inc. and Bank of America, N.A. (filed as Exhibit 10.11 to our Form 10-K for the fiscal year ended October 31, 2004, and incorporated herein by reference).
10.13	Credit Agreement dated June 29, 2005 among Powell Industries, Inc., Inhoco 3210 Limited and Switchgear & Instrumentation Properties Limited, and Bank of America and the other lenders parties thereto (filed as Exhibit 10.1 to our Form 8-K filed July 6, 2005, and incorporated herein by reference).

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Number	Description of Exhibits
10.14	First Amendment to Credit Agreement dated November 7, 2005 among Powell Industries, Inc., Inhoco 3210 Limited (n/k/a Switchgear & Instrumentation Limited), Switchgear & Instrumentation Properties Limited, Bank of America, N.A., and the other lenders parties thereto (filed as Exhibit 10.14 to our Form 10-K for the fiscal year ended October 31, 2005, and incorporated herein by reference).
10.15	Second Amendment to Credit Agreement dated January 11, 2006 among Powell Industries, Inc., Switchgear & Instrumentation Limited, Switchgear & Instrumentation Properties Limited, Bank of America, N.A., and the other lenders parties thereto (filed as Exhibit 10.15 to our Form 10-K for the fiscal year ended October 31, 2005, and incorporated herein by reference).
10.16	Third Amendment to Credit Agreement dated August 4, 2006 among Powell Industries, Inc., Switchgear & Instrumentation Limited, Switchgear & Instrumentation Properties Limited, Bank of America, N.A., and the other lenders parties thereto (filed as Exhibit 10.3 to our Form 8-K filed August 9, 2006, and incorporated herein by reference).
10.17	Fourth Amendment to Credit Agreement dated December 7, 2006 among Powell Industries, Inc., Switchgear & Instrumentation Limited, Switchgear & Instrumentation Properties Limited, Bank of America, N.A., and the other lenders parties thereto (filed as Exhibit 10.17 to our Transition report on Form 10-K for the fiscal year ended September 30, 2006, and incorporated herein by reference).
10.18	Fifth Amendment to Credit Agreement, dated as of December 4, 2007, among Powell Industries, Inc., as Parent, the subsidiaries of Powell Industries, Inc. identified therein, as Borrowers, Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer, and the Lenders party thereto (filed as Exhibit 10.1 to our Quarterly Report on Form 10-Q for the quarter ended December 31, 2007, and incorporated herein by reference).
10.19	Sixth Amendment to Credit Agreement, dated as of December 14, 2007, among Powell Industries, Inc., as Parent, the subsidiaries of Powell Industries, Inc. identified therein, as Borrowers, Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C issuer, and the Lenders party thereto (filed as Exhibit 10.1 to our Form 8-K filed December 19, 2007, and incorporated herein by reference).
10.20	Banking facilities between HSBC Bank plc and Switchgear & Instrumentation Limited and Switchgear & Instrumentation Properties Limited dated September 12, 2005 (filed as Exhibit 10.16 to our Form 10-K for the fiscal year ended October 31, 2005, and incorporated herein by reference).
**10.21	Powell Supply Agreement between the Company and General Electric Company dated August 7, 2006 (filed as Exhibit 10.1 to our Form 8-K/A filed June 16, 2008, and incorporated herein by reference).
10.22	Lease Agreement between the Company and C&L Partnership, Ltd. dated April 19, 2006 (filed as Exhibit 10.2 to our Form 8-K filed August 9, 2006, and incorporated herein by reference).
10.23	Consulting Agreement dated July 18, 2008 between the Company and Thomas W. Powell (filed as Exhibit 10.1 to our Form 8-K filed July 24, 2008, and incorporated herein by reference).
10.24	Seventh Amendment to Credit Agreement, dated as of December 10, 2008, among Powell Industries, Inc., as Parent, the subsidiaries of Powell Industries, Inc. identified therein, as Borrowers, Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C issuer, and the Lenders party (filed as Exhibit 10.24 to our Form 10-K for the fiscal year ended September 30, 2008, and incorporated herein by reference).
10.25	Powell Industries, Inc. 2006 Equity Compensation Plan (filed as Exhibit 10.2 to our registration statement on Form S-8 filed on December 21, 2010, and incorporated herein by reference).
10.26	Credit Agreement dated as of December 15, 2009, between Powell PowerComm Inc., as Borrower, Powell Industries, Inc., Nextron Limited, PPC Technical Services Inc., as Guarantors, and HSBC Bank Canada, as Lender (filed as Exhibit 10.1 to our Form 8-K filed on December 21, 2009, and incorporated herein by reference).

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10.27	Ninth Amendment to Credit agreement, dated as of May 18, 2011, among Powell Industries, Inc., as Parent, the subsidiaries of Powell Industries, Inc. identified therein, as Borrowers, Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C issuer, and the Lenders party (filed as Exhibit 10.1 to our Form 8-K dated May 18, 2011, and incorporated herein by reference.)
*10.28	Severance Agreement and Release dated as of October 7, 2011 between the Company and Patrick L. McDonald.
*21.1	Subsidiaries of Powell Industries, Inc.
*23.2	Consent of PricewaterhouseCoopers, LLP.
*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.

* Filed herewith

** Portions of this exhibit have been omitted based on a request for confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934. Such omitted portions have been filed separately with the Commission.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By: /s/ Thomas W. Powell
Thomas W. Powell

Chairman of the Board

President and Chief Executive Officer

(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the date indicated:

Signature	Title
/s/ Thomas W. Powell Thomas W. Powell	Chairman of the Board President and Chief Executive Officer (Principal Executive Officer)
/s/ Don R. Madison Don R. Madison	Executive Vice President Chief Financial and Administrative Officer (Principal Financial Officer)
/s/ Milburn Honeycutt Milburn Honeycutt	Vice President Chief Accounting Officer Corporate Controller (Principal Accounting Officer)
/s/ Joseph L. Becherer Joseph L. Becherer	Director
/s/ Eugene L. Butler Eugene L. Butler	Director
/s/ James F. Clark James F. Clark	Director
/s/ Christopher E. Cragg Christopher E. Cragg	Director
/s/ Bonnie V. Hancock Bonnie V. Hancock	Director
/s/ Scott E. Rozzell Scott E. Rozzell	Director

/s/ Stephen W. Seale, Jr. Stephen W. Seale, Jr.	Director
/s/ Robert C. Tranchon Robert C. Tranchon	Director

Date: December 12, 2011

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