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

Form 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2023

OR

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

For the transition period from to

Commission File Number 001-12488

Powell Industries, Inc.
(Exact name of registrant as specified in its charter)

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

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

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value $0.01 per share	POWL	NASDAQ Global Market

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☒ Yes ☐ No

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

Large accelerated filer ☐	Accelerated filer ☒	Non-accelerated filer ☐	Smaller reporting company ☐	Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

At January 29, 2024, there were 11,967,718 outstanding shares of the registrant's common stock, par value $0.01 per share.

POWELL INDUSTRIES, INC. AND SUBSIDIARIES
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PART I — FINANCIAL INFORMATION
Item 1. ***Condensed Consolidated Financial Statements***

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

	December 31, 2023	September 30, 2023
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 321,400	$ 245,875
Short-term investments	33,943	33,134
Accounts receivable, less allowance for credit losses of $244 and $273	169,477	206,591
Contract assets	67,594	60,621
Inventories	69,682	63,865
Income taxes receivable	64	100
Prepaid expenses	5,252	5,419
Other current assets	7,413	6,380
Total Current Assets	674,825	621,985
Property, plant and equipment, net	98,318	97,625
Operating lease assets, net	1,218	1,436
Goodwill and intangible assets, net	1,503	1,003
Deferred income taxes	17,229	17,064
Other assets	14,856	13,129
Total Assets	$ 807,949	$ 752,242
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 50,173	$ 56,666
Contract liabilities	328,888	279,796
Accrued compensation and benefits	11,637	29,947
Accrued product warranty	3,680	3,305
Current operating lease liabilities	645	773
Income taxes payable	11,985	6,517
Other current liabilities	20,843	18,682
Total Current Liabilities	427,851	395,686
Deferred compensation	10,965	9,145
Long-term operating lease liabilities	573	663
Other long-term liabilities	2,240	1,722
Total Liabilities	441,629	407,216
Commitments and Contingencies (Note F)		
Stockholders' Equity:		
Preferred stock, par value $0.01; 5,000,000 shares authorized; none issued	—	—
Common stock, par value $0.01; 30,000,000 shares authorized; 12,765,936 and 12,668,001 shares issued, respectively; 11,959,918 and 11,861,983 shares outstanding, respectively	127	127
Additional paid-in capital	68,854	71,526
Retained earnings	346,162	325,281
Treasury stock, 806,018 shares at cost	(24,999)	(24,999)
Accumulated other comprehensive loss	(23,824)	(26,909)
Total Stockholders' Equity	366,320	345,026
Total Liabilities and Stockholders' Equity	$ 807,949	$ 752,242

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

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

	Three months ended December 31,	
	2023	**2022**
Revenues	$ 194,017	$ 126,858
Cost of goods sold	145,823	107,394
Gross profit	48,194	19,464
Selling, general and administrative expenses	20,347	16,873
Research and development expenses	1,967	1,501
Operating income	25,880	1,090
Interest income, net	(3,998)	(523)
Income before income taxes	29,878	1,613
Income tax provision	5,793	451
Net income	$ 24,085	$ 1,162
Earnings per share:		
Basic	$ 2.02	$ 0.10
Diluted	$ 1.98	$ 0.10
Weighted average shares:		
Basic	11,941	11,859
Diluted	12,174	12,077
Dividends per share	$ 0.2625	$ 0.2600

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

POWELL INDUSTRIES, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Income (Unaudited)
(In thousands)

	Three months ended December 31,	
	2023	**2022**
Net income	$ 24,085	$ 1,162
Foreign currency translation adjustments	3,085	2,178
Gain on cash flow commodity hedge	—	218
Comprehensive income	$ 27,170	$ 3,558

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

POWELL INDUSTRIES, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Stockholders' Equity (Unaudited)
(In thousands)

	Common Stock		Additional Paid-in	Retained	Treasury Stock		Accumulated Other Comprehensive	
	Shares	Amount	Capital	Earnings	Shares	Amount	Income/(Loss)	Totals
Balance, September 30, 2023	12,668	$ 127	$ 71,526	$ 325,281	(806)	$ (24,999)	$ (26,909)	$ 345,026
Net income	—	—	—	24,085	—	—	—	24,085
Foreign currency translation adjustments	—	—	—	—	—	—	3,085	3,085
Stock-based compensation	98	—	1,657	—	—	—	—	1,657
Shares withheld in lieu of employee tax withholding	—	—	(4,752)	—	—	—	—	(4,752)
Dividends	—	—	423	(3,204)	—	—	—	(2,781)
Balance, December 31, 2023	12,766	$ 127	$ 68,854	$ 346,162	(806)	$ (24,999)	$ (23,824)	$ 366,320

	Common Stock		Additional Paid-in	Retained	Treasury Stock		Accumulated Other Comprehensive	
	Shares	Amount	Capital	Earnings	Shares	Amount	Income/(Loss)	Totals
Balance, September 30, 2022	12,588	$ 126	$ 67,439	$ 283,638	(806)	$ (24,999)	$ (28,998)	$ 297,206
Net income	—	—	—	1,162	—	—	—	1,162
Foreign currency translation adjustments	—	—	—	—	—	—	2,178	2,178
Stock-based compensation	53	—	1,307	—	—	—	—	1,307
Shares withheld in lieu of employee tax withholding	—	—	(423)	—	—	—	—	(423)
Dividends	—	—	131	(3,307)	—	—	—	(3,176)
Gain on cash flow commodity hedge	—	—	—	—	—	—	218	218
Balance, December 31, 2022	12,641	$ 126	$ 68,454	$ 281,493	(806)	$ (24,999)	$ (26,602)	$ 298,472

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

POWELL INDUSTRIES, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows (Unaudited)
(In thousands)

	Three months ended December 31,	
	2023	**2022**
Operating Activities:		
Net income	$ 24,085	$ 1,162
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	1,641	2,136
Stock-based compensation	1,657	1,307
Mark-to-market loss on derivative contracts	41	—
Bad debt expense (recovery), net	(29)	6
Deferred income taxes	(165)	(895)
Changes in operating assets and liabilities:		
Accounts receivable, net	38,095	(44,547)
Contract assets and liabilities, net	41,711	78,298
Inventories	(5,604)	(4,406)
Income taxes	5,508	1,048
Prepaid expenses and other current assets	(826)	368
Accounts payable	(6,992)	(24,149)
Accrued liabilities	(16,387)	(12,741)
Other, net	1,163	1,864
Net cash provided by (used in) operating activities	83,898	(549)
Investing Activities:		
Maturities of short-term investments	—	3,690
Purchases of property, plant and equipment	(1,235)	(2,726)
Purchase of intangible assets	(250)	—
Proceeds from sale of property, plant and equipment	—	11
Net cash provided by (used in) investing activities	(1,485)	975
Financing Activities:		
Shares withheld in lieu of employee tax withholding	(4,752)	(423)
Dividends paid	(3,124)	(3,074)
Net cash used in financing activities	(7,876)	(3,497)
Net increase (decrease) in cash and cash equivalents	74,537	(3,071)
Effect of exchange rate changes on cash and cash equivalents	988	749
Cash and cash equivalents at beginning of period	245,875	101,954
Cash and cash equivalents at end of period	$ 321,400	$ 99,632

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

A. Overview and Summary of Significant Accounting Policies

Overview

Powell Industries, Inc. (we, us, our, Powell or the Company) is incorporated in the state of Delaware. Powell's predecessor companies were founded 77 years ago by William E. Powell in 1947. Our major subsidiaries, all of which are wholly owned, include Powell Electrical Systems, Inc.; Powell (UK) Limited; Powell Canada Inc.; and Powell Industries International, B.V.

We develop, design, manufacture and service custom-engineered equipment and systems which (1) distribute, control and monitor the flow of electrical energy and (2) provide protection to motors, transformers and other electrically powered equipment. We are headquartered in Houston, Texas and serve the oil and gas and petrochemical markets, which include onshore and offshore production, liquefied natural gas (LNG) facilities and terminals, pipelines, refineries and petrochemical plants. Additionally, we manufacture products for the electric utility, light rail traction power, mining and metals, pulp and paper, data centers and other municipal, commercial and industrial markets.

Basis of Presentation

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

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

The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto of Powell and its subsidiaries included in Powell’s Annual Report on Form 10-K for the year ended September 30, 2023, which was filed with the Securities and Exchange Commission (SEC) on December 6, 2023.

References to Fiscal 2024 and Fiscal 2023 used throughout this report shall mean the current fiscal year ending September 30, 2024 and the prior fiscal year ended September 30, 2023, respectively.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying footnotes. The most significant estimates used in our condensed consolidated financial statements affect revenue recognition and estimated cost recognition on our customer contracts, allowance for credit losses, provision for excess and obsolete inventory, warranty accruals and income taxes. The amounts recorded for warranties, legal, income taxes, impairment of long-lived assets (when applicable), liquidated damages and other contingent liabilities require judgments regarding the amount of expenses that will ultimately be incurred. We base our estimates on historical experience, forecasts and various other assumptions, as well as the specific circumstances surrounding these contingent liabilities, in evaluating the amount of liability that should be recorded. Additionally, the basis for recognition of deferred tax assets requires estimates related to future income and other assumptions regarding timing and future profitability because the ultimate realization of net deferred tax assets is dependent on the generation of future taxable income during periods in which temporary differences become deductible. Estimates routinely change as new events occur, additional information becomes available or operating environments change. Actual results may differ from our prior estimates.

Accounting Standards Updates Issued but Not Yet Adopted

In November 2023, the Financial Accounting Standard Board (FASB) issued Accounting Standards Update (ASU) 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*, which requires that public entities disclose significant segment expenses that are regularly provided to the chief operating decision maker (CODM) on an annual and interim basis. It also requires that public entities disclose the title and position of the CODM and an explanation of how the CODM uses the reported measures in assessing segment performance and resource allocation. Additionally, it requires that all existing annual disclosures about segment profit or loss and assets must be provided on an interim basis and clarifies that single reportable segment entities are subject to the disclosure requirement under Topic 280 in its entirety. ASU 2023-07 is effective for fiscal years beginning after December 15, 2023 and interim periods within those fiscal years beginning after December 15, 2024. A public entity should apply ASU 2023-07 retrospectively to all prior periods presented in the financial statements. Early adoption is permitted. We are currently evaluating the impacts of the new standard.

In December 2023, the FASB issued ASU 2023-09, *Improvements to Income Tax Disclosures*, which enhances the transparency of income tax disclosures. It requires greater disaggregation of information in the tax rate reconciliation and income taxes paid disaggregated by jurisdiction. This ASU is effective for fiscal years beginning after December 15, 2024, and should be applied on a prospective basis. Retrospective application and early adoption are permitted. We are currently evaluating the impacts of the new standard.

B. Earnings Per Share

We compute basic earnings per share by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per common and potential common share include the weighted average of additional shares associated with the incremental effect of dilutive restricted stock and restricted stock units.

The following table reconciles basic and diluted weighted average shares used in the computation of earnings per share (in thousands, except per share data):

	Three months ended December 31,	
	2023	**2022**
Numerator:		
Net income	$ 24,085	$ 1,162
Denominator:		
Weighted average basic shares	11,941	11,859
Dilutive effect of restricted stock and restricted stock units	233	218
Weighted average diluted shares	12,174	12,077
Earnings per share:		
Basic	$ 2.02	$ 0.10
Diluted	$ 1.98	$ 0.10

C. Detail of Selected Balance Sheet Accounts

Inventories

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

	December 31, 2023	**September 30, 2023**
Raw materials, parts and sub-assemblies	$ 74,181	$ 68,631
Work-in-progress	2,056	1,379
Provision for excess and obsolete inventories	(6,555)	(6,145)
Total inventories	$ 69,682	$ 63,865

Property, Plant and Equipment

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

	December 31, 2023	September 30, 2023
Land	$ 21,729	$ 21,526
Buildings and improvements	122,706	121,454
Machinery and equipment	93,636	92,477
Furniture and fixtures	3,792	3,726
Construction in process	4,434	4,129
	$ 246,297	$ 243,312
Less: Accumulated depreciation	(147,979)	(145,687)
Total property, plant and equipment, net	$ 98,318	$ 97,625

There were no assets under finance lease as of December 31, 2023 or September 30, 2023.

Intangible Asset

In December 2023, we acquired intellectual property for a total consideration of $0.5 million, of which $250 thousand was paid in cash.

Accrued Product Warranty

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

	Three months ended December 31,	
	2023	2022
Balance at beginning of period	$ 3,305	$ 2,345
Increase to warranty expense	1,127	479
Deduction for warranty charges	(774)	(454)
Change due to foreign currency translation	22	10
Balance at end of period	$ 3,680	$ 2,380

D. Revenue

Revenue Recognition

Our revenues are primarily generated from the manufacturing of custom-engineered products and systems under long-term fixed-price contracts under which we agree to manufacture various products such as traditional and arc-resistant distribution switchgear and control gear, medium-voltage circuit breakers, monitoring and control communications systems, motor control centers, switches and bus duct systems. These products may be sold separately as an engineered solution but are typically integrated into custom-built enclosures which we also build. These enclosures are referred to as power control room substations (PCRs®), custom-engineered modules or electrical houses (E-Houses). Some contracts may also include the installation and the commissioning of these enclosures.

Revenue from these contracts is generally recognized over time utilizing the cost-to-cost method. Under the cost-to-cost method, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. We believe that this method is the most accurate representation of our performance because it directly measures the value of the services transferred to the customer over time as we incur costs on our contracts. Contract costs include all direct materials, labor and indirect costs related to contract performance, which may include indirect labor, supplies, tools, repairs and depreciation costs.

We also have contracts to provide field service inspection, installation, commissioning, modification, and repair services, as well as retrofit and retrofill components for existing systems. If the service contract terms give us the right to invoice the customer for an amount that corresponds directly with the value of our performance completed to date (i.e., a service contract in which we bill a fixed amount for each hour of service provided), then we recognize revenue over time in each reporting period

corresponding to the amount that we have the right to invoice. Our performance obligations are satisfied as the work progresses. Revenues from our custom-engineered products and value-added services transferred to customers over time accounted for approximately 94% of revenues for the three months ended December 31, 2023 and 93% of revenues for the three months ended December 31, 2022.

We also have sales orders for spare parts and replacement circuit breakers for switchgear that are obsolete or that are no longer produced by the original manufacturer. Revenues from these sales orders are recognized at the time we fulfill our performance obligation to the customer, which is typically upon shipment and represented approximately 6% of revenues for the three months ended December 31, 2023 and 7% of revenues for the three months ended December 31, 2022.

Additionally, some contracts may contain a cancellation clause that could limit the amount of revenue we are able to recognize over time. In these instances, revenue and costs associated with these contracts are deferred and recognized at a point in time when the performance obligation is fulfilled.

Selling and administrative costs incurred in relation to obtaining a contract are typically expensed as incurred. We periodically utilize a third-party sales agent to obtain a contract and will pay a commission to that agent. We record the full commission liability to the third-party sales agents at the order date, with a corresponding deferred asset. As the project progresses, we record commission expense based on percentage of completion rates that correlate to the project and reduce the deferred asset. Once we have been paid by the customer, we pay the commission and the deferred liability is reduced.

Performance Obligations

A performance obligation is a promise in a contract or with a customer to transfer a distinct good or service. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue as the performance obligations are satisfied. To determine the proper revenue recognition for contracts, we evaluate whether a contract should be accounted for as more than one performance obligation or, less commonly, whether two or more contracts should be combined and accounted for as one performance obligation. This evaluation of performance obligations requires significant judgment. The majority of our contracts have a single performance obligation where multiple engineered products and services are combined into a single custom-engineered solution. Our contracts include a standard one-year assurance warranty. Occasionally, we provide service-type warranties that will extend the warranty period. These extended warranties qualify as a separate performance obligation, and revenue is deferred and recognized over the warranty period. If we determine during the evaluation of the contract that there are multiple performance obligations, we allocate the transaction price to each performance obligation using our best estimate of the standalone selling price of each distinct good or service in the contract.

Remaining unsatisfied performance obligations, which we refer to as backlog, represent the estimated transaction price for goods and services for which we have a material right, but work has not been performed. As of December 31, 2023, we had backlog of $1.3 billion, of which approximately $713 million is expected to be recognized as revenue within the next twelve months. Backlog may not be indicative of future operating results as orders may be cancelled or modified by our customers. Our backlog does not include service and maintenance-type contracts for which we have the right to invoice as services are performed.

Contract Estimates

Actual revenues and project costs may vary from previous estimates due to changes in a variety of factors. 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 availability of materials, and the effect of any delays on our project performance. We periodically review our job performance, job conditions, estimated profitability and final contract settlements, including our estimate of total costs and make revisions to costs and income in the period in which the revisions are probable and reasonably estimable. We bear the risk of cost overruns in most of our contracts, which may result in reduced profits. 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.

For the three months ended December 31, 2023 and 2022, our operating results were positively impacted by $5.4 million and $3.6 million, respectively, as a result of net changes in contract estimates related to projects in progress at the beginning of the respective period. These changes in estimates resulted primarily from favorable project execution, reduced cost estimates and negotiations of variable consideration, discussed below, as well as revenue recognized from project cancellations and other changes in facts and circumstances during these periods. Gross unfavorable changes in contract estimates were immaterial for both the three months ended December 31, 2023 and 2022.

Variable Consideration

It is common for our long-term contracts to contain variable consideration that can either increase or decrease the transaction price. Due to the nature of our contracts, estimating total cost and revenue can be complex and subject to variability due to change orders, back charges, spare parts, early completion bonuses, customer allowances and liquidated damages. We estimate the amount of variable consideration based on the expected value method, which is the sum of the probability-weighted amounts, or the most likely amount method which uses various factors including experience with similar transactions and assessment of our anticipated performance. Variable consideration is included in the transaction price if legally enforceable and to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur once the uncertainty associated with the variable consideration is resolved.

Contract Modifications

Contracts may be modified for changes in contract specifications and requirements. We consider contract modifications to exist when the modification either creates new or changes the enforceable rights and obligations under the contract. Most of our contract modifications are for goods and services that are not distinct from the existing performance obligation. Contract modifications result in a cumulative catch-up adjustment to revenue based on our measure of progress for the performance obligation.

Contract Balances

The timing of revenue recognition, billings and cash collections affects accounts receivable, contract assets and contract liabilities in our Condensed Consolidated Balance Sheets.

Contract assets are recorded when revenues are recognized in excess of amounts billed for fixed-price contracts as determined by the billing milestone schedule. Contract assets are transferred to accounts receivable when billing milestones have been met, or we have an unconditional right to payment.

Contract liabilities typically represent advance payments from contractual billing milestones and billings in excess of revenue recognized. It is unusual to have advanced milestone payments with a term greater than one year, which could represent a financing component on the contract.

Our contract assets and liabilities are reported in a net position on a contract-by-contract basis at the end of each reporting period and are generally classified as current.

Contract assets and liabilities as of December 31, 2023 and September 30, 2023 are summarized below (in thousands):

	December 31, 2023	September 30, 2023
Contract assets	$ 67,594	$ 60,621
Contract liabilities	(328,888)	(279,796)
Net contract liability	$ (261,294)	$ (219,175)

Our net contract billing position remained a net liability at both December 31, 2023 and September 30, 2023, primarily due to favorable contract billing milestones. We typically allocate a significant percentage of the progress billing to the early stages of the contract. These favorable billing milestones are driving the increase in the net contract liability at December 31, 2023. To determine the amount of revenue recognized during the period from contract liabilities, we first allocate revenue to the individual contract liability balance outstanding at the beginning of the period until the revenue exceeds that balance. During the three months ended December 31, 2023, we recognized revenue of $103.5 million that was related to contract liabilities outstanding at September 30, 2023.

The timing of our invoice process is typically dependent on the completion of certain milestones and contract terms and subject to agreement by our customer. Payment is typically expected within 30 days of invoice. Any uncollected invoiced amounts for our performance obligations recognized over time, including contract retentions, are recorded as accounts receivable in the Condensed Consolidated Balance Sheets. Certain contracts allow customers to withhold a small percentage of billings pursuant to retainage provisions, and such amounts are generally due upon completion of the contract and acceptance of the project by the customer. Based on our experience in recent years, the majority of these retainage balances are expected to be collected within approximately twelve months. As of December 31, 2023 and September 30, 2023, we had retention amounts of $7.3 million and $7.4 million, respectively. Of the retained amount at December 31, 2023, $7.1 million is expected to be collected in the next twelve months and is recorded in accounts receivable. The remaining $0.2 million is recorded in other assets.

Disaggregation of Revenue

The following tables present our disaggregated revenue by geographic destination and market sector for the three months ended December 31, 2023 and 2022 (in thousands):

	Three months ended December 31,	
	2023	2022
United States	$ 159,860	$ 100,112
Canada	20,350	18,496
Europe	6,532	4,134
Middle East and Africa	3,275	2,425
Mexico, Central and South America	2,657	915
Asia/Pacific	1,343	776
Total revenues by geographic destination	$ 194,017	$ 126,858

	Three months ended December 31,	
	2023	2022
Oil and gas (excludes petrochemical)	$ 83,636	$ 43,510
Petrochemical	28,367	22,490
Electric utility	40,703	28,407
Commercial and other industrial	24,672	17,050
Traction power	4,345	7,072
All others	12,294	8,329
Total revenues by market sector	$ 194,017	$ 126,858

E. Long-Term Debt

U.S. Revolver

On October 4, 2023, we entered into a third amendment (the Third Amendment) to our credit agreement with Bank of America, N.A. (as amended, the U.S. Revolver). The Third Amendment added Texas Capital Bank as Syndication Agent and a lender, increased the amount of the revolving line of credit from $125.0 million to $150.0 million, and extended the expiry date to October 4, 2028. The aggregate commitment of $150.0 million consists of $100.0 million committed by Bank of America and $50.0 million committed by Texas Capital Bank. As amended by the Third Amendment, the lesser of (a) $60 million, (b) 60% of available cash, and (c) the aggregate face amount of the issued but undrawn letters of credit that are not cash-secured, shall be deducted from consolidated funded indebtedness, when calculating the consolidated net leverage ratio. We have the option to cash collateralize all or a portion of the letters of credit outstanding, which would favorably impact the consolidated funded indebtedness calculation and the consolidated net leverage ratio. As of December 31, 2023, there were no amounts borrowed under the U.S. Revolver, and letters of credit outstanding were $87.1 million. There was $62.9 million available for the issuance of letters of credit and borrowings under the U.S. Revolver as of December 31, 2023.

As of December 31, 2023, we were in compliance with all of the financial covenants of the U.S. Revolver.

F. Commitments and Contingencies

Letters of Credit, Bank Guarantees and Bonds

Certain customers require us to post letters of credit, bank guarantees or surety bonds. These security instruments 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 bank guarantee, or performance by the surety under a bond. To date, there have been no significant draws or claims related to security instruments for the periods reported. We were contingently liable for letters of credit of $87.1 million as of December 31, 2023. We also had surety bonds totaling $483.6 million that were outstanding, with additional bonding capacity of $716.4 million available, at December 31, 2023. We have strong surety relationships; however, a change in market conditions or the sureties' assessment of our financial position could cause the sureties to require cash collateralization for undischarged liabilities under the bonds.

We have a $19.1 million facility agreement (Facility Agreement) between Powell (UK) Limited and a large international bank that provides Powell (UK) Limited the ability to enter into bank guarantees as well as forward exchange contracts and currency options. At December 31, 2023, we had outstanding guarantees totaling $6.8 million, with an additional capacity of $12.3 million available under this Facility Agreement. The Facility Agreement provides for customary events of default and carries cross-default provisions with the U.S. Revolver. If an event of default (as defined in the Facility Agreement) occurs and is continuing, per the terms and subject to the conditions set forth therein, obligations outstanding under the Facility Agreement may be accelerated and declared immediately due and payable. Additionally, we are required to maintain cash collateral for guarantees greater than two years. As of December 31, 2023, we were in compliance with all of the financial covenants of the Facility Agreement.

Litigation

We are involved in various legal proceedings, claims and other disputes arising from our commercial operations, projects, employees and other matters which, in general, are subject to uncertainties and in which the outcomes are not predictable. Although we can give no assurances about the resolution of pending claims, litigation or other disputes, 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.

Liquidated Damages

Certain of our customer contracts have schedule and performance obligation clauses that, if we fail to meet them, could require us to pay liquidated damages. Each individual contract defines the conditions under which the customer may make a claim against us. As of December 31, 2023, certain contracts had a probable exposure to liquidated damages claims of $3.6 million, which could possibly increase to $4.2 million under certain circumstances. Based on our actual or projected failure to meet these various contractual commitments, $1.5 million has been recorded as a reduction to revenue. We will attempt to obtain change orders, contract extensions or accelerate project completion, which may resolve the potential for any unrecorded liquidated damages claims. Should we fail to achieve relief on some or all of these contractual obligations, we could be required to pay additional liquidated damages, which could negatively impact our future operating results.

G. Stock-Based Compensation

Refer to our Annual Report on Form 10-K for the fiscal year ended September 30, 2023 for a full description of our existing stock-based compensation plans.

Restricted Stock Units

We issue restricted stock units (RSUs) to certain officers and key employees of the Company. The fair value of the RSUs is based on the price of our common stock as reported on the NASDAQ Global Market on the grant dates. Typically, these grants vest over a three-year period from the date of issuance and are a blend of time-based and performance-based shares. The portion of the grant that is time-based typically vests over a three-year period on each anniversary of the grant date, based on continued employment. The performance-based shares vest based on the three-year earnings and safety performance of the Company following the grant date. At December 31, 2023, there were 230,420 RSUs outstanding. The RSUs do not have voting rights but do receive dividend equivalents upon vesting which are accrued quarterly. Additionally, the shares of common stock underlying the RSUs are not considered issued and outstanding until vested and common stock is issued.

Total RSU activity (number of shares) for the three months ended December 31, 2023 is summarized below:

	Number of Restricted Stock Units	Weighted Average Grant Value Per Share
Outstanding at September 30, 2023	292,497	$ 22.90
Granted	41,485	84.63
Vested	(103,562)	23.65
Forfeited/canceled	—	—
Outstanding at December 31, 2023	230,420	$ 33.68

During the three months ended December 31, 2023 and 2022, we recorded compensation expense of $1.6 million and $1.3 million, respectively, related to the RSUs.

Restricted Stock

In December 2023, the Company's Compensation and Human Capital Committee revised the non-employee directors' annual restricted stock compensation from a fixed-shares arrangement to a fixed-value arrangement, retrospectively effective on October 1, 2023. Prior to October 1, 2023, each non-employee director received 2,400 restricted shares of the Company's common stock annually. Fifty-percent of the restricted stock granted to each of our non-employee directors vested immediately, while the remaining fifty-percent vested on the anniversary of the grant date. Compensation expense was recognized immediately for the first fifty-percent of the restricted stock granted, while compensation expense for the remaining fifty-percent was recognized over the remaining vesting period. Subsequent to October 1, 2023, each non-employee director will receive restricted shares of the Company's common stock valued at $0.1 million annually. The number of granted shares is then calculated by dividing the $0.1 million by the average of high and low prices of our common stock on the grant date. The shares will vest on the earlier of the grant anniversary date or the date of the next annual meeting of shareholders, whichever occurs first. During the three months ended December 31, 2023 and 2022, we recorded compensation expense of less than $0.1 million for both periods, related to restricted stock.

H. Fair Value Measurements

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

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

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

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

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

The following table summarizes the fair value of our assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2023 (in thousands):

	Fair Value Measurements at December 31, 2023			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at December 31, 2023
Assets:				
Cash and cash equivalents	$ 321,400	$ —	$ —	$ 321,400
Short-term investments	33,943	—	—	33,943
Rabbi trust assets	—	9,901	—	9,901
Liabilities:				
Deferred compensation	—	10,965	—	10,965

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, 2023 (in thousands):

	Fair Value Measurements at September 30, 2023			
	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, 2023
Assets:				
Cash and cash equivalents	$ 245,875	$ —	$ —	$ 245,875
Short-term investments	33,134	—	—	33,134
Rabbi trust assets	—	9,117	—	9,117
Liabilities:				
Deferred compensation	—	9,145	—	9,145

Fair value guidance requires certain fair value disclosures be presented in both interim and annual reports. The estimated fair value amounts of financial instruments have been determined using available market information and valuation methodologies described below.

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

Short-term investments – Short-term investments include time deposits with original maturities of three months or more.

Rabbi trust assets and deferred compensation – We hold investments in an irrevocable rabbi trust for our deferred compensation plan. The assets are primarily related to company-owned life insurance policies and are included in other assets in the accompanying Condensed Consolidated Balance Sheets. Because the mutual funds and company-owned life insurance policies are combined in the plan, they are categorized as Level 2 in the fair value measurement hierarchy. The deferred compensation liability represents the investment options that the plan participants have designated to serve as the basis for measurement of the notional value of their accounts. Because the deferred compensation liability is intended to offset the plan assets, it is also categorized as Level 2 in the fair value measurement hierarchy.

There were no transfers between levels within the fair value measurement hierarchy during the quarter ended December 31, 2023.

I. Leases

Our leases consist primarily of office and construction equipment. All of our future lease obligations are related to non-cancelable operating leases. The following table provides a summary of lease cost components for the three months ended December 31, 2023 and 2022, respectively (in thousands):

	Three months ended December 31,	
Lease Cost	**2023**	**2022**
Operating lease cost	$ 256	$ 378
Less: sublease income	—	(162)
Variable lease cost[(1)]	30	108
Short-term lease cost[(2)]	400	387
Total lease cost	$ 686	$ 711

[(1)] Variable lease cost represents common area maintenance charges related to our Canadian office space lease.
[(2)] Short-term lease cost includes leases and rentals with initial terms of one year or less.

We recognize operating lease assets and operating lease liabilities representing the present value of the remaining lease payments for leases with initial terms greater than twelve months. Leases with initial terms of twelve months or less are not recorded in our Condensed Consolidated Balance Sheets. The following table provides a summary of the operating lease assets and operating lease liabilities included in our Condensed Consolidated Balance Sheets as of December 31, 2023 and September 30, 2023, respectively (in thousands):

Operating Leases	December 31, 2023	September 30, 2023
Assets:		
Operating lease assets, net	$ 1,218	$ 1,436
Liabilities:		
Current operating lease liabilities	645	773
Long-term operating lease liabilities	573	663
Total lease liabilities	$ 1,218	$ 1,436

The following table provides the maturities of our operating lease liabilities as of December 31, 2023 (in thousands):

	Operating Leases
Remainder of 2024	$ 550
2025	370
2026	180
2027	147
2028	19
Thereafter	—
Total future minimum lease payments	$ 1,266
Less: present value discount (imputed interest)	(48)
Present value of lease liabilities	$ 1,218

The weighted average discount rate as of December 31, 2023 was 3.4%. The weighted average remaining lease term was 2.61 years at December 31, 2023.

J. Income Taxes

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

	Three months ended December 31,	
	2023	2022
Income before income taxes	$ 29,878	$ 1,613
Income tax provision	5,793	451
Net income	$ 24,085	$ 1,162
Effective tax rate	19 %	28 %

Our income tax provision reflects an effective tax rate on pre-tax income of 19% for the three months ended December 31, 2023 compared to 28% for the three months ended December 31, 2022. The effective tax rate for the first quarter of Fiscal 2024 was favorably impacted by a discrete item related to the vesting of restricted stock units and the estimated Research and Development Tax Credit (R&D Tax Credit). These items were partially offset by an inclusion related to U.S. global intangible income and the tax expense related to certain nondeductible expenses. The effective tax rate for the first quarter of Fiscal 2023 was also favorably impacted by the estimated R&D Tax Credit but was partially offset by an unfavorable discrete item related to the vesting of restricted stock units.

K. Subsequent Events

Quarterly Dividend Declared

On January 30, 2024, our Board of Directors approved an increase to the quarterly cash dividend on our common stock to $0.2650 per share, equating to an annualized dividend of $1.06 per share from the current amount of $1.05 per share. The dividend is payable on March 13, 2024 to shareholders of record at the close of business on February 14, 2024.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

Risk Factors Related to our Business and Industry

- Our business is subject to the cyclical nature of the end markets that we serve. This has had, and may continue to have, an adverse effect on our future operating results.
- Our industry is highly competitive.
- Our business requires skilled and unskilled labor, and we may be unable to attract and retain qualified employees.
- Technological innovations may make existing products and production methods obsolete.
- Unforeseen difficulties with expansions, relocations, or consolidations of existing facilities could adversely affect our operations.
- Quality problems with our products could harm our reputation and erode our competitive position.
- Growth and product diversification through strategic acquisitions involve a number of risks.
- We are exposed to risks relating to the use of subcontractors.
- Misconduct by our employees or subcontractors, or a failure to comply with laws or regulations, could harm our reputation, damage our relationships with customers and subject us to criminal and civil enforcement actions.
- Unsatisfactory safety performance may subject us to penalties, negatively impact customer relationships, result in higher operating costs, and negatively impact employee morale and turnover.
- Catastrophic events, including natural disasters, health epidemics, acts of war and terrorism, among others, could disrupt our business.

Risk Factors Related to our Financial Condition and Markets

- Global economic uncertainty and financial market conditions may impact our customer base, suppliers and backlog.
- Our backlog is subject to unexpected adjustments, cancellations and scope reductions and, therefore, may not be a reliable indicator of our future earnings.
- Revenues recognized over time from our fixed-price contracts could result in volatility in our results of operations.
- Many of our contracts contain performance obligations that may subject us to penalties or additional liabilities.
- Fluctuations in the price and supply of materials used to manufacture our products may reduce our profits and could adversely impact our ability to meet commitments to our customers.
- Obtaining surety bonds, letters of credit, bank guarantees, or other financial assurances, may be necessary for us to successfully bid on and obtain certain contracts.

- Failure to remain in compliance with covenants or obtain waivers or amendments under our credit agreement could adversely impact our business.
- We extend credit to customers in conjunction with our performance under fixed-price contracts which subjects us to potential credit risks.
- A significant portion of our revenues may be concentrated among a small number of customers.
- We carry insurance against many potential liabilities, but our management of risk may leave us exposed to unidentified or unanticipated risks.
- Our international operations expose us to risks that are different from, or possibly greater than, the risks we are exposed to domestically and may adversely affect our operations.
- Failures or weaknesses in our internal controls over financial reporting could adversely affect our ability to report on our financial condition and results of operations accurately and/or on a timely basis.

Risk Factors Related to our Common Stock

- Our stock price could decline or fluctuate significantly due to unforeseen circumstances which may be outside of our control. These fluctuations may cause our stockholders to incur losses.
- There can be no assurance that we will declare or pay future dividends on our common stock.

Risk Factors Related to Legal and Regulatory Matters

- Our operations could be adversely impacted by the effects of government regulations.
- Provisions of our charter documents or Delaware law could delay or prevent an acquisition of our company, even if the acquisition would be beneficial to our stockholders, and could make it more difficult to change management.
- Significant developments arising from tariffs and other economic proposals could adversely impact our business.

General Risk Factors

- A failure in our business systems or cybersecurity attacks on any of our facilities, or those of third parties, could adversely affect our business, results of operations and reputation.
- Changes in and compliance with ESG initiatives could adversely impact our business.
- Actual and potential claims, lawsuits and proceedings could ultimately reduce our profitability and liquidity and weaken our financial condition.
- Changes in tax laws and regulations may change our effective tax rate and could have a material effect on our financial results.
- The departure of key personnel could disrupt our business.

We believe the items we have outlined above are important factors that could cause estimates included in our financial statements and those expressed in a forward-looking statement made in this report or elsewhere by us or on our behalf to differ materially from actual results. We have discussed these factors in more detail in our Annual Report on Form 10-K for the year ended September 30, 2023. These factors are not necessarily all of the factors that could affect us. Unpredictable or unanticipated factors we have not discussed in this report could also have material adverse effects on actual results. We do not intend to update our description of important factors each time a potential important factor arises, except as required by applicable securities laws and regulations. We advise our shareholders that they should (1) be aware that factors not referred to above could affect the accuracy of our forward-looking statements and (2) use caution when considering our forward-looking statements.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the accompanying condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q and with our Annual Report on Form 10-K for the fiscal year ended September 30, 2023, which was filed with the Securities and Exchange Commission (SEC) on December 6, 2023 and is available on the SEC's website at www.sec.gov.

Overview

We develop, design, manufacture and service custom-engineered equipment and systems that (1) distribute, control and monitor the flow of electrical energy and (2) provide protection to motors, transformers and other electrically powered equipment. We are headquartered in Houston, Texas, and serve the oil and gas and petrochemical markets, which include onshore and offshore production, liquefied natural gas (LNG) facilities and terminals, pipelines, refineries and petrochemical plants. Additional markets include electric utility, light rail traction power as well as mining and metals, pulp and paper, data centers and other municipal, commercial and industrial markets. Revenues and costs are primarily related to custom engineered-to-order equipment and systems and are accounted for under percentage-of-completion accounting, which precludes us from providing detailed price and volume information. Our backlog includes various projects that typically take a number of months to produce.

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

Within the industrial sector, specifically oil, gas and petrochemical, the demand for our electrical distribution solutions is very cyclical and closely correlated to the level of capital expenditures of our end-user customers as well as prevailing global economic conditions. The North American market is responding to increased international demand for LNG and gas-to-chemical processes utilizing low-cost gas feedstocks. As a result, we have been awarded a number of large LNG and petrochemical contracts in Fiscal 2023 that positively impact our backlog in Fiscal 2024.

One element of our strategic focus is to strengthen our project portfolio beyond our core oil, gas and petrochemical end market sectors. Diversification efforts outside of our core oil, gas and petrochemical end markets have resulted in a strong backlog across the utility and commercial and other industrial sectors in Fiscal 2023, and the trend continues in the first quarter of Fiscal 2024. As of December 31, 2023, our backlog remained at $1.3 billion.

Even though commodity prices remained stable in Fiscal 2023 and throughout the first quarter of Fiscal 2024, we continue to experience supply chain delays for specific engineered components and continue to work with our suppliers to meet our customer commitments. In response to the increased cost environment and supply chain challenges, we strive to effectively manage our product pricing, delivery schedules and bid validity dates with our customers, as well as improve factory efficiencies and project execution.

Results of Operations

Quarter Ended December 31, 2023 Compared to the Quarter Ended December 31, 2022 (Unaudited)

Revenue and Gross Profit

Revenues increased by 53%, or $67.2 million, to $194.0 million in the first quarter of Fiscal 2024, primarily driven by the increase in project backlog resulting from large contracts awarded throughout Fiscal 2023. Domestic revenues increased by 60%, or $59.7 million, to $159.9 million in the first quarter of Fiscal 2024. International revenues increased by 28%, or $7.4 million, to $34.1 million in the first quarter of Fiscal 2024. Our international revenues include both revenues generated from our international facilities as well as revenues from export projects generated at our domestic facilities.

In the first quarter of Fiscal 2024, revenue from our core oil and gas markets (excluding petrochemical) increased by 92%, or $40.1 million, to $83.6 million; petrochemical revenue increased by 26%, or $5.9 million, to $28.4 million; revenue from our utility markets increased by 43%, or $12.3 million, to $40.7 million; commercial and other industrial market revenue increased by 45%, or $7.6 million, to $24.7 million; and revenue from all other markets combined increased by 48%, or $4.0 million, to

$12.3 million. These increases in revenue were driven by improved market conditions and increased capital spending in our core oil, gas and petrochemical markets, as well as our strategic effort to diversify our business into utility and other industrial markets. Revenue from our traction market decreased by 39%, or $2.7 million, to $4.3 million in the first quarter of Fiscal 2024 due to less project volume in this market.

Gross profit increased by 148%, or $28.7 million, to $48.2 million for the first quarter of Fiscal 2024. Gross profit as a percentage of revenues increased to 25% in the first quarter of Fiscal 2024, compared to 15% in the first quarter of Fiscal 2023. This increase in gross profit reflects the higher volume levels across our manufacturing facilities driving favorable volume leverage, efficient project execution, as well as our continuing effort to improve key factory efficiencies and to effectively manage product pricing that corresponds to current cost levels.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by 21%, or $3.5 million, to $20.3 million in the first quarter of Fiscal 2024, due to increased variable incentive compensation expenses. Selling, general and administrative expenses as a percentage of revenues decreased to 10% during the first quarter of Fiscal 2024 compared to 13% during the first quarter of Fiscal 2023, resulting from higher revenues on our existing cost structure.

Income Tax Provision

We recorded an income tax provision of $5.8 million in the first quarter of Fiscal 2024, compared to an income tax provision of $0.5 million in the first quarter of Fiscal 2023. The effective tax rate for the first quarter of Fiscal 2024 was 19%, compared to an effective tax rate of 28% for the first quarter of Fiscal 2023. For each of the three months ended December 31, 2023 and December 31, 2022, the effective tax rate was favorably impacted by the estimated Research and Development Tax Credit (R&D Tax Credit). We recognized an additional benefit in the first quarter of Fiscal 2024 related to a discrete item for the vesting of restricted stock units. Conversely, in the first quarter of Fiscal 2023, we recognized an unfavorable discrete item related to the vesting of restricted stock units.

Net Income

In the first quarter of Fiscal 2024, we recorded net income of $24.1 million, or $1.98 per diluted share, compared to net income of $1.2 million, or $0.10 per diluted share, in the first quarter of Fiscal 2023. This increase in net income was primarily due to the strength and quality of our backlog at the end of Fiscal 2023, which has led to an increase in revenue coupled with improved project margins.

Backlog

The order backlog at December 31, 2023 was $1.3 billion, consistent with our September 30, 2023 backlog, and an increase of 91% from $679.8 million at December 31, 2022. Bookings, net of cancellations and scope reductions, decreased by 7% in the first quarter of Fiscal 2024 to $197.5 million, compared to $211.8 million in the first quarter of Fiscal 2023.

Outlook

We continue to experience a cyclical recovery across our core oil, gas and petrochemical markets, combined with increased global demand for cleaner-burning fuels as well as related processes utilizing lower cost gas feedstocks. Our order activity in most of our core markets remains active and diversification efforts outside of our core oil, gas and petrochemical end markets continue to be a positive catalyst. Our backlog remained at $1.3 billion as of December 31, 2023, of which approximately $713 million of the backlog is expected to be recognized as revenue within the next twelve months. Although current commercial activity remains active in most of the sectors that we compete in, we remain attentive to the macro environment and geopolitical events that may have an impact on future market activity.

Our operating results are impacted by several factors such as the timing of new order awards, project backlog, changes in project cost estimates, customer approval of final engineering specifications and delays in customer construction schedules, all of which contribute to short-term earnings variability and the timing of project execution. Our operating results also have been, and may continue to be, impacted by the timing and resolution of change orders and the resolution of potential contract claims and liquidated damages, all of which could improve or deteriorate gross margins during the period in which these items are resolved with our customers. Disruptions in the global supply chain have, in the past, negatively impacted our business and operating results due to the limited availability resulting in uncertainty in the timing of the receipt of key component parts and commodities. We continue to remain focused on the variables that impact our markets as well as cost management, labor availability and supply chain challenges.

Liquidity and Capital Resources

As of December 31, 2023, current assets exceeded current liabilities by 1.6 times.

Cash, cash equivalents and short-term investments increased to $355.3 million at December 31, 2023, compared to $279.0 million at September 30, 2023. This increase in cash, cash equivalents and short-term investments was primarily driven by the increased project volume and favorable timing of contract billing milestones on many of our large projects. We typically allocate a significant percentage of the progress billing to the early stages of the contract. These favorable billing milestones are the primary drivers for the increase in cash at December 31, 2023. We believe that our strong working capital position, available borrowings under our credit facility and available cash, cash equivalents and short-term investments should be sufficient to support our future operating activities, working capital requirements, capital improvements, as well as research and development initiatives for the foreseeable future.

On October 4, 2023, we entered into a third amendment (the Third Amendment) to our credit agreement with Bank of America, N.A. (as amended, the U.S. Revolver). The Third Amendment added Texas Capital Bank as Syndication Agent and a lender, increased the amount of the revolving line of credit from $125.0 million to $150.0 million, and extended the expiry date to October 4, 2028. As amended by the Third Amendment, the lesser of (a) $60 million, (b) 60% of available cash, and (c) the aggregate face amount of the issued but undrawn letters of credit that are not cash-secured, shall be deducted from consolidated funded indebtedness, when calculating the consolidated net leverage ratio. We have the option to cash collateralize all or a portion of the letters of credit outstanding, which would favorably impact the consolidated funded indebtedness calculation and the consolidated net leverage ratio. We have the option to cash collateralize all or a portion of the letters of credit outstanding, which would favorably impact the consolidated funded indebtedness calculation and the consolidated net leverage ratio.

As of December 31, 2023, there were no amounts borrowed under the U.S. Revolver, and letters of credit outstanding were $87.1 million. There was $62.9 million available for the issuance of letters of credit and borrowings under the U.S. Revolver as of December 31, 2023. For further information regarding our debt, see Notes E and F of Notes to Condensed Consolidated Financial Statements.

Approximately $64.2 million of our cash, cash equivalents and short-term investments at December 31, 2023 was held outside of the U.S. for our international operations. It is our intention to indefinitely reinvest all current and future foreign earnings internationally in order to ensure sufficient working capital to support our international operations. In the event that we elect to repatriate some or all of the foreign earnings that were previously deemed to be indefinitely reinvested outside the U.S., we may incur additional tax expense upon such repatriation under current tax laws.

Operating Activities

Operating activities provided net cash of $83.9 million during the three months ended December 31, 2023 and used net cash of $0.5 million during the same period in Fiscal 2023. Cash flow from operations is primarily influenced by the timing of milestone payments from our customers, project volume and the associated working capital requirements, as well as payment terms with our suppliers. This increase in operating cash flow was primarily due to the increase in project volume, improved project margins, and the favorable timing of contract billing milestones, as well as timely collection of accounts receivable.

Investing Activities

Investing activities used $1.5 million during the three months ended December 31, 2023 and provided $1.0 million during the same period in Fiscal 2023. The increase in cash used in investing activities in the first quarter of Fiscal 2024 was primarily due to the timing of short-term investment maturities. In December 2023, we acquired intellectual property for a total consideration of $0.5 million, of which $250 thousand was paid in cash.

Financing Activities

Net cash used in financing activities was $7.9 million during the three months ended December 31, 2023 and $3.5 million during the same period in Fiscal 2023. The increase in cash used in financing activities was primarily due to cash payments related to shares withheld in lieu of employee tax withholding, largely driven by the significant increase in our share price in the current fiscal quarter compared to the same period of Fiscal 2023.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based on our condensed consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of our condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities known to exist at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. We evaluate our estimates on an ongoing basis, based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. There can be no assurance that actual results will be consistent with those estimates.

There have been no material changes to our critical accounting policies as disclosed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2023, which was filed with the SEC on December 6, 2023.

Item 3. ***Quantitative and Qualitative Disclosures About Market Risk***

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

Market Risk

We are exposed to general market risk and its potential impact on accounts receivable, 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 are typically in the oil and gas and petrochemical markets, which include onshore and offshore production, LNG facilities and terminals, pipelines, refineries and petrochemical plants. Additional markets include electric utility, light rail traction power, mining and metals, pulp and paper, data centers and other municipal, commercial and industrial markets. Occasionally, our customers may include an engineering, procurement and construction (EPC) firm which may increase our market risk exposure based on the business climate of the EPC firm. We maintain ongoing discussions with customers regarding contract status with respect to payment status, change orders and billing terms in an effort to monitor collections of amounts billed.

Commodity Price Risk

We are subject to market risk from fluctuating market prices of certain raw materials used in our products. While such materials are typically available from numerous suppliers, commodity raw materials are subject to price fluctuations. We attempt to pass along such commodity price increases to our customers on a contract-by-contract basis to avoid a negative effect on our gross margin. We enter into derivative contracts to hedge a portion of our exposure to commodity price risk. These contracts were immaterial to our earnings and cash flows for both the three months ended December 31, 2023 and 2022. In the future, we may enter into additional derivative contracts to further hedge our exposure to commodity price risk. We continue to experience price volatility with some of our key raw materials and components. Fixed-price contracts may limit our ability to pass cost increases to our customers, thus negatively impacting our earnings. Fluctuations in commodity prices may have a material impact on our future earnings and cash flows.

Foreign Currency Transaction Risk

We have foreign operations that expose us to foreign currency exchange rate risk in the British Pound Sterling, the Canadian Dollar and to a lesser extent the Singapore Dollar and the Euro, among others. 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 loss, a component of stockholders' equity in our Condensed 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 payments in their respective local currencies or U.S. Dollars. Additionally, expenses associated with these transactions are generally contracted and paid for in the same local currencies. For the three months ended December 31, 2023, our realized foreign exchange loss was $0.2 million and is included in selling, general and administrative expenses in our Condensed Consolidated Statements of Operations.

Our accumulated other comprehensive loss, which is included as a component of stockholders' equity, was $23.8 million as of December 31, 2023, a decrease of $3.1 million compared to September 30, 2023. This decrease in comprehensive loss was primarily a result of fluctuations in the currency exchange rates for the Canadian Dollar and British Pound Sterling as we re-measured the foreign operations of those divisions.

We do not typically hedge our exposure to potential foreign currency translation adjustments.

Interest Rate Risk

If we borrow under our U.S. Revolver, we will be subject to market risk resulting from changes in interest rates related to our floating rate bank credit facility. If we were to make such borrowings, a hypothetical 100 basis point increase in variable interest rates may result in a material impact on our financial statements. Because we did not have any outstanding borrowings under our U.S. Revolver as of both December 31, 2023 and 2022, we have not experienced any significant interest rate risk for each of the periods presented in our Condensed Consolidated Statements of Operations.

Item 4. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures

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

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

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rules 13a-15 or 15d-15 of the Exchange Act that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. *Legal Proceedings*

We are involved in various legal proceedings, claims and other disputes arising from our commercial operations, projects, employees and other matters which, in general, are subject to uncertainties and in which the outcomes are not predictable. Although we can give no assurances about the resolution of pending claims, litigation or other disputes 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.

Item 1A. *Risk Factors*

There have been no material changes from the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2023, which was filed with the SEC on December 6, 2023.

Item 5. *Other Information*

Insider Adoption or Termination of Trading Arrangements

During the last fiscal quarter, none of our directors or officers adopted or terminated any "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as those terms are defined in Regulation S-K, Item 408.

Item 6. ***Exhibits***

Number		Description of Exhibits
3.1	—	Certificate of Incorporation of Powell Industries, Inc. filed with the Secretary of State of the State of Delaware on February 11, 2004 (filed as Exhibit 3.1 to our Form 8-A/A filed November 1, 2004, and incorporated herein by reference).
3.2	—	Amended and Restated Bylaws of Powell Industries, Inc. (filed as Exhibit 3.1 to our Form 8-K filed October 12, 2012, and incorporated herein by reference).
3.3	—	Amendment No. 1 to Amended and Restated Bylaws of Powell Industries, Inc. (filed as Exhibit 3.1 to our Form 8-K filed February 26, 2021, and incorporated herein by reference).
10.1	—	Third Amendment to Credit Agreement, dated October 4, 2023 (filed as Exhibit 10.29 to our Form 10-K filed on December 6, 2023, and incorporated herein by reference).
*31.1	—	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a).
*31.2	—	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a).
**32.1	—	Certification of Chief Executive Officer Pursuant to Section 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
**32.2	—	Certification of Chief Financial Officer Pursuant to Section 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*101	—	The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2023, formatted in Inline XBRL: (i) Condensed Consolidated Balance Sheets (Unaudited); (ii) Condensed Consolidated Statements of Operations (Unaudited); (iii) Condensed Consolidated Statements of Comprehensive Income (Unaudited); (iv) Condensed Consolidated Statements of Stockholders' Equity (Unaudited); (v) Condensed Consolidated Statements of Cash Flows (Unaudited); and (vi) Notes to Condensed Consolidated Financial Statements (Unaudited), tagged as blocks of text and including detailed tags.
*104	—	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2023, formatted in Inline XBRL (included as Exhibit 101).

* Filed herewith

** Furnished herewith

SIGNATURES

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

POWELL INDUSTRIES, INC.
(Registrant)

Date: January 31, 2024

By: /s/ Brett A. Cope
Brett A. Cope
President and Chief Executive Officer
(Principal Executive Officer)

Date: January 31, 2024

By: /s/ Michael W. Metcalf
Michael W. Metcalf
Executive Vice President
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 31.1

CERTIFICATION

I, Brett A. Cope, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Powell Industries, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

    c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Brett A. Cope
Brett A. Cope
President and Chief Executive Officer
(Principal Executive Officer)

Date: January 31, 2024

EXHIBIT 31.2

CERTIFICATION

I, Michael W. Metcalf, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Powell Industries, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

    c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Michael W. Metcalf
Michael W. Metcalf
Executive Vice President
Chief Financial Officer
(Principal Financial Officer)

Date: January 31, 2024

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this Quarterly Report (the "Report") on Form 10-Q of Powell Industries, Inc. (the "Company") for the quarter ended December 31, 2023, as filed with the Securities and Exchange Commission on the date hereof, I, Brett A. Cope, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly represents, in all material respects, the financial condition and results of operations of the Company.

/s/ Brett A. Cope
Brett A. Cope
President and Chief Executive Officer

Date: January 31, 2024

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this Quarterly Report (the "Report") on Form 10-Q of Powell Industries, Inc. (the "Company") for the quarter ended December 31, 2023, as filed with the Securities and Exchange Commission on the date hereof, I, Michael W. Metcalf, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly represents, in all material respects, the financial condition and results of operations of the Company.

/s/ Michael W. Metcalf
Michael W. Metcalf
Executive Vice President
Chief Financial Officer

Date: January 31, 2024