

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

Form 10-K

(Mark One)

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

For the fiscal year ended September 30, 2021
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
(State or other jurisdiction of
incorporation or organization)
8550 Mosley Road
Houston
Texas
(Address of principal executive offices)

88-0106100
(I.R.S. Employer
Identification No.)

77075-1180
(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

Securities registered pursuant to Section 12(g) of Act: None

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

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

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

Indicate by check mark whether the registrant has submitted electronically 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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of the common stock held by non-affiliates of the registrant was approximately \$304 million as of March 31, 2021, based upon the closing price on the NASDAQ Global Market on that date. For purposes of the calculation above only, all directors, executive officers and beneficial owners of 5% or more of the outstanding shares of the registrant's common stock are considered to be "affiliates."

At December 6, 2021, there were 11,724,243 outstanding shares of the registrant's common stock, par value \$0.01 per share.

Documents Incorporated By Reference

Portions of the registrant's definitive proxy statement for the 2021 annual meeting of stockholders to be filed not later than 120 days after September 30, 2021, are incorporated by reference into Part III of this Form 10-K.

POWELL INDUSTRIES, INC.
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**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS;
RISK FACTORS**

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

Forward-Looking Statements

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

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

PART I

Item 1. *Business*

Overview

Powell Industries, Inc. is a Delaware corporation founded by William E. Powell in 1947. 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 our major subsidiaries, all of which are wholly owned, include: Powell Electrical Systems, Inc.; Powell (UK) Limited; Powell Canada, Inc.; and Powell Industries International, B.V.

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

References to Fiscal 2021, Fiscal 2020 and Fiscal 2019 used throughout this Annual Report relate to our fiscal years ended September 30, 2021, 2020 and 2019, respectively.

Products and Services

Our principal products include integrated power control room substations (PCRs®), custom-engineered modules, electrical houses (E-Houses), traditional and arc-resistant distribution switchgear and control gear, medium-voltage circuit breakers, monitoring and control communications systems, motor control centers, switches and bus duct systems. These products are designed for application voltages ranging from 480 volts to 38,000 volts and are used in oil and gas refining, onshore and offshore oil and gas production, petrochemical, liquefied natural gas (LNG) terminals, pipeline, terminal, mining and metals, light rail traction power, electric utility, pulp and paper and other industrial markets. Our product scope includes designs tested to meet both U.S. and international standards, under both the American National Standards Institute (ANSI) and International Electrotechnical Commission (IEC). We assist customers by providing value-added services such as spare parts, field service inspection, installation, commissioning, modification and repair, retrofit and retrofill components for existing systems and replacement circuit breakers for switchgear that is obsolete or that is no longer produced by the original manufacturer. We seek to establish long-term relationships with the end users of our systems as well as the design and construction engineering firms contracted by those end users. We believe that our culture of safety and focus on customer satisfaction, along with our financial strength, allow us to continue to capitalize on opportunities in the industries we serve.

Products and services are principally sold directly to the end user or to an engineering, procurement and construction (EPC) firm on behalf of the end user. Each project is specifically engineered and manufactured to meet the exact specifications and requirements of the individual customer. Powell's expertise is in the design and engineering, manufacturing, project management and integration of the various systems into a single, custom-engineered deliverable. We market and sell our products and services, which are typically awarded in competitive bid situations, to a wide variety of customers and governmental agencies spanning across diverse markets and geographic regions. Contracts often represent large-scale and complex projects with an individual customer. By their nature, these projects are typically nonrecurring. Thus, multiple and/or continuous projects of similar magnitude with the same customer are not predictable. The timing of large project awards may cause material fluctuations in our revenues and gross profits.

Occasionally our contracts may operate under a consortium or teaming arrangement. Typically, we enter into these arrangements with reputable companies with which we have conducted business with previously. These arrangements are generally made to leverage competitive positioning or where scale and/or size dictates the use of such arrangement.

Due to the nature and timing of large projects, a significant percentage of our revenues in a given period may result from one specific contract or customer. The large domestic industrial project that was awarded in Fiscal 2020 accounted for approximately 20% of our consolidated revenues in Fiscal 2021 and represents approximately 25% of our consolidated backlog going into Fiscal 2022. We believe the reduction in business volume from a particular industry or the loss of a major customer could have an adverse effect on our business. From time to time, an individual manufacturing facility may have significant volume from one particular customer that would be material to that facility. If during that time the customer were to experience financial distress, a decline in business or circumstances that would otherwise necessitate a cancellation of a project with us, our revenue could be adversely impacted. No customer accounted for more than 10% of our consolidated revenues in Fiscal 2020 or Fiscal 2019.

Research and development activities are critical to Powell's future and are focused on both the development of new products and services as well as enhancing current product offerings. Our expertise in vacuum circuit breaker engineering is internationally recognized, and we have a sustained commitment to incorporating continuous product improvements that will ensure operational safety and reliability across the markets we serve.

Markets

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

Specific to the oil and gas sector (excluding petrochemical), we serve the upstream, midstream and downstream end markets. Within the downstream segment, our primary customers typically are engaged in refining activities and/or leveraging natural gas feedstocks for the production of petrochemical or LNG products. We have developed strong relationships with our customers over the years and strive to maintain our position as a preferred service provider to solve our customers' complex electrical needs.

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

Backlog

Backlog represents management's estimate of the remaining unsatisfied performance obligation from work to be performed on our firm orders under uncompleted contracts and customer purchase orders, including approved change orders as well as new contractual agreements on which work has not begun. Our backlog will be recognized as revenue as we complete the remaining performance obligations. Our backlog does not include service and maintenance type contracts for which we have the rights to invoice as services are performed. Typically, our contracts may have an early termination for convenience clause at the discretion of our customers; however, most of these contracts typically provide for the reimbursement of our costs incurred and a reasonable margin in the event of such early termination. Our methodology for determining backlog may not be comparable to the methodology used by other companies.

Our backlog at September 30, 2021 totaled \$414.9 million compared to \$476.8 million at September 30, 2020. We anticipate that approximately \$291.0 million of Fiscal 2021 ending backlog will be fulfilled during our fiscal year ending September 30, 2022. Backlog may not be indicative of future operating results as orders in our backlog may be cancelled or modified by our customers and may not be indicative of continuing revenue performance over future fiscal quarters.

Raw Materials

The principal raw materials used in our operations include steel, copper and aluminum and various electrical components. Material costs represented 49% of revenues in Fiscal 2021 and 47% of revenues in both Fiscal 2020 and Fiscal 2019. Unanticipated changes in material requirements, market conditions and disruptions in the supply chain or price increases could impact production costs and affect our consolidated results of operations.

Our supply base for certain key components and raw materials is limited. Changes in our design to accommodate similar components from other suppliers could be implemented to resolve a supply problem related to a sole-sourced component. In this circumstance, supply problems could result in delays in our ability to meet commitments to our customers. We believe that sources of supply for raw materials and components are generally sufficient, and we do not believe a temporary shortage of materials will cause any significant adverse impact in the future. While we are not dependent on any one supplier for the majority of our raw materials, we are highly dependent on our suppliers in order to meet commitments to our customers. During Fiscal 2021, as a result of the challenges created by global transportation issues, the COVID-19 pandemic and market volatility, we experienced minor supply disruptions and anticipate that supply disruptions and material shortages may continue. We continue to work with our key suppliers who have been impacted by these supply disruptions to ensure that we are able to meet our customer commitments. While we have not currently experienced significant issues in the purchase of key raw materials or components, we continue to monitor the availability (including transportation) and price of components and raw materials on a regular basis, as well as any potential impact on our operations.

Our business is subject to the effects of changing material prices. While raw material costs have been relatively stable in the past few years, during Fiscal 2021 we have begun to encounter availability constraints from key suppliers as well as cost increases driven by using alternate suppliers, increased commodity costs as well as higher logistics expense. While these availability challenges have not currently created execution challenges, we continue to monitor material availability closely. We cannot, however, provide assurance that we will continue to mitigate these material shortages, in which case our results of operations may be adversely affected. While the cost outlook for commodities used in the production of our products is not certain, we believe we can manage this volatility through contract pricing adjustments, with material-cost predictive estimating and by actively pursuing internal cost reduction efforts. We did not enter into any derivative contracts to hedge our exposure to commodity price changes in Fiscal 2021, 2020 or 2019.

Human Capital

At September 30, 2021, we had 1,892 full-time employees and 181 contract employees located primarily in the U.S., Canada and the U.K. Our employees are not represented by unions, and we believe that our relationship with our employees is good. Periodically, demand for qualified personnel increases in certain geographic areas due to increased construction or economic activity. We continue to monitor our demand for skilled and unskilled labor and provide training and competitive compensation packages in an effort to attract and retain skilled employees. Labor shortages or increased labor costs could impair our ability to maintain our business, meet customer commitments or grow our revenues, and may adversely impact our business and results of operations.

Three of our top human capital priorities are workplace safety, internal promotion and key employee retention. Powell emphasizes a culture of safety that runs throughout the Company. We establish annual goals and monthly operating metrics, which have resulted in a safety incident rate that is one-half the industry average across Powell. We believe that internal promotion and key employee retention are critical components to our long-term success. The average tenure of our employees is 11 years. Our annual Organizational Capabilities Review is focused on succession planning within our organization and is reviewed annually by our Board of Directors. We measure our success based on the percentage of internal promotions to key positions and our ability to attract and retain key employees.

Intellectual Property

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

Seasonality

Our operations are not generally affected by seasonality. However, weather and natural phenomena can temporarily impact the performance of our operations. Furthermore, quarterly operating results may fluctuate in our first fiscal quarter due to the reduction in the number of workdays related to the number of holidays in that fiscal quarter.

Government Regulations

We are subject to various government regulations in the United States as well as various international locations where we operate. These regulations cover diverse areas including environmental compliance, import and export controls, economic sanctions, data and privacy protection, transfer pricing rules, anti-bribery, anti-trafficking and anti-trust provisions. Our policies mandate compliance with applicable laws and regulations administered by various state, federal and international agencies. We maintain various training programs to educate our employees on compliance with governmental regulations, as well as applied

legal and ethical practices in our everyday work. We do not believe that compliance with governmental regulations will have a material impact on our capital expenditures, results of operations or competitive position.

Item 1A. Risk Factors

Our business is subject to a variety of risks and uncertainties, including, but not limited to, the risks and uncertainties described below. If any of the following risks occur, the business's financial condition, cash flows, liquidity and results of operations may be negatively impacted, and we may not be able to achieve our quarterly, annual or long-range plans. Additional risks and uncertainties not known to us or not described below may also negatively impact our business and results of operations. This Annual Report also includes statements reflecting assumptions, expectations, projections, intentions or beliefs about future events that are intended as "forward-looking statements" under the Private Securities Litigation Reform Act of 1995 and should be read in conjunction with the discussion under "Forward-Looking Statements," above.

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.

The end markets that we serve have historically been, and will continue to be vulnerable to general downturns, which in turn could materially and adversely affect the demand for our products and services. Our customer projects, budgets for capital expenditures and the need for our services have in the past, and may in the future, be adversely affected by among other things, the price of oil and gas, poor economic conditions, low commodity prices, political uncertainties, and currency fluctuations. These variables may impact the number and/or the amount of new awards, delays in the timing of awards or potential cancellation of projects. Changes in product mix or services can have a significant impact on our gross margins on a quarterly and annual basis. The uncertainty of our contract award timing is outside of our control and can also present difficulties in matching workforce size with contract requirements. In some cases, we bear and maintain the cost of a ready workforce that may be larger than necessary in anticipation of future workforce needs. If an expected contract is delayed or not received, we may incur additional costs in staff or facility redundancy that could have an adverse impact on our business, financial condition and results of operations.

Our industry is highly competitive.

Some of our competitors are significantly larger and have substantially greater global resources such as engineering, manufacturing and marketing resources, and at various times, may be a customer or supplier on any given project. Competition in the industry depends on a number of factors, including the number of projects available, technical ability, production capacity, location and the ability to win projects we bid. Certain of our competitors may have lower cost structures and may, therefore, be able to provide their products or services at lower prices. Similarly, we cannot be certain that we will be able to maintain or enhance our competitive position within our industry, maintain our customer base at current levels, increase our customer base or continue to provide technologically superior products at a competitive price. New companies may enter the markets in which we compete, or industry consolidation may occur, further increasing competition in our markets. Our failure to compete effectively and secure projects we bid could adversely affect future revenues and have an adverse impact on our results of operations.

Technological innovations may make existing products and production methods obsolete.

All of the products that we manufacture and sell depend upon the best available technology for success in the marketplace. The industries in which we operate are characterized by intense competition and are highly sensitive to technological innovation and customer requirements. It is possible for competitors (both domestic and international) to develop products or production methods that will make current products or methods obsolete or at a minimum hasten their obsolescence; therefore, we cannot be certain that our competitors will not develop the expertise, experience and resources to provide products and services that are superior in both price and quality. Our future success will depend, in part, on our ability to anticipate and offer products that meet changing customer specifications as well as fund our research and development costs. Consumer demand for further automation is changing the markets we operate in. Failure to successfully develop new products, or to enhance existing products, could result in the loss of existing customers to competitors, the inability to attract new business or an overall reduction in our competitive position, any of which may adversely affect our business or results of operations.

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

From time to time we may decide to enter new markets, build or lease additional facilities, expand our existing facilities, relocate or consolidate one or more of our operations or exit a facility we may own or lease. Increased costs and production delays arising from the staffing, relocation, sublease, expansion or consolidation of our facilities could adversely affect our business and results of operations.

Quality problems with our products could harm our reputation and erode our competitive position.

The success of our business depends upon the quality of our products and our relationships with customers. In the event that one of our products fails to meet our customers' standards or safety requirements or fails to operate effectively, our reputation could be harmed, which would adversely affect our marketing and sales efforts. We provide warranties to our customers for our products and the cost to satisfy customer warranty claims, which may include, among other things, costs for the repair or replacement of products, could adversely impact our business and results of operations.

Growth and product diversification through strategic acquisitions involves a number of risks.

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

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

Our ability to maintain our productivity at competitive levels may be limited by our ability to employ, compensate, train and retain personnel necessary to meet our requirements. We face competition for qualified personnel in our industry. We may experience shortages of qualified personnel such as engineers, project managers and select skilled trades. We cannot be certain that we will be able to maintain an adequate skilled or unskilled labor force or key technical personnel necessary to operate efficiently and to support our growth strategy and operations. We cannot be certain that our labor costs will not increase as a result of a shortage in the supply of skilled, unskilled and technical personnel or any governmental regulations. Labor shortages or increased labor costs could impair our ability to maintain our business, meet customer commitments or grow our revenues, and may adversely impact our business and results of operations.

We are exposed to risks relating to the use of subcontractors on some of our projects.

We hire subcontractors to perform work on some projects and sometimes depend on third-party suppliers to provide equipment and materials necessary to complete or ship our products. If our subcontractors do not perform as expected for any reason, we may experience delays in completing our projects or incur additional costs. In addition, we may have disputes with these independent subcontractors arising from, among other things, the quality and timeliness of the work they have performed. Any of these factors could adversely impact our business and results of operations.

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.

Misconduct, fraud, non-compliance with applicable laws and regulations, or other improper activities by one or more of our employees or subcontractors could have a significant negative impact on our business and reputation. While we take precautions to prevent and detect these activities, such precautions may not be effective and are subject to inherent limitations, including human error and fraud. Acts of misconduct, or our failure to comply with applicable laws or regulations, could subject us to fines and penalties, harm our reputation, damage our relationships with customers and could adversely impact our business and results of operations.

Unsatisfactory safety performance may subject us to penalties, negatively impact customer relationships, result in higher operating costs, and negatively impact employee morale and turnover.

We place great emphasis on workplace safety in our entire organization through various safety initiatives and training. We have both indoor and outdoor manufacturing facilities that are susceptible to numerous industrial safety risks that can lead to personal injury, loss of life, damage to property and equipment, as well as potential environmental damage. While we take every precaution to avoid incidents, we have experienced accidents in the past and may again in the future, which can negatively affect our safety record. A poor safety record can harm our reputation with existing and potential customers, jeopardize our relationship with employees, increase our insurance costs and could adversely impact our business and results of operations.

Catastrophic events, including natural disasters, health epidemics (including the COVID-19 pandemic), acts of war and terrorism, among others, could disrupt our business.

The occurrence of catastrophic events, ranging from natural disasters to health epidemics (including the COVID-19 pandemic), to acts of war and terrorism, among others, could disrupt or delay our ability to operate our business and complete projects for our customers and could potentially expose us to third-party liability claims. A significant portion of our operations are located near the Texas Gulf Coast. Our operations have been and are subject to the potential impacts of weather-related events such as hurricanes and flooding. Future weather events could cause significant damage to our property and equipment and adversely impact our operations. We may declare the existence of a force majeure event under our contracts in certain situations; however, a customer may dispute our force majeure claim, which may result in additional liabilities. Losses arising from such events may or may not be fully covered by our various insurance policies or may be subject to deductibles or exceed coverage limits. In addition, such events could result in temporary or long-term delays and/or cancellations of orders for raw materials from our suppliers that could impact our project execution. These situations or other disruptions are outside of our control and may adversely impact our business and results of operations.

The COVID-19 pandemic continues to create significant uncertainty and economic disruption across the world. It is difficult to predict the economic impact that the COVID-19 pandemic may continue to have on our business, results of operations and cash flows going forward. Certain of our customers have asked that we delay or cancel our manufacturing on their projects as their operations have been negatively impacted by this pandemic. These delays and cancellations may have a negative effect on the timing of revenue recognition and cash flow. We have experienced supply disruptions and anticipate these supply disruptions may continue. Any delays in the supply of material or labor could negatively impact our production schedule and delay the completion of certain projects. The extent to which the COVID-19 pandemic specifically will impact our business will depend on numerous factors that are hard to predict, some of which include: the duration, spread and severity of the pandemic; governmental actions in response to the pandemic; including travel restrictions and quarantine or related orders; any closures of our offices and facilities or those of our suppliers as a result of the pandemic, and how quickly and to what extent normal economic and operating conditions can resume. Any of these factors, as well as other related business impacts resulting from COVID-19, could contribute to the risks and uncertainties described in this Annual Report. As a result, the magnitude of the impact on our business, results of operations and cash flows is not currently known.

Risk Factors Related to our Financial Condition and Markets

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

Various factors drive demand for our products and services, including the price and demand for oil and gas, capital expenditures, economic forecasts and financial markets. Unanticipated increases in raw material requirements or prices, the imposition of tariffs, and changes in supplier availability or supplier consolidation, could increase production costs and adversely affect profitability. Uncertainty regarding these factors could impact our customers and severely impact the demand for projects and orders for our products and services. Additionally, the loss of significant volume from one particular customer at one of our facilities could adversely impact the operating results of that facility. If one or more of our suppliers or subcontractors experiences difficulties that result in a reduction, delay or interruption in supply to us, or they fail to meet our manufacturing requirements, our business could be adversely impacted until we are able to secure alternative sources. Furthermore, our ability to maintain or expand our business would be limited in the future if we are unable to maintain or increase our bonding capacity or our bank credit facility on favorable terms or at all. Similarly, disruptions in the capital markets may also adversely impact our customer's ability to finance projects, which could result in contract cancellations or delays. These disruptions could lead to reduced demand for our products and services and could have an adverse impact on our business, financial condition and results of operations.

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

We have a backlog of uncompleted contracts. Backlog represents management's best estimate of the remaining performance obligation from work to be performed on uncompleted contracts, including new contractual agreements on which work has not begun. From time to time, projects are cancelled, delayed or modified due to customer, industry or macroeconomic conditions. While we may be reimbursed for certain costs, we may not have a contractual right to the total revenue reflected in our backlog. We may be unable to recover certain direct costs and cancelled projects may also result in additional unrecoverable costs due to the underutilization of our assets. Accordingly, the amounts recorded in backlog may not be a reliable indicator of our future operating results and may not be indicative of continuing revenue performance over future fiscal quarters.

Revenues recognized over time from our fixed-price contracts could result in volatility in our results of operations.

As discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Estimates" and in the Notes to Consolidated Financial Statements included elsewhere in this Annual Report, the majority of our revenues are recognized over time. Revenues are recognized as work is performed and costs are incurred. The revenue earned to date is calculated by multiplying the total contract price by the percentage of performance to date, which is based on total costs incurred to date compared to the total estimated costs at completion. The determination of the revenue recognized requires the use of estimates of costs to be incurred for the performance of the contract. The timing of the costs incurred may lead to fluctuations in revenue recognized on a quarterly and annual basis. The cost estimation process is based upon the professional knowledge and experience of our management teams, engineers, project managers and financial professionals. We bear the risk of cost overruns in most of our contracts, which may result in reduced profits. Contract losses are recognized in full when determined, and estimates of revenue and cost to complete are adjusted based on ongoing reviews of estimated contract performance. Previously recorded estimates of revenues and costs are adjusted as the project progresses and circumstances change. In certain circumstances, it is possible that such adjustments to costs and revenues could have an adverse impact on our results of operations.

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

Many of our customer contracts have schedule and performance obligation clauses that, if we fail to meet, could subject us to penalty provisions, liquidated damages or claims against the company or our outstanding letters of credit or performance bonds. In addition, some customer contracts stipulate protection against our gross negligence or willful misconduct. Each individual contract defines the conditions under which the customer may make a claim against us. It is possible that adjustments arising from such claims, or our failure to manage our contract risk, may not be covered by insurance and could have an adverse impact on our results of operations.

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.

Our material costs represented 49% of our consolidated revenues for Fiscal 2021. Unanticipated increases in raw material requirements, rising prices due to overall inflationary pressure, the imposition of tariffs, changes in supplier availability, delays in transportation, or supplier consolidation could increase production costs and adversely affect profitability as fixed-price contracts may prohibit our ability to charge the customer for the increase in raw material prices. We purchase a wide variety of materials and component parts from various suppliers to manufacture our products, including steel, aluminum, copper and various components. Our supply base for certain key components and raw materials is limited and may come from a single supplier. If we are unable to obtain key components and raw materials from these suppliers, the key components and raw materials may not be readily available from other suppliers or available with acceptable terms. Our success depends on our ability to meet customer commitments and could be negatively impacted if a supplier experiences a disruption or discontinuance in their operations or we experience a delay in transportation of materials and components from our suppliers. The time and effort associated with the selection and qualification of a new supplier and changes in our design and testing to accommodate similar components from other suppliers could be significant. Additionally, we rely on certain competitors for key materials used in our products. This could negatively impact our ability to manufacture our products if the relationships change or become adversarial.

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.

We are often required to provide our customers security for the performance of their projects in the form of surety bonds, letters of credit or other financial assurances. Our continued ability to obtain surety bonds, letters of credit or other financial assurances will depend on our capitalization, working capital and financial performance. Our ability to issue letters of credit is dependent upon the availability of adequate credit issued by our banks and could be negatively impacted by our compliance with our financial covenants. Future compliance with such financial covenants may be affected by factors beyond our control, including general or industry-specific economic downturns. We are also dependent on the overall bonding capacity, pricing and terms available in the surety markets. As such, we cannot guarantee our ability to maintain a sufficient level of bonding capacity in the future. The restriction, reduction or termination of our surety bond agreements could limit our ability to bid on new opportunities and would require us to issue letters of credit under our bank facilities in lieu of surety bonds, thereby reducing availability under our credit facility, which could have an adverse impact on our business and results of operations.

Failure to remain in compliance with covenants or obtain waivers or amendments under our credit agreement could adversely impact our business.

Our credit agreement contains various financial covenants and restrictions, which are described in Note G of the Notes to Consolidated Financial Statements. Our ability to remain in compliance with such financial covenants and restrictions may be affected by factors beyond our control, including general or industry-specific economic downturns. If we fail to remain in compliance with such covenants and restrictions, absent an amendment or waiver, this could result in an event of default under the credit agreement. Among other things, the occurrence of an event of default could limit our ability to issue letters of credit, obtain additional financing or result in acceleration of outstanding amounts under the credit agreement or a termination of the agreement, any of which could have an adverse impact on our liquidity, business and results of operations.

We extend credit to customers in conjunction with our performance under fixed-price contracts which subjects us to potential credit risks.

We typically agree to allow our customers to defer payment on projects until certain milestones have been met or until the projects are substantially completed, and customers typically withhold some portion of amounts due to us as retainage. Our payment arrangements subject us to potential credit risk related to changes in business and economic factors affecting our customers, including material changes in our customers' revenues or cash flows. If we are unable to collect amounts owed to us, or retain amounts paid to us, our cash flows would be reduced, and we could experience losses if those amounts exceed current allowances. Any of these factors could adversely impact our business and results of operations.

A significant portion of our revenues may be concentrated among a small number of customers.

Due to the nature and timing of large projects, a significant percentage of our revenues in a given period may result from one specific contract or customer. During Fiscal 2021, approximately 20% of our consolidated revenues were generated from our large domestic industrial project that was awarded in Fiscal 2020. We believe the reduction in business volume from a particular industry or the loss of a major customer could have an adverse effect on our business. From time to time, an individual manufacturing facility may have significant volume from one particular customer that would be material to that facility. If during that time the customer were to experience financial distress, a decline in business or circumstances that would otherwise necessitate a cancellation of a project with us, our revenue could be adversely impacted.

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

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

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

Revenues associated with projects located outside of the U.S., including revenues generated from our operations in the U.K. and Canada, accounted for approximately 25% of our consolidated revenues in Fiscal 2021. While our manufacturing facilities are located in developed countries with historically stable operating and fiscal environments, our business and results of operations could be adversely affected by a number of factors, including: political and economic instability; social unrest, acts of terrorism, force majeure, war or other armed conflict; inflation; changes in tax laws; the application of foreign labor regulations; currency fluctuations, devaluations and conversion restrictions and/or governmental activities that limit or disrupt markets, restrict payments or limit the movement of funds and trade restrictions or economic embargoes imposed by the U.S. or other countries. Additionally, the compliance with foreign and domestic import and export regulations and anti-corruption laws, such as the U.S. Foreign Corrupt Practices Act, General Data Protection Regulation, or similar laws of other jurisdictions outside the U.S., could adversely impact our ability to compete for contracts in such jurisdictions. Moreover, the violation of such laws or regulations, by us or our representatives, could result in severe penalties including monetary fines, criminal proceedings and suspension of export privileges.

Additionally, fluctuating foreign currency exchange rates may impact our financial results. The functional currency of our foreign operations is typically the currency of the country in which the foreign operation is located. Accordingly, our financial performance is subject to fluctuations due to changes in foreign currency exchange rates relative to the U.S. dollar.

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.

We are required to comply with Section 404 of the Sarbanes-Oxley Act of 2002, which requires, among other things, an assessment by our management of our internal control over financial reporting. Preparing our financial statements involves a number of complex processes, many of which are performed manually and are dependent upon individual data input or review. We are continually working to maintain and strengthen our internal controls over financial reporting, however, any system of controls has limitations, including the possibility of human error, the circumvention or overriding of controls and/or fraud. Our failure to maintain effective internal controls over financial reporting could adversely affect our ability to report our financial results on a timely and accurate basis, which could result in a loss of investor confidence in our financial reports or have an adverse impact on our business and results of operations.

A failure in our business systems or cyber security attacks on any of our facilities, or those of third parties, could adversely affect our business and our internal controls.

Our organization is dependent upon the proper functioning of our business systems that support our production, engineering, human resources, estimating, finance, and project management functions. If any of our financial, operational, or other data processing systems fail or have other significant shortcomings due to natural disaster, power loss, telecommunications failures, cyber security attacks or other similar events, our business or results of operations could be adversely affected. In addition, despite implementation of security measures, our business systems may be vulnerable to computer viruses, ransomware attacks, cyber-attacks, the accidental release of sensitive information and other unauthorized access. These failures of our business systems or security breaches could impact our customers, employees and reputation and result in a disruption to our operations or in legal claims or proceedings. A material network breach of our business systems could involve the theft of intellectual property, financial data, employee or customer data, which may be used by competitors. We rely on third-party systems which could also suffer operational system failure or cyber-attacks. Any of these occurrences may not be covered by insurance and could disrupt our business, result in potential liability or reputational damage or otherwise have an adverse effect on our business or results of operations.

Network security and internal control measures have been implemented to address these risks and disruptions to our business. However, our portfolio of hardware and software products, solutions and services and information contained within our enterprise information technology (IT) systems may be vulnerable to damage or disruption caused by circumstances beyond our control such as catastrophic events, cyber-attacks, other malicious activities from unauthorized third parties, power outages, natural disasters, computer system or network failures or computer viruses. Any significant disruption or failure could damage our reputation or have a material adverse effect on our business and our results of operations.

Risk Factors Related to our Common Stock

Our stock price could decline or fluctuate significantly due to unforeseen circumstances. These fluctuations may cause our stockholders to incur losses.

Our stock price could fluctuate or decline due to a variety of factors including, but not limited to, the risks factors described herein, the timing and cancellation of projects, changes in our estimated costs to complete projects, investors' opinions of the sectors and markets in which we operate or failure of our operating results to meet the expectations of securities analysts or investors, which could reduce investor confidence. These factors could adversely affect our business, and the trading price of our common stock could decline significantly.

There can be no assurance that we will declare or pay future dividends on our common stock.

Our Board of Directors has approved a regular quarterly dividend since Fiscal 2014. The declaration, amount and timing of future dividends are subject to capital availability and determinations by our Board of Directors that cash dividends are in the best interest of our stockholders and are in compliance with all respective laws and applicable agreements. Our ability to declare and pay dividends will depend upon, among other factors, our financial condition, results of operations, cash flows, current and anticipated expansion plans, requirements under Delaware law and other factors that our Board of Directors may deem relevant. A reduction in or elimination of our dividend payments could have a material negative effect on our stock price.

Risk Factors Related to Legal and Regulatory Matters

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

We are subject to various government regulations in the United States as well as various international locations where we operate. These regulations cover several areas including environmental compliance, import and export controls, economic sanctions, data and privacy protection, transfer pricing rules, anti-bribery, anti-trafficking and anti-trust provisions. These laws and regulations are administered by various state, federal and international agencies. Changes in policy, laws or regulations, including those affecting oil and gas exploration and development activities or climate change matters and the resulting decisions by customers and other industry participants, could reduce demand for our products and services, which would have a negative impact on our operations. Various regulations have been implemented around the world related to safety and certification requirements applicable to oil and gas drilling and production activities, and we cannot predict whether operators will be able to satisfy these requirements. Further, we cannot predict future changes in any country in which we operate and how those changes may affect our ability to perform projects in those regions.

The Dodd-Frank Wall Street Reform and Consumer Protection Act requires disclosure of use of "conflict" minerals mined from the Democratic Republic of Congo and adjoining countries and our efforts to prevent the use of such minerals. In our industry,

conflict minerals are most commonly found in metals. As there may be only a limited number of suppliers offering "conflict-free" metals, we cannot be sure that we will be able to obtain necessary metals in sufficient quantities or at competitive prices. Also, we may face challenges with our customers and suppliers if we are unable to sufficiently verify that the metals used in our products are "conflict-free."

Changes in and compliance with environmental laws and regulations, including those regarding climate change, could adversely impact our financial results.

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

Climate change regulations could require us or our customers to incur additional expenditures to either purchase new, or modify existing, equipment or processes. These laws and regulations may also increase our raw materials cost from our suppliers. The potential for future environmental, social and governance (ESG) and climate risk reporting requirements may result in additional costs to monitor, track and report sustainability measures. Additionally, increased attention to climate change, conservation measures, energy transition and consumer demand for alternatives to oil and gas could reduce the demand for oil and gas and have an adverse impact on demand for the products produced by our customers and therefore reduce demand for our products, which could adversely impact our business and results of operations.

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.

Because we are governed by Delaware law, we are subject to the provisions of Section 203 of the Delaware General Corporation Law. These provisions prohibit a publicly held Delaware corporation from engaging in a business combination with an interested stockholder, generally, a person who, together with its affiliates, owns, or within the last three years has owned, 15% of our voting stock, 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.

In addition, provisions of our Certificate of Incorporation and bylaws may discourage, delay or prevent a merger, acquisition or other change in control that stockholders might otherwise consider favorable, including transactions in which stockholders might otherwise receive a premium for their shares. These provisions may frustrate or prevent any attempt by our stockholders to replace or remove our current management by making it more difficult to replace or remove our Board of Directors.

Significant developments arising from tariffs and other economic proposals could adversely impact our business.

Additional restrictions or economic disincentives on U.S. or international trade such as significant increases in tariffs on goods could adversely impact our business. Changes in U.S. or international social, political, regulatory and economic conditions or in laws and policies governing foreign trade, manufacturing, development and investment in the territories and countries where we currently develop and sell our products, and any negative sentiment towards the U.S. as a result of such changes, could adversely impact our business and results of operations.

General Risk Factors

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

We could be named as a defendant in legal proceedings that claim damages in connection with the operation of our business. Most of the actions against us arise out of the normal course of our performing services or manufacturing equipment. From time to time, we may be a plaintiff in legal proceedings against customers in which we seek to recover payment of contractual amounts due to us, as well as claims for increased costs incurred by us. When appropriate, we establish provisions against certain legal exposures, and we adjust such provisions from time to time according to ongoing developments related to each exposure, as well as any potential recovery from our insurance, if applicable. If, in the future, our assumptions and estimates related to such exposures prove to be inadequate or wrong, or our insurance coverage is insufficient, our business and results of operations could be adversely affected. In addition, claims, lawsuits and proceedings may harm our reputation or divert management resources away from operating our business. Losses arising from such events may or may not be fully covered by our various insurance policies or may be subject to deductibles or exceed coverage limits.

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

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

The departure of key personnel could disrupt our business.

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We own our principal manufacturing and fabrication facilities and periodically lease smaller facilities throughout the U.S., Canada and the U.K. Our facilities are generally located in areas that are readily accessible to materials and labor pools and are maintained in good condition. These facilities are expected to meet our needs for the foreseeable future.

Our principal locations as of September 30, 2021, are as follows:

<u>Location</u>	<u>Description</u>	<u>Acres</u>	<u>Approximate Square Footage</u>
Houston, TX	Corporate office and manufacturing facility	21.4	428,515
Houston, TX	Office and manufacturing facility	53.4	290,554
Houston, TX	Office, fabrication facility and yard	63.3	82,320
North Canton, OH	Office and manufacturing facility	8.0	115,200
Northlake, IL	Office and manufacturing facility	10.0	103,500
Bradford, U.K.	Office and manufacturing facility	7.9	129,200
Acheson, Alberta, Canada	Office and manufacturing facility	20.1	330,168

Item 3. Legal Proceedings

We are involved in various legal proceedings, claims and other disputes arising from our commercial operations, projects, employees and other matters which, in general, are subject to uncertainties and in which the outcomes are not predictable. Although we can give no assurances about the 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 4. Mine Safety Disclosures

Not applicable.

PART II

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

Our common stock trades on the NASDAQ Global Market (NASDAQ) under the symbol “POWL.”

As of December 6, 2021, the closing price of our common stock on the NASDAQ was \$25.07 per share. As of December 6, 2021, there were 250 stockholders of record of our common stock. All common stock held in street names is recorded in the Company’s stock register as being held by one stockholder.

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

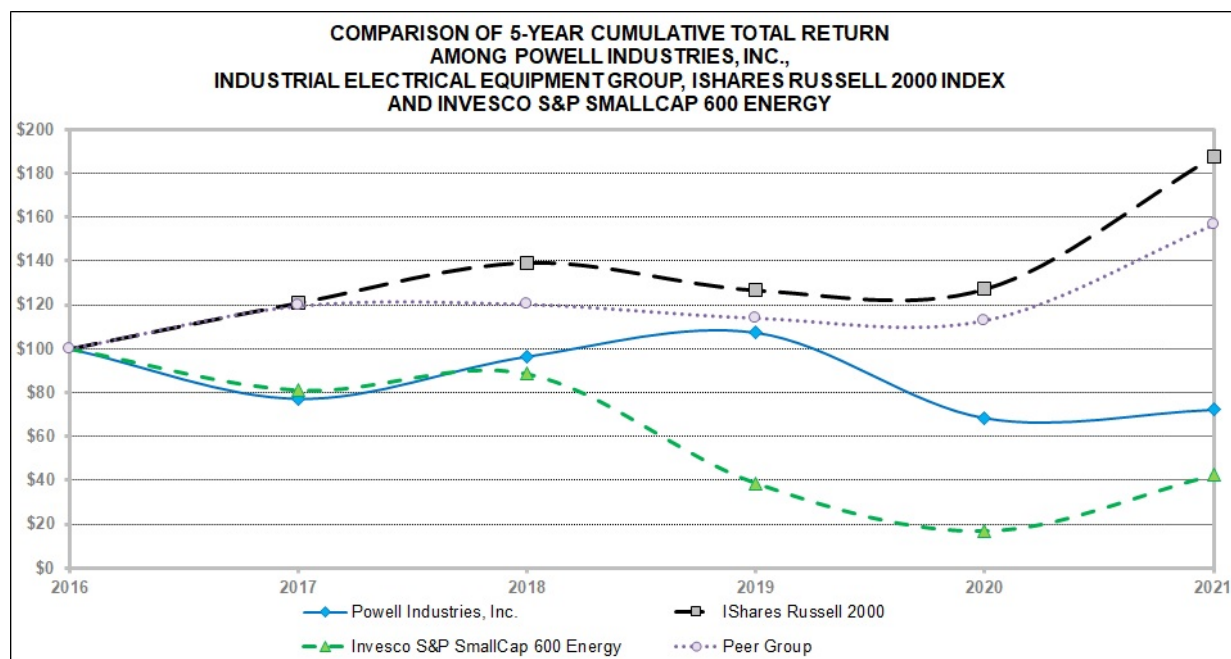
Dividend Policy

The Board anticipates declaring cash dividends in future quarters; however, there is no assurance as to future dividends or their amounts because they depend on future earnings, capital requirements, financial condition and debt covenants.

Performance Graph

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

The following graph compares, for the period from October 1, 2016 to September 30, 2021, the cumulative stockholder return on our common stock with the cumulative total return on the IShares Russell 2000, the Invesco S&P SmallCap 600 Energy, and the Industrial Electrical Equipment Group (a select group of peer companies – Altra Industrial Motion Corp.; Ameresco, Inc.; AZZ Inc.; Belden Inc.; Daktronics Inc.; EnerSys; Franklin Electric Co, Inc.; Littelfuse Inc.; LSI Industries Inc.; Preformed Line Products; A O Smith Corporation; Thermon Group Holdings and Woodward, Inc.). The comparison assumes that \$100 was invested on October 1, 2016, in our common stock, the IShares Russell 2000, the Invesco S&P SmallCap 600 Energy, and the Industrial Electrical Equipment Group, and that all dividends were re-invested. The stock price performance reflected on the following graph is not necessarily indicative of future stock price performance.



Item 6. Selected Financial Data

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

	Years ended September 30,				
	2021	2020	2019	2018	2017
Statement of Operations:	(In thousands, except per share data)				
Revenues	\$ 470,559	\$ 518,499	\$ 517,180	\$ 448,716	\$ 395,911
Cost of goods sold	395,496	423,924	430,204	383,361	345,142
Gross profit	75,063	94,575	86,976	65,355	50,769
Selling, general and administrative expenses	67,217	67,662	69,950	66,768	61,524
Research and development expenses	6,670	6,265	6,327	6,717	6,906
Amortization of intangible assets	157	177	177	205	355
Insurance proceeds	—	—	(950)	—	—
Restructuring and other, net	—	1,400	11	787	1,322
Operating income (loss)	1,019	19,071	11,461	(9,122)	(19,338)
Other income	—	(506)	—	(747)	(2,029)
Interest (income) expense, net	(73)	(753)	(873)	(676)	(390)
Income (loss) before income taxes	1,092	20,330	12,334	(7,699)	(16,919)
Income tax provision (benefit) ⁽¹⁾	461	3,670	2,444	(547)	(7,433)
Net income (loss)	\$ 631	\$ 16,660	\$ 9,890	\$ (7,152)	\$ (9,486)
Earnings (loss) per share:					
Basic	\$ 0.05	\$ 1.43	\$ 0.85	\$ (0.62)	\$ (0.83)
Diluted	\$ 0.05	\$ 1.42	\$ 0.85	\$ (0.62)	\$ (0.83)

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

	Years ended September 30,				
	2021	2020	2019	2018	2017
Balance Sheet Data:	(In thousands)				
Cash, cash equivalents and short-term investments ⁽¹⁾	\$ 133,981	\$ 178,921	\$ 124,681	\$ 49,754	\$ 95,188
Property, plant and equipment, net	109,457	114,372	120,812	128,764	139,420
Total assets	436,192	472,278	467,411	429,951	414,986
Long-term debt, including current maturities	400	800	1,200	1,600	2,000
Total stockholders' equity	301,223	306,626	299,153	301,644	321,296
Total liabilities and stockholders' equity	436,192	472,278	467,411	429,951	414,986
Dividends paid on common stock	12,142	12,066	11,998	11,916	11,875

⁽¹⁾ Excludes current and non-current restricted cash totaling \$25.1 million and \$24.9 million as of September 30, 2018 and 2017, respectively.

	Years ended September 30,				
	2021	2020	2019	2018	2017
Other Financial Data:	(In thousands)				
Backlog	\$ 414,918	\$ 476,819	\$ 419,012	\$ 260,900	\$ 250,123
Bookings, net of cancellations and scope reductions	403,860	576,782	676,051	458,884	355,064

Item 7. 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 for the twelve months ended September 30, 2021 compared to the twelve months ended September 30, 2020 should be read in conjunction with the accompanying consolidated financial statements and related notes. We have elected to omit discussion on the earliest of the three years covered by the consolidated financial statements presented. Refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Liquidity and Capital Resources located in our Form 10-K for the fiscal year ended September 30, 2020, filed on December 9, 2020, for reference to discussion of the fiscal year ended September 30, 2019, the earliest of the three fiscal years presented. Any forward-looking statements made by or on our behalf are made pursuant to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. Readers are cautioned that such forward-looking statements involve risks and uncertainties, and the actual results may differ materially from those projected in the forward-looking statements. For a description of the risks and uncertainties, please see "Cautionary Statement Regarding Forward-Looking Statements; Risk Factors" and "Part I, Item 1A. Risk Factors," included elsewhere in this Annual Report.

Overview

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 includes onshore and offshore production, LNG facilities and terminals, pipelines, refineries and petrochemical plants. Additional markets include electric utility and light rail traction power as well as mining and metals, pulp and paper 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. Cyclicity is predominantly driven by customer demand, global economic 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 the 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.

Historically, the combination of a growing global economy, abundant sources of favorably priced natural gas feedstock, and an energy industry focus on transition to natural gas and cleaner-burning fuels drove an increase in capital investment opportunities, specifically across the oil, gas and petrochemical sectors. Some of these opportunities were for natural gas related projects targeting global demand for cleaner-burning fuels. Additionally, projects within the domestic petrochemical sector benefited from the low feedstock prices of natural gas. Specific to natural gas, the business was awarded a substantial contract in the second quarter of Fiscal 2020 that will support the integrated electrical distribution requirements for a large domestic industrial complex and should be substantially completed in Fiscal 2022. We began to experience reduced commercial activity in Fiscal 2020 driven in large part by the uncertainties across our industrial end markets in the U.S. resulting from the COVID-19 pandemic. Considering the long cycle nature of our business, these cyclical conditions may persist into Fiscal 2022.

Impact of the COVID-19 Pandemic and Oil and Gas Commodity Market Volatility on Powell

The COVID-19 pandemic continues to impact global energy markets. This pandemic has negatively impacted demand, which in turn has resulted in considerable volatility across global oil and gas commodity markets. Throughout the pandemic, the demand for our products and services as well as our operations have been negatively impacted, resulting from the associated reduction in oil and gas demand and volatility in commodity prices noted above. As a result, some of our industrial customers are deferring or suspending their planned capital expenditures. Certain of our customers have asked that we delay or cancel our manufacturing on their projects as their operations have been negatively impacted by this pandemic and the reduced oil and gas demand which has resulted in recognition of cancellation fees based on contract terms and the extent of our progress on the projects. We continue to work with our key suppliers who have been impacted by this pandemic to ensure that we are able to meet our customer commitments.

In response to the lower demand across select end markets, we have taken and will continue to take various actions to reduce costs. During Fiscal 2020, we reduced our global workforce and reduced our capital and discretionary spending in response to business conditions. We continued to operate at these lower thresholds throughout Fiscal 2021 and are consistently monitoring macro-economic conditions as we head into Fiscal 2022.

As discussed further under the heading "Outlook" below, it is difficult to predict the economic impact that this pandemic, as well as reduced oil and gas demand and commodity price volatility, may have on our business, results of operations and cash flows going forward.

Results of Operations

Twelve Months Ended September 30, 2021 Compared to Twelve Months Ended September 30, 2020

Revenue and Gross Profit

Revenues decreased by 9%, or \$47.9 million, to \$470.6 million in Fiscal 2021, due to a decrease in orders as well as project delays and cancellations of potential projects associated with the global economic impact resulting from the COVID-19 pandemic and associated reduction in demand across our industrial end markets. Domestic revenues decreased by 12%, or \$46.6 million, to \$351.5 million in Fiscal 2021. International revenues decreased by 1%, or \$1.4 million, to \$119.1 million. Our international revenues include both revenues generated from our international facilities as well as revenues from export projects generated at our domestic facilities.

Revenue from our core oil and gas markets (excluding petrochemical) decreased by 4%, or \$7.5 million, to \$187.7 million while petrochemical revenue decreased by 53%, or \$67.7 million, to \$59.0 million in Fiscal 2021 as noted above. Revenue from utility markets increased by 25%, or \$22.4 million, to \$111.2 million and traction market revenue increased by 39%, or \$16.7 million, to \$59.1 million in Fiscal 2021. Revenue from all other markets combined decreased by \$11.8 million to \$53.6 million in Fiscal 2021.

The reduction in revenue led to a reduction in gross profit of 21%, or \$19.5 million, in Fiscal 2021. However, gross profit of \$75.1 million in Fiscal 2021 benefited from favorable close out gains on certain projects resulting from cost and productivity efficiencies and to a lesser extent from cancellation fees from certain contracts in our North American manufacturing facilities, which was partially offset by international project execution, higher global commodity prices and U.S. factory underutilization. Gross profit as a percentage of revenues decreased to 16% in Fiscal 2021, compared to 18% in Fiscal 2020 as a result of the reduction in revenue noted above.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased by 1%, or \$0.4 million, to \$67.2 million in Fiscal 2021, partially due to the restructuring action taken in Fiscal 2020 as well as lower travel-related costs. Selling, general and administrative expenses, as a percentage of revenues, increased to 14% in Fiscal 2021, compared to 13% in Fiscal 2020, primarily due to the decrease in revenues.

Restructuring and Other, Net

In response to the COVID-19 pandemic, reductions in global oil and gas demand and volatility of commodity prices, we implemented workforce reductions across the business. As a result, we recorded \$1.4 million of separation costs during Fiscal 2020.

Other Income

During Fiscal 2020, we recorded other income of \$0.5 million related to a death benefit received from our company-owned life insurance policy related to a retired employee.

Income Tax Provision

We recorded an income tax provision of \$0.5 million in Fiscal 2021, resulting in an effective tax rate of 42%, compared to an income tax provision of \$3.7 million in Fiscal 2020 at an effective tax rate of 18%. In both Fiscal 2021 and Fiscal 2020, the effective tax rate was negatively impacted by our inability to recognize a tax benefit related to losses incurred in various jurisdictions outside of the United States. The effective tax rate was also negatively impacted by the valuation allowances set up against our deferred tax assets in Fiscal 2021 and Fiscal 2020 related to Mexico in the amount of \$0.1 million and the U.K. in the amount of \$0.5 million. The estimated Research and Development Tax Credit (R&D Tax Credit) as well as the utilization of net operating loss carryforwards in Canada that were fully reserved with a valuation allowance provided a tax benefit for Fiscal 2021 and Fiscal 2020. In Fiscal 2020, we reversed a reserve of \$1.7 million resulting from a favorable settlement of an IRS audit and the expiration of statutes of limitations.

Net Income

In Fiscal 2021, we recorded net income of \$0.6 million, or \$0.05 per diluted share, compared to net income of \$16.7 million, or \$1.42 per diluted share in Fiscal 2020, primarily due to a decline in revenues and gross profit resulting from lower orders and project delays caused by the economic impact resulting from the COVID-19 pandemic and the associated reduction in global demand across our industrial end markets.

Backlog

The order backlog at September 30, 2021 was \$414.9 million, a 13% decrease from \$476.8 million at September 30, 2020. Bookings, net of cancellations and scope reductions, decreased by 30% in Fiscal 2021 to \$403.9 million, compared to \$576.8 million in Fiscal 2020. The large year-over-year decrease in bookings in Fiscal 2021 was primarily due to the large contract awarded in Fiscal 2020 and decreased global demand across our industrial end markets.

Outlook

As noted in "Overview" above, the markets in which we participate are capital-intensive and cyclical in nature. A significant portion of our revenues has historically been from the oil, gas and petrochemical markets. Oil and gas commodity price levels have been unstable over the last several years, and our customers have in certain cases, delayed or cancelled some of their major capital investment projects. Beginning in late Fiscal 2018 through the first quarter of Fiscal 2020, our customers' decisions to invest in projects in our key oil and gas and petrochemical markets were influenced to some extent by relative stabilization of commodity prices and the increased global demand for cleaner-burning fuels during that period of time. We believe that this change in market sentiment during that period of time had a favorable impact on our orders and backlog entering Fiscal 2020. However, the uncertainty in oil prices and the global economic impacts from COVID-19 have had, and may continue to have, a negative impact on our business going forward, as discussed in more detail below. Specific to the energy industry focus on transitioning to natural gas and cleaner-burning fuels, the business was awarded a substantial contract in Fiscal 2020 that will support the integrated electrical distribution requirements for a large domestic industrial complex and should be substantially completed in Fiscal 2022.

Our operating results are impacted by factors such as the timing of new order awards, customer approval of final engineering and design specifications and delays in customer construction schedules, all of which 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, project close-out and 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. These factors may result in periods of underutilization of our resources and facilities, which may negatively impact our ability

to cover our fixed costs. We will continue to monitor potential labor shortages and increased labor costs and the impact on our operations.

The strong commercial activity and subsequent orders in Fiscal 2018 and 2019 led to solid revenue and operating results for Fiscal 2020. We began to experience lower commercial activity in Fiscal 2020 driven in large part from the uncertainty resulting from the COVID-19 pandemic, as discussed in "Overview" above. Considering the long cycle nature of our business, these cyclical conditions may persist into Fiscal 2022. We will continue to monitor the variables that impact our markets while adjusting to the global conditions in order to maintain competitive costs and technological advantages in the markets that we serve.

The consequences of a prolonged economic decline could include, but are not limited to, a continued reduction in commercial and industrial activity. Accordingly, the Company cannot reasonably estimate the duration or severity of this pandemic, potential labor shortages, increased labor costs, or the extent to which these disruptions may materially impact our business, results of operations or cash flows. We will take prudent measures to maintain our strong liquidity and cash position, which may include reducing our capital expenditures and research and development costs, as well as reducing or eliminating future dividend payments.

Liquidity and Capital Resources

As of September 30, 2021, current assets exceeded current liabilities by 2.5 times, and our debt to total capitalization was 0.13%.

Cash, cash equivalents and short-term investments decreased to \$134.0 million at September 30, 2021, compared to \$178.9 million at September 30, 2020. This decrease in cash was primarily driven by the timing of contract billing milestones. We believe that our strong working capital position, available borrowings under our credit facility and available cash should be sufficient to finance future operating activities, capital improvements, research and development initiatives and debt repayments for the foreseeable future.

We have a credit agreement with Bank of America, N.A. (the "U.S. Revolver") which is a \$75.0 million revolving credit facility available for both borrowings and letters of credit and expires September 27, 2024. On March 12, 2021, we entered into a first amendment to the U.S. Revolver which, among other things, amended certain terms related to the calculation of the consolidated leverage ratio from gross leverage to net leverage. As a result of the first amendment, up to \$30 million may be deducted from the amount of letters of credit outstanding (not to be less than zero) when calculating the consolidated funded indebtedness which is a component of the consolidated net leverage ratio. Additionally, 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 September 30, 2021, there were no amounts borrowed under this facility, and letters of credit outstanding were \$34.8 million. As of September 30, 2021, \$40.2 million was available for the issuance of letters of credit and borrowing under the U.S. Revolver. Total long-term debt, including current maturities, totaled \$0.4 million at September 30, 2021 related to outstanding industrial development revenue bonds. We are required to maintain certain financial covenants, the most significant of which are a consolidated net leverage ratio less than 3.0 to 1.0 and a consolidated interest coverage ratio of greater than 3.0 to 1.0. Our most restrictive covenant, the consolidated net leverage ratio, is the ratio of earnings before interest, taxes, depreciation, amortization and stock-based compensation (EBITDAS) to funded indebtedness, which includes letters of credit. An increase in indebtedness or a decrease in EBITDAS could restrict our ability to issue letters of credit or borrow under the U.S. Revolver. For further information regarding our debt, see Notes G and H of Notes to Consolidated Financial Statements.

Approximately \$30.6 million of our cash, cash equivalents and short-term investments at September 30, 2021 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 used net cash of \$30.5 million in Fiscal 2021 and provided net cash of \$72.4 million in Fiscal 2020. Cash flow from operations is primarily influenced by the timing of milestone payments from our customers, project volume and the payment terms with our suppliers. This decrease in operating cash flows was primarily due to the timing of contract billing milestones and cash used on our large industrial project discussed above.

Investing Activities

Investing activities used \$2.5 million of cash during Fiscal 2021 compared to \$17.5 million of cash used in Fiscal 2020. The decrease in cash used by investing activities in Fiscal 2021 was primarily due to a decrease in net purchases of short-term investments and a decrease in capital expenditures. Additionally, the proceeds received from a Company-owned life insurance policy related to a retired employee provided investing cash flow in Fiscal 2021.

Financing Activities

Net cash used in financing activities was \$13.2 million in Fiscal 2021 and \$13.1 million in Fiscal 2020, which primarily consisted of \$12.1 million of dividends paid in each year.

Other Commercial Commitments

We are contingently liable for letters of credit and bank guarantees totaling \$42.2 million as of September 30, 2021, with the following potential cash outflows in the event that we are unable to perform under our contracts (in thousands):

<u>Payments Due by Period:</u>	<u>Letters of Credit/Bank Guarantees</u>	
Less than 1 year	\$	16,504
1 to 3 years		24,416
More than 3 years		1,275
Total long-term commercial obligations	\$	42,195

We also had surety bonds totaling \$143.0 million that were outstanding at September 30, 2021. Surety bonds are primarily used to guarantee our contract performance to our customers.

Off-Balance Sheet Arrangements

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

Effects of Inflation

We are subject to inflation, which can cause increases in our costs of labor and raw materials, primarily copper, aluminum and steel. Fixed-price contracts can limit our ability to pass these increases to our customers, thus negatively impacting our earnings. Inflation in commodity prices has negatively impacted our financial results in Fiscal 2021. Additionally, inflation related to commodity and labor prices may potentially impact our operations in future years.

Critical Accounting Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the U.S. 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. We evaluate our estimates on an ongoing basis, based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. There can be no assurance that actual results will not differ from those estimates.

We believe the following accounting estimates to be critical in the preparation and reporting of our consolidated financial statements.

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.

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. See Note E of Notes to Consolidated Financial Statements for disclosures related to changes in contract estimates.

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 separate performance obligations, 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.

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 probability-weighted amount, 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.

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 recording an impairment of such asset is necessary. This requires us to make long-term forecasts of the future revenues and costs related to the assets subject to review. Forecasts require assumptions about demand for our products and future market conditions. Estimating future cash flows requires significant judgment, and our projections may vary from cash flows eventually realized. Future events and unanticipated changes to assumptions could require a provision for impairment in a future period. The effect of any impairment would be reflected in income (loss) from operations in the Consolidated Statements of Operations. In addition, we estimate the useful lives of our long-lived assets and other intangibles and periodically review these estimates to determine whether these lives are appropriate.

Accruals for Contingent Liabilities

From time to time, contingencies such as insurance-related claims, liquidated damages and legal claims arise in the normal course of business. Pursuant to applicable accounting standards, we must evaluate such contingencies to subjectively determine the likelihood that an asset has been impaired, or a liability has been incurred at the date of the financial statements, as well as evaluate whether the amount of the loss can be reasonably estimated. If the likelihood is determined to be probable, and it can be reasonably estimated, the estimated loss is recorded. The amounts we record for 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, including estimated legal costs, in evaluating the amount of liability that should be recorded. Actual results could differ from our estimates.

Warranty Costs

Estimated costs of warranties are accrued based on historical warranty claim costs in relation to current revenues. In addition, specific provisions are made when product failures are projected outside historical experience. Our standard terms and conditions of sale include a warranty for parts and service for one year. Occasionally, we provide service-type warranties that will extend the warranty period. Actual results could differ from our estimate.

Projects may require, on occasion, warranty terms that are longer than our standard terms due to the nature of the project. Extended warranty terms may be negotiated and included in our contracts. The allocated revenue associated with the extended warranty is deferred and recorded as a contract liability and recognized as revenue over the extended warranty period.

Accounting for Income Taxes

We account for income taxes under the asset and liability method, based on the income tax laws and rates in the countries in which operations are conducted, and income is earned. This approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. Developing our provision for income taxes requires significant judgment and expertise in federal, international and state income tax laws, regulations and strategies, including the determination of deferred tax assets and liabilities and, if necessary, any valuation allowances that may be required for deferred tax assets. In assessing the extent to which net deferred tax assets may be realized, we consider whether it is more likely than not that some portion or all of the net deferred tax assets may not be realized. The ultimate realization of net deferred tax assets is dependent on the generation of future taxable income during the periods in which those temporary differences become deductible. Estimates may change as new events occur, estimates of future taxable income during the carryforward period are reduced or increased, additional information becomes available, or operating environments change, which may result in a full or partial reversal of the valuation allowance. We will continue to assess the adequacy of the valuation allowance on a quarterly basis. Our judgments and tax strategies are subject to audit by various taxing authorities.

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

derecognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, and income tax disclosures. Judgment is required in assessing the future tax consequences of events that have been recognized in our financial statements or tax returns. Variations in the actual outcome of these future tax consequences could materially impact our financial position and results of operations.

See Note I of Notes to Consolidated Financial Statements for disclosures related to the valuation allowance recorded in relation to foreign deferred taxes.

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 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 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 are typically in the oil and gas markets, including onshore and offshore oil and gas production, pipeline, refining and liquefied natural gas terminals, as well as petrochemical, electric utility and light rail traction power. 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 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 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 Mexican Peso 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 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 Fiscal 2021, our realized foreign exchange loss was \$0.4 million and is included in selling, general and administrative expenses in the Consolidated Statements of Operations.

Our accumulated other comprehensive loss, which is included as a component of stockholders' equity, was \$20.4 million as of September 30, 2021, a decrease of \$4.2 million compared to September 30, 2020. 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 remeasured 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 to our financial statements. While we do not currently have any derivative contracts to hedge our exposure to interest rate risk, in the past we have entered and may in the future enter into such contracts. During each of the periods presented, we have not experienced a significant effect on our business due to changes in interest rates.

Item 8. *Financial Statements and Supplementary Data*

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Powell Industries, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Powell Industries, Inc. and its subsidiaries (the “Company”) as of September 30, 2021 and 2020, and the related consolidated statements of operations, of comprehensive income, of stockholders’ equity and of cash flows for each of the three years in the period ended September 30, 2021, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of September 30, 2021, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of September 30, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2021 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2021, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Change in Accounting Principle

As discussed in Note B to the consolidated financial statements, the Company changed the manner in which it accounts for leases in the year ended September 30, 2020.

Basis for Opinions

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. 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.

Definition and Limitations of Internal Control over Financial Reporting

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

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

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Revenue Recognition – Long-term fixed priced contracts

As described in Notes B and E to the consolidated financial statements, the majority of the Company's total revenue of \$470.6 million for the year ended September 30, 2021 was generated from the manufacturing of custom-engineered products and systems under long-term fixed-price contracts. Revenue from these contracts is generally recognized over time utilizing the cost-to-cost method to measure the extent of progress toward the completion of the performance obligation and the recognition of revenue over time. Management believes that this method is the most accurate representation of performance, because it directly measures the value of the services transferred to the customer over time as costs are incurred on the 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. 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. Due to the nature of the 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. Management estimates the amount of variable consideration based on the expected value method, which is the sum of the probability-weighted amount, or the most likely amount method which uses various factors including experience with similar transactions and assessment of anticipated performance.

The principal considerations for our determination that performing procedures relating to revenue recognized over time utilizing the cost to cost method is a critical audit matter are the significant judgment by management when determining the estimated total cost and revenue, which in turn led to a high degree of auditor judgment, subjectivity and effort in performing procedures and in evaluating management's judgment about assumptions related to the estimates of costs to complete and liquidated damages.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the revenue recognition process, including controls over the determination of total estimated costs at completion of the performance obligation and determination of total contract price. The procedures also included, among others, evaluating and testing management's process for determining the estimated total cost and revenue for a sample of contracts, which included (i) obtaining executed purchase orders and agreements, (ii) evaluating the appropriateness of the method to measure estimated total cost and revenue, (iii) testing the completeness and accuracy of the underlying data used by management, and (iv) evaluating the reasonableness of significant assumptions related to the total estimated costs at completion and liquidated damages used by management and considering the factors that can affect the accuracy of those estimates. Evaluating the reasonableness of significant assumptions related to estimated total cost involved assessing management's ability to reasonably estimate total costs to complete and liquidated damages by testing management's process to evaluate the remaining direct materials, labor, and indirect costs related to the performance obligation and evaluating the timely identification of circumstances which may warrant a modification to the total estimated costs or liquidated damages.

/s/ PricewaterhouseCoopers LLP
Houston, Texas
December 8, 2021

We have served as the Company's auditor since 2004.

POWELL INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	September 30,	
	2021	2020
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 114,314	\$ 160,216
Short-term investments	19,667	18,705
Accounts receivable, less allowance for doubtful accounts of \$333 and \$510	78,304	69,957
Contract assets	54,199	50,995
Inventories	29,835	28,968
Income taxes receivable	161	467
Prepaid expenses	4,382	4,402
Other current assets	1,599	1,948
Total Current Assets	302,461	335,658
Property, plant and equipment, net	109,457	114,372
Operating lease assets, net	3,453	5,217
Goodwill and intangible assets, net	1,003	1,161
Deferred income taxes	4,639	3,644
Other assets	15,179	12,226
Total Assets	\$ 436,192	\$ 472,278
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of long-term debt	\$ 400	\$ 400
Accounts payable	45,247	35,029
Contract liabilities	42,433	79,445
Accrued compensation and benefits	20,395	21,739
Accrued product warranty	2,531	2,771
Current operating lease liabilities	1,415	2,352
Income taxes payable	1,076	1,861
Other current liabilities	7,659	9,350
Total Current Liabilities	121,156	152,947
Long-term debt, net of current maturities	—	400
Deferred compensation (Note J)	8,613	6,710
Long-term operating lease liabilities	2,413	3,434
Other long-term liabilities	2,787	2,161
Total Liabilities	134,969	165,652
Commitments and Contingencies (Note H)		
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; 12,497,691 and 12,422,411 shares issued, respectively	125	124
Additional paid-in capital	63,948	61,998
Retained earnings	282,505	294,016
Treasury stock, 806,018 shares at cost	(24,999)	(24,999)
Accumulated other comprehensive loss	(20,356)	(24,513)
Total Stockholders' Equity	301,223	306,626
Total Liabilities and Stockholders' Equity	\$ 436,192	\$ 472,278

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

POWELL INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Year Ended September 30,		
	2021	2020	2019
Revenues	\$ 470,559	\$ 518,499	\$ 517,180
Cost of goods sold	395,496	423,924	430,204
Gross profit	75,063	94,575	86,976
Selling, general and administrative expenses	67,217	67,662	69,950
Research and development expenses	6,670	6,265	6,327
Amortization of intangible assets	157	177	177
Insurance proceeds	—	—	(950)
Restructuring and other, net	—	1,400	11
Operating income	1,019	19,071	11,461
Other income	—	(506)	—
Interest expense	204	228	230
Interest income	(277)	(981)	(1,103)
Income before income taxes	1,092	20,330	12,334
Income tax provision	461	3,670	2,444
Net income	\$ 631	\$ 16,660	\$ 9,890
Earnings per share:			
Basic	\$ 0.05	\$ 1.43	\$ 0.85
Diluted	\$ 0.05	\$ 1.42	\$ 0.85
Weighted average shares:			
Basic	11,705	11,624	11,571
Diluted	11,789	11,693	11,634
Dividends per share	\$ 1.04	\$ 1.04	\$ 1.04

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

POWELL INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	Year Ended September 30,		
	2021	2020	2019
Net income	\$ 631	\$ 16,660	\$ 9,890
Foreign currency translation adjustments	4,253	60	(2,743)
Postretirement benefit adjustment, net of tax	(96)	(26)	(25)
Comprehensive income	\$ 4,788	\$ 16,694	\$ 7,122

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

POWELL INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock		Accumulated Other Comprehensive Income/(Loss)	Total
	Shares	Amount			Shares	Amount		
Balance, September 30, 2018	12,281	\$ 123	\$ 56,769	\$ 291,530	(806)	\$ (24,999)	\$ (21,779)	\$ 301,644
Net income	—	—	—	9,890	—	—	—	9,890
Foreign currency translation adjustments	—	—	—	—	—	—	(2,743)	(2,743)
Stock-based compensation	92	1	3,838	—	—	—	—	3,839
Shares withheld in lieu of employee tax withholding	—	—	(1,454)	—	—	—	—	(1,454)
Dividends paid	—	—	—	(11,998)	—	—	—	(11,998)
Postretirement benefit adjustment, net of tax of \$7	—	—	—	—	—	—	(25)	(25)
Balance, September 30, 2019	12,373	\$ 124	\$ 59,153	\$ 289,422	(806)	\$ (24,999)	\$ (24,547)	\$ 299,153
Net income	—	—	—	16,660	—	—	—	16,660
Foreign currency translation adjustments	—	—	—	—	—	—	60	60
Stock-based compensation	49	—	3,474	—	—	—	—	3,474
Shares withheld in lieu of employee tax withholding	—	—	(629)	—	—	—	—	(629)
Dividends paid	—	—	—	(12,066)	—	—	—	(12,066)
Postretirement benefit adjustment, net of tax of \$7	—	—	—	—	—	—	(26)	(26)
Balance, September 30, 2020	12,422	\$ 124	\$ 61,998	\$ 294,016	(806)	\$ (24,999)	\$ (24,513)	\$ 306,626
Net income	—	—	—	631	—	—	—	631
Foreign currency translation adjustments	—	—	—	—	—	—	4,253	4,253
Stock-based compensation	76	1	2,582	—	—	—	—	2,583
Shares withheld in lieu of employee tax withholding	—	—	(632)	—	—	—	—	(632)
Dividends paid	—	—	—	(12,142)	—	—	—	(12,142)
Postretirement benefit adjustment, net of tax of \$26	—	—	—	—	—	—	(96)	(96)
Balance, September 30, 2021	12,498	\$ 125	\$ 63,948	\$ 282,505	(806)	\$ (24,999)	\$ (20,356)	\$ 301,223

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

POWELL INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended September 30,		
	2021	2020	2019
Operating Activities:			
Net income	\$ 631	\$ 16,660	\$ 9,890
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	10,335	10,538	12,032
Stock-based compensation	2,583	3,474	3,839
Bad debt expense	48	258	233
Deferred income taxes	(995)	1,473	820
Gain on cash surrender value of life insurance	—	(506)	—
Changes in operating assets and liabilities:			
Accounts receivable, net	(7,509)	41,969	(20,193)
Contract assets and liabilities, net	(39,951)	12,546	55,333
Inventories	(599)	304	(7,989)
Income taxes	(473)	720	6,681
Prepaid expenses and other current assets	412	662	(2,626)
Accounts payable	9,760	(15,309)	9,550
Accrued liabilities	(3,151)	465	1,419
Other, net	(1,552)	(860)	(230)
Net cash provided by (used in) operating activities	(30,461)	72,394	68,759
Investing Activities:			
Purchases of short-term investments	(27,735)	(18,553)	(5,869)
Maturities of short-term investments	27,688	6,146	13,088
Purchases of property, plant and equipment, net	(2,891)	(5,130)	(4,255)
Proceeds from life insurance policy	474	—	—
Net cash provided by (used in) investing activities	(2,464)	(17,537)	2,964
Financing Activities:			
Payments on industrial development revenue bonds	(400)	(400)	(400)
Shares withheld in lieu of employee tax withholding	(632)	(629)	(1,454)
Dividends paid	(12,142)	(12,066)	(11,998)
Net cash used in financing activities	(13,174)	(13,095)	(13,852)
Net increase (decrease) in cash, cash equivalents and restricted cash	(46,099)	41,762	57,871
Effect of exchange rate changes on cash, cash equivalents and restricted cash	197	(185)	(957)
Cash, cash equivalents and restricted cash at beginning of period	160,216	118,639	61,725
Cash, cash equivalents and restricted cash at end of period	\$ 114,314	\$ 160,216	\$ 118,639

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

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 company was the successor to a company founded by William E. Powell in 1947, which merged into the Company in 1977. Our major subsidiaries, all of which are wholly owned, include: Powell Electrical Systems, Inc.; Powell (UK) Limited; 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. Our principal products include integrated power control room substations (PCRs®), custom-engineered modules, electrical houses (E-Houses), traditional and arc-resistant distribution switchgear and control gear, medium-voltage circuit breakers, monitoring and control communications systems, motor control centers, switches and bus duct systems. These products are designed for application voltages ranging from 480 volts to 38,000 volts. Our products are used in the oil and gas markets, onshore and offshore production, liquefied natural gas (LNG) facilities and terminals, pipeline, refineries and petrochemical plants. Additionally, we manufacture products for the electric utility, light rail traction power as well as mining and metals, pulp and paper and other municipal, commercial and industrial markets. Our product scope includes designs tested to meet both U.S. and international standards, under both the American National Standards Institute (ANSI) and International Electrotechnical Commission (IEC). We assist customers by providing value-added services such as spare parts, field service inspection, installation, commissioning, modification and repair, retrofit and retrofit components for existing systems and replacement circuit breakers for switchgear that is obsolete or that is no longer produced by the original manufacturer. We seek to establish long-term relationships with the end users of our systems as well as the design and construction engineering firms contracted by those end users. We believe that our culture of safety and focus on customer satisfaction, along with our financial strength, allow us to continue to capitalize on opportunities in the industries we serve.

References to Fiscal 2021, Fiscal 2020 and Fiscal 2019 used throughout these Notes to Consolidated Financial Statements relate to our fiscal years ended September 30, 2021, 2020 and 2019, respectively.

Impact of the COVID-19 Pandemic and Oil and Gas Commodity Market Volatility on Powell

The COVID-19 pandemic continues to impact global energy markets. This pandemic has negatively impacted demand, which in turn has resulted in considerable volatility across the oil and gas commodity markets. As a result, some of our industrial customers are deferring or suspending their planned capital expenditures. Certain of our customers have asked that we delay or cancel our manufacturing on their projects as their operations have been negatively impacted by this pandemic and the reduced oil and gas demand which has resulted in recognition of cancellation fees based on contract terms and the extent of our progress on the projects. We continue to work with and review the contracts with our key suppliers who have been impacted by this pandemic to ensure that we are able to meet our customer commitments.

The consequences of a prolonged global economic decline could include, but are not limited to, a continued reduction in commercial and industrial activity. Accordingly, the Company cannot reasonably estimate the duration or severity of this pandemic, or the extent to which the disruption may materially impact our business, results of operations or cash flows. We will take prudent measures to maintain our strong liquidity and cash position, which may include reducing our capital expenditures and research and development costs, as well as reducing or eliminating future dividend payments.

B. Summary of Significant Accounting Policies

Principles of Consolidation

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

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 consolidated financial statements

affect revenue recognition and estimated cost recognition on our customer contracts, the 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 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.

Cash and Investments

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 Consolidated Balance Sheets.

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

Supplemental Disclosures of Cash Flow Information (in thousands):

	Year Ended September 30,		
	2021	2020	2019
Cash paid (received) during the period for:			
Interest received, net of interest expense	\$ (73)	\$ (753)	\$ (873)
Income taxes paid (received), net of refunds	1,886	1,770	(5,219)
Non-cash capital expenditures	226	264	1,248

Fair Value of Financial Instruments

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

Accounts Receivable

Accounts receivable are stated net of allowances for credit losses. We maintain and continually assess the adequacy of the allowance for credit losses representing our estimate for losses resulting from the inability of our customers to pay amounts due to us. This estimated allowance is based on historical experience of uncollected accounts, the level of past due accounts, the overall level of outstanding accounts receivable, information about specific customers with respect to their inability to make payments and expectations of future conditions that could impact the collectability of accounts receivable. Future changes in our customers' operating performance and cash flows, or in general economic conditions, could have an impact on their ability to fully pay these amounts, which could have a material impact on our operating results. In most cases, receivables are not collateralized. However, we utilize letters of credit to secure payment on projects when possible. As of September 30, 2021 and 2020, accounts receivable included retention amounts of \$9.6 million and \$6.9 million, respectively. Retention amounts are in accordance with applicable provisions of contracts and become due upon completion of contractual requirements. Of the retained amount at September 30, 2021, \$7.4 million is expected to be collected in the next twelve months and is recorded in accounts receivable. The remaining \$2.2 million is recorded in other assets and is expected to be collected in Fiscal 2023.

Contract Balances

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

Inventories

Inventories are stated at the lower of cost or net realizable value using weighted-average methods and include the cost of materials, labor and manufacturing overhead. We use estimates in determining the level of reserves required to state inventory at the lower of cost or net realizable value. 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 recording an impairment of such asset is necessary. If an impairment is indicated, we record an impairment loss equal to the difference between the carrying value and the fair value of the long-lived asset. This requires us to make long-term forecasts of the future revenues and the costs related to the assets subject to review. Forecasts require assumptions about demand for our products and future market conditions. Estimating future cash flows requires significant judgment, and our projections may vary from cash flows eventually realized. Future events and unanticipated changes to assumptions could require a provision for impairment in a future period. The effect of any impairment would be reflected in income (loss) from operations in the Consolidated Statements of Operations. In addition, we estimate the useful lives of our property, plant and equipment and periodically review these estimates to determine whether these lives are appropriate.

Income Taxes

We account for income taxes under the asset and liability method, based on the income tax laws and rates in the countries in which operations are conducted, and income is earned. This approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. Developing our provision for income taxes requires significant judgment and expertise in federal, international and state income tax laws, regulations and strategies, including the determination of deferred tax assets and liabilities and, if necessary, any valuation allowances that may be required for deferred tax assets. In assessing the extent to which net deferred tax assets may be realized, we consider whether it is more likely than not that some portion or all of the net deferred tax assets may not be realized. The ultimate realization of net deferred tax assets is dependent on the generation of future taxable income during the periods in which those temporary differences become deductible. Estimates may change as new events occur, estimates of future taxable income during the carryforward period are reduced or increased, additional information becomes available or operating environments change, which may result in a full or partial reversal of the valuation allowance. We will continue to assess the adequacy of the valuation allowance on a quarterly basis. Our judgments and tax strategies are subject to audit by various taxing authorities.

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

assessing the future tax consequences of events that have been recognized in our financial statements or tax returns. Variations in the actual outcome of these future tax consequences could materially impact our financial statements.

Revenue Recognition

Our revenues are primarily generated from the manufacturing of custom-engineered products and systems under long-term fixed-price contracts that may last from one month to several years, depending on the contract. 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 value-added services such as field service inspection, installation, commissioning, modification and repair, 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 with which we have the right to invoice. Our performance obligations are satisfied as the work progresses.

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.

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 liability is reduced.

Warranty Costs

Estimated costs of warranties are accrued based on historical warranty claim costs in relation to current revenues. In addition, specific provisions are made when product failures are projected outside historical experience. Our standard terms and conditions of sale include a warranty for parts and service for one year. Occasionally, we provide service-type warranties that will extend the warranty period. Actual results could differ from our estimate.

Projects may require, on occasion, warranty terms that are longer than our standard terms due to the nature of the project. Extended warranty terms may be negotiated and included in our contracts. The allocated revenue associated with the extended warranty is deferred and recorded as a contract liability and recognized as revenue over the extended warranty period.

Research and Development Expense

Research and development activities are directed toward the development of new products and processes as well as improvements in existing products and processes. These costs, which primarily include salaries, contract services and supplies, are expensed as incurred. Such amounts were \$6.7 million, \$6.3 million and \$6.3 million in Fiscal 2021, 2020 and 2019, 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 loss in stockholders' equity.

Stock-Based Compensation

We measure stock-based compensation cost at the grant date based on the fair value of the award. Compensation expense is recognized over the period during which the recipient is required to provide service in exchange for the awards, typically the vesting period. Excess income tax benefits related to share-based compensation expense are recognized as income tax expense or benefit in the Consolidated Statement of Operations. Cash paid when directly withholding shares on an employee's behalf for tax withholding purposes is classified as a financing activity. We account for forfeitures as they occur, rather than estimate expected forfeitures.

New Accounting Standards

In February 2016, the Financial Accounting Standards Board (FASB) issued a new topic on leases that requires lessees to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than twelve months. Leases are classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. Effective October 1, 2019, we adopted the new lease accounting standard and recorded operating lease assets and operating lease liabilities of approximately \$7.0 million and determined that no adjustment to retained earnings was necessary. Financial results for reporting periods after October 1, 2019 are reported under the new standard; however financial results for prior periods were not adjusted and will continue to be presented in accordance with the previous standard. Upon adoption, we elected a package of practical expedients which, among other things, allowed for the historical classification of our existing leases to carry forward. Additionally, we elected to separate non-lease components for our real estate and IT infrastructure asset classes. All other asset classes account for both lease and non-lease components in the operating lease asset and operating lease liability calculations. See Note M for further discussion of leases.

In June 2016, the FASB issued a new topic on measurement of credit losses. The topic introduces an impairment model known as the current expected credit loss (CECL) model that is based on an expected loss methodology rather than an incurred loss methodology for financial instruments. Under the new topic, an entity recognizes as an allowance its estimate of expected credit losses with the intention of improving financial reporting by requiring timelier recognition of such losses. We adopted this topic on October 1, 2020 and such adoption did not have a material impact on our consolidated financial statements.

C. Earnings Per Share

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

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

	Year Ended September 30,		
	2021	2020	2019
Numerator:			
Net income	\$ 631	\$ 16,660	\$ 9,890
Denominator:			
Weighted average basic shares	11,705	11,624	11,571
Dilutive effect of restricted stock units	84	69	63
Weighted average diluted shares	11,789	11,693	11,634
Earnings per share:			
Basic	\$ 0.05	\$ 1.43	\$ 0.85
Diluted	\$ 0.05	\$ 1.42	\$ 0.85

D. Detail of Selected Balance Sheet Accounts

Allowance for Credit Losses

Activity in our allowance for credit losses consisted of the following (in thousands):

	September 30,	
	2021	2020
Balance at beginning of period	\$ 510	\$ 301
Bad debt expense, net	48	258
Uncollectible accounts written off, net of recoveries	(242)	(32)
Change due to foreign currency translation	17	(17)
Balance at end of period	<u>\$ 333</u>	<u>\$ 510</u>

Inventories

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

	September 30,	
	2021	2020
Raw materials, parts and subassemblies	\$ 33,149	\$ 31,202
Work-in-progress	1,147	1,539
Provision for excess and obsolete inventory	(4,461)	(3,773)
Total inventories	<u>\$ 29,835</u>	<u>\$ 28,968</u>

Property, Plant and Equipment

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

	September 30,		Range of Asset Lives
	2021	2020	
Land	\$ 22,355	\$ 22,008	—
Buildings and improvements	124,798	122,529	3 - 39 Years
Machinery and equipment	96,017	108,439	3 - 15 Years
Furniture and fixtures	3,683	3,611	3 - 10 Years
Construction in process	752	1,530	—
	<u>\$ 247,605</u>	<u>\$ 258,117</u>	
Less: Accumulated depreciation	<u>(138,148)</u>	<u>(143,745)</u>	
Total property, plant and equipment, net	<u>\$ 109,457</u>	<u>\$ 114,372</u>	

There were no assets under finance lease as of September 30, 2021 or September 30, 2020. Depreciation expense was \$10.2 million, \$10.4 million and \$11.9 million for fiscal years 2021, 2020, and 2019, respectively.

Accrued Product Warranty

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

	September 30,	
	2021	2020
Balance at beginning of period	\$ 2,771	\$ 2,946
Increase to warranty expense	2,140	2,286
Deduction for warranty charges	(2,406)	(2,463)
Change due to foreign currency translation	26	2
Balance at end of period	<u>\$ 2,531</u>	<u>\$ 2,771</u>

E. 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 value-added services such as field service inspection, installation, commissioning, modification and repair, 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 93% and 95% of revenues for the years ended September 30, 2021 and September 30, 2020, respectively.

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 7% and 5% of revenues for the years ended September 30, 2021 and September 30, 2020, respectively.

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 September 30, 2021, we had backlog of \$414.9 million, of which approximately \$291.0 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 years ended September 30, 2021 and 2020, our operating results were positively impacted by \$12.5 million and \$11.3 million, respectively, as a result of 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 and negotiations of variable consideration, discussed below, as well as revenue and reduced costs recognized from project cancellations and other changes in facts and circumstances during these periods.

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 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. The timing of contract billing milestones related to our Fiscal 2020 contract award for a large industrial project contributed significantly to our net contract liability at September 31, 2020.

Contract assets and liabilities as of September 30, 2021 and September 30, 2020 are summarized below (in thousands):

	September 30,	
	2021	2020
Contract assets	\$ 54,199	\$ 50,995
Contract liabilities	(42,433)	(79,445)
Net contract asset (liability)	<u>\$ 11,766</u>	<u>\$ (28,450)</u>

The increase in net contract asset at September 30, 2021 from September 30, 2020 was primarily due to the timing of contract billing milestones and new orders as well as cash used on our large industrial project awarded in Fiscal 2020. 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 year ended September 30, 2021, we recognized revenue of approximately \$69.1 million related to contract liabilities outstanding at September 30, 2020.

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 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 September 30, 2021 and September 30, 2020, accounts receivable included retention amounts of \$9.6 million and \$6.9 million, respectively. Of the retained amount at September 30, 2021, \$7.4 million is expected to be collected in the next twelve months and is recorded in accounts receivable. The remaining \$2.2 million is recorded in other assets.

Disaggregation of Revenue

The following tables present our disaggregated revenue by geographic destination and market sector for the years ended September 30, 2021 and September 30, 2020 (in thousands):

	2021	2020
	United States	\$ 351,422
Canada	68,655	66,064
Europe, Middle East and Africa	39,642	34,028
Asia/Pacific	8,889	18,079
Mexico, Central and South America	1,951	2,345
Total revenues by geographic destination	<u>\$ 470,559</u>	<u>\$ 518,499</u>

	2021	2020
	Oil and gas (excludes petrochemical)	\$ 187,660
Petrochemical	58,986	126,698
Electric utility	111,244	88,818
Traction power	59,106	42,373
All others	53,563	65,401
Total revenues by market sector	<u>\$ 470,559</u>	<u>\$ 518,499</u>

F. Goodwill and Intangible Assets

Our intangible assets consist of goodwill of \$1.0 million, which is not being amortized. In Fiscal 2021, our purchased technology was fully amortized. No impairment expense has been recorded for the last three fiscal years.

Intangible assets balances, subject to amortization, at September 30, 2021 and 2020 consisted of the following (in thousands):

	September 30, 2021			September 30, 2020		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Purchased technology	\$ 11,749	\$ (11,749)	\$ —	\$ 11,749	\$ (11,592)	\$ 157

Amortization of intangible assets recorded for the years ended September 30, 2021, 2020 and 2019 was \$0.2 million, \$0.2 million and \$0.2 million, respectively.

G. Long-Term Debt

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

	September 30,	
	2021	2020
Industrial development revenue bonds	\$ 400	\$ 800
Less: current portion	(400)	(400)
Total long-term debt	\$ —	\$ 400

U.S. Revolver

We have a credit agreement with Bank of America, N.A. (the "U.S. Revolver"), which is a \$75.0 million revolving credit facility that is available for both borrowings and letters of credit and expires September 27, 2024. On March 12, 2021, we entered into a first amendment to the U.S. Revolver which, among other things, amended certain terms related to the calculation of the consolidated leverage ratio from gross leverage to net leverage. As a result of the first amendment, up to \$30 million may be deducted from the amount of letters of credit outstanding (not to be less than zero) when calculating the consolidated funded indebtedness which is a component of the consolidated net leverage ratio. Additionally, 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 September 30, 2021, there were no amounts borrowed under the U.S. Revolver, and letters of credit outstanding were \$34.8 million. There was \$40.2 million available for the issuance of letters of credit and borrowings under the U.S. Revolver as of September 30, 2021.

We are required to maintain certain financial covenants, the most significant of which are a consolidated net leverage ratio less than 3.0 to 1.0 and a consolidated interest coverage ratio of greater than 3.0 to 1.0. Our most restrictive covenant, the consolidated net leverage ratio, is the ratio of earnings before interest, taxes, depreciation, amortization and stock-based compensation (EBITDAS) to funded indebtedness. An increase in indebtedness, which includes letters of credit, or a decrease in EBITDAS could restrict our ability to issue letters of credit or borrow under the U.S. Revolver. Additionally, we must maintain a consolidated cash balance of \$30 million at all times, which can be deducted from the letters of credit outstanding as noted above. The U.S. Revolver also contains a "material adverse effect" clause which is 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. As of September 30, 2021, we were in compliance with all of the financial covenants of the U.S. Revolver.

The U.S. Revolver allows the Company to elect that any borrowing under the facility bears an interest rate based on either the base rate or the eurocurrency rate, in each case, plus the applicable rate. The base rate is generally the highest of (a) the federal funds rate plus 0.50%, (b) the Bank of America prime rate or (c) the London Interbank Offered Rate (LIBOR) plus 1.00%. The applicable rate is generally a range from (0.25)% to 1.75% depending on the type of loan and the Company's consolidated net leverage ratio.

The U.S. Revolver is collateralized by a pledge of 100% of the voting capital stock of each of our domestic subsidiaries and 65% of the voting capital stock of each non-domestic subsidiary. The U.S. Revolver 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 U.S. Revolver) occurs and is continuing, on the terms and subject to the conditions set forth in the U.S. Revolver, amounts and letters of credit outstanding under the U.S. Revolver may be accelerated and may become immediately due and payable.

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) for the completion of our Northlake, Illinois facility. The Bonds are subject to various covenants, for which we were in compliance at September 30, 2021. The interest rate of the Bonds was 0.14% as of September 30, 2021. On October 1, 2021, the Bonds matured and our final redemption of \$0.4 million was made.

H. 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 \$34.8 million as of September 30, 2021. We also had surety bonds totaling \$143.0 million that were outstanding, with additional bonding capacity of \$457.0 million available, at September 30, 2021. At present, 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 \$9.4 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 September 30, 2021, we had outstanding guarantees totaling \$7.4 million and amounts available under this Facility Agreement were \$2.0 million. The Facility Agreement provides for financial covenants and customary events of default, and carries cross-default provisions with our 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 September 30, 2021, 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 September 30, 2021, our exposure to possible liquidated damages was \$1.8 million, of which approximately \$1.1 million was probable. Based on our actual or projected failure to meet these various contractual commitments, \$1.1 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 damage. We have claimed force majeure on certain contracts due to delays associated with the COVID-19 pandemic. 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.

I. Income Taxes

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

	Year Ended September 30,		
	2021	2020	2019
Current:			
Federal	\$ 911	\$ 945	\$ 1,350
State	472	1,186	186
Foreign	73	66	88
	<u>1,456</u>	<u>2,197</u>	<u>1,624</u>
Deferred:			
Federal	(1,062)	1,045	366
State	(30)	(91)	457
Foreign	97	519	(3)
	<u>(995)</u>	<u>1,473</u>	<u>820</u>
Total income tax provision	<u>\$ 461</u>	<u>\$ 3,670</u>	<u>\$ 2,444</u>

Income (loss) before income taxes was as follows (in thousands):

	Year Ended September 30,		
	2021	2020	2019
U.S.	\$ 3,076	\$ 21,243	\$ 11,859
Foreign	(1,984)	(913)	475
Income before income taxes	<u>\$ 1,092</u>	<u>\$ 20,330</u>	<u>\$ 12,334</u>

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,		
	2021	2020	2019
Statutory rate	21 %	21 %	21 %
State income taxes, net of federal benefit	25	5	4
Research and development credit	(101)	(13)	(7)
Foreign rate differential	10	—	1
Foreign taxes	10	—	1
Valuation allowance	62	4	(2)
Deferred tax rate differential	(19)	—	—
Non-deductible expenses ⁽¹⁾	30	1	2
Other	4	—	—
Effective rate	<u>42 %</u>	<u>18 %</u>	<u>20 %</u>

⁽¹⁾ Certain prior year amounts have been reclassified for consistency with the current year presentation.

Our income tax provision reflects an effective tax rate on pre-tax results of 42% in Fiscal 2021 compared to 18% and 20% in Fiscal 2020 and 2019, respectively. The reduction in pre-tax book income as compared to prior years caused tax adjustments to yield a greater impact to the effective tax rate in Fiscal 2021. The effective tax rate of 42% for Fiscal 2021 was favorably impacted by the current year estimated Research and Development Tax Credit (R&D Tax Credit) as well as the utilization of net operating loss carryforwards in Canada that were fully reserved with a valuation allowance. The effective tax rate was negatively impacted by the losses recognized in other foreign jurisdictions, primarily in the U.K., that were reserved with a valuation allowance as well as the establishment of a valuation allowance against the deferred tax assets in Mexico in the amount of \$0.1 million.

The effective tax rate of 18% for Fiscal 2020 was favorably impacted by the estimated R&D Tax Credit as well as the utilization of net operating loss carryforwards in Canada that were fully reserved with a valuation allowance. Likewise, the

discrete items recorded in the third quarter of Fiscal 2020 in the amount of \$1.7 million associated with the release of reserves for unrecognized tax benefits as a result of the expiration of statutes of limitations and the IRS audit settlement favorably impacted the effective tax rate. The effective tax rate was negatively impacted by the discrete item recorded in the second quarter of Fiscal 2020 for the valuation allowance against our U.K. deferred tax assets in the amount of \$0.5 million as well as by the losses recognized in various foreign jurisdictions that were reserved with a valuation allowance. The effective tax rate for Fiscal 2019 approximated the U.S. federal statutory rate as favorable adjustments related to the utilization of net operating loss carryforwards in Canada that were fully reserved with a valuation allowance, and the R&D Tax Credit were largely offset by unfavorable adjustments primarily related to state income taxes and other permanent items.

During our assessment of deferred income taxes, in the second quarter of Fiscal 2020, we recorded a valuation allowance of \$0.5 million against our U.K. net deferred tax assets. Similarly, we recorded a valuation allowance of \$0.1 million against our Mexican net deferred tax assets during the fourth quarter of Fiscal 2021 as a result of our assessment of deferred income taxes. In assessing the realizability of net deferred tax assets, we determined it was more-likely-than-not that the net deferred tax assets may not be realized based upon recent U.K. and Mexican tax losses and anticipated results in the near term. Estimates may change as new events occur, estimates of future taxable income are reduced or increased, additional information becomes available, or operating environments change, which may result in a full or partial reversal of the valuation allowance.

We have not recorded deferred income taxes on \$11.9 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 certain international jurisdictions, primarily the U.K. and Canada. We do not consider any state in which we do business to be a major tax jurisdiction. We remain open to examination in the other jurisdictions as follows: Canada 2014 – 2020, United Kingdom 2019 – 2020 and the United States 2018 – 2020. As of September 30, 2021, we did not have any state audits underway that would have a material impact on our financial position or results of operations.

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

	September 30,	
	2021	2020
Gross assets	\$ 20,427	\$ 18,326
Gross liabilities and valuation allowance	(15,788)	(14,682)
Net deferred income tax asset	<u>\$ 4,639</u>	<u>\$ 3,644</u>

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

	September 30,	
	2021	2020
Deferred Tax Assets:		
Net operating loss	\$ 12,682	\$ 10,823
Credit carryforwards	1,598	1,490
Deferred compensation	2,095	1,681
Uniform capitalization and inventory	1,222	1,067
Stock-based compensation	921	1,079
Reserve for accrued employee benefits	718	929
Warranty accrual	579	655
Accrued legal	130	112
Postretirement benefits liability	156	111
Other	326	379
Deferred tax assets	<u>\$ 20,427</u>	<u>\$ 18,326</u>
Deferred Tax Liabilities:		
Depreciation and amortization	\$ (4,404)	\$ (5,035)
Retention and other	(886)	(620)
Deferred tax liabilities	<u>\$ (5,290)</u>	<u>\$ (5,655)</u>
Less: valuation allowance	(10,498)	(9,027)
Net deferred tax asset	<u>\$ 4,639</u>	<u>\$ 3,644</u>

As of September 30, 2021, we had tax credit carryforwards of \$0.1 million not reserved with a valuation allowance that are available to reduce future U.S. federal tax liabilities. The majority of these tax credit carryforwards expire beginning in 2031. In addition, we had international net operating loss carryforwards of \$0.5 million that were not reserved with a valuation allowance available to offset future taxable income in the respective jurisdictions, with an indefinite carryforward period.

We have established a valuation allowance in the amount of \$10.5 million primarily related to the Canadian and U.K. net deferred tax assets. The net increase in the total valuation allowance during the year was \$1.5 million which was largely a result of the current year loss recognized in the U.K. In assessing the realizability of net deferred tax assets, we consider whether it is more-likely-than-not that some portion or all of the net deferred tax assets may not be realized. The ultimate realization of net deferred tax assets is dependent on the generation of future taxable income during the periods in which those temporary differences become deductible.

A reconciliation of the beginning and ending amount of the unrecognized tax benefits follows (in thousands):

	Year Ended September 30,		
	2021	2020	2019
Balance at beginning of period	\$ 1,252	\$ 2,703	\$ 1,854
Increases related to tax positions taken during the current period	251	220	240
Increases related to tax positions taken during a prior period	75	97	609
Decreases related to expiration of statute of limitations	—	(545)	—
Decreases related to settlement with taxing authorities	(169)	(1,223)	—
Balance at end of period	<u>\$ 1,409</u>	<u>\$ 1,252</u>	<u>\$ 2,703</u>

Included in the balance of unrecognized tax benefits at the end of Fiscal 2021, 2020, and 2019 are \$1.1 million, \$0.8 million, and \$2.1 million, respectively, of tax benefits that, if recognized, would affect the effective tax rate. Our 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, 2021 was not material.

Management believes that, within the next twelve months, it is reasonably possible that the unrecognized tax benefits will decrease by approximately \$0.3 million due to the expiration of certain federal 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 for the open periods of Fiscal 2018 – 2021.

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.

J. Employee Benefit Plans

Retirement Plans

We have defined employee contribution plans for substantially all of our U.S. employees (401(k) plan) and our Canadian employees (Registered Retirement Savings Plan). We recognized expenses under these plans primarily related to matching contributions of \$2.9 million, \$3.1 million and \$3.2 million in Fiscal 2021, 2020 and 2019, respectively.

Deferred Compensation

We offer a 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, an irrevocable rabbi trust (the Rabbi Trust), which has been established to administer the plan. The Rabbi Trust is intended to be used as a source of funds to match respective funding obligations to participants. The assets of the trust are subject to the claims of our creditors in the event that we become insolvent. Consequently, the Rabbi Trust qualifies as a grantor trust for income tax purposes. We make periodic payments into company-owned life insurance policies held in this Rabbi Trust to fund the expected obligations arising under this plan. Changes in the deferred compensation balance are recorded to compensation expense and reflected within the selling, general and administrative line in the Consolidated Statements of Operations. The plan is not qualified under Section 401 of the Internal Revenue code. We recorded net compensation expense adjustments of \$0.4 million related to this plan in Fiscal 2021. At September 30, 2021, total assets held by the trustee were \$9.1 million and recorded in other assets and the liability was \$8.5 million and recorded in deferred compensation in our Consolidated Balance Sheets. The \$9.1 million of assets held by the trustee is invested in company-owned life insurance policies.

Certain former executives were provided an executive benefit plan that 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 was accrued over the service life of these individuals, and \$0.1 million is recorded in deferred compensation related to this executive benefit plan. To assist in funding the deferred compensation liability, we invested in company-owned life insurance policies. The cash surrender value of these policies is presented in other assets and was \$3.3 million at September 30, 2021.

Retiree Medical Plan

We have a plan that extends health benefits to retirees that are also 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 who are age 55 or older but less than 65. 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. The unfunded liability is recorded in other long-term liabilities and was \$0.9 million as of both September 30, 2021 and 2020. Our net periodic postretirement benefit expenses have been less than \$0.1 million for the last three fiscal years. Due to the immateriality of the costs and liabilities of this plan, no further disclosure is being presented.

K. Stock-Based Compensation

We have the following stock-based compensation plans:

Restricted Stock Units

In February 2014, our stockholders approved and adopted at the Annual Meeting of Stockholders the 2014 Equity Incentive Plan (the 2014 Plan), which replaced our 2006 Equity Compensation Plan (2006 Plan). Persons eligible to receive awards under the 2014 Plan include our officers and employees. The 2014 Plan authorizes stock options, stock appreciation rights, restricted stock, restricted stock units and performance-based awards, as well as certain other awards.

In accordance with the 2014 Plan, the Compensation Committee has authorized grants of 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. Fifty to sixty percent of the grant is time-based and vests over a three-year period on each anniversary of the grant date, based on continued employment. The remaining forty to fifty percent of the grant is earned based on the three-year earnings performance of the Company following the grant date. At September 30, 2021, there were 199,919 RSUs outstanding. The RSUs do not have voting rights but receive dividend equivalents upon vesting. 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 past fiscal year is summarized below:

	Number of Restricted Stock Units	Weighted Average Grant Value Per Share
Outstanding at September 30, 2020	154,034	\$ 35.37
Granted	104,550	24.08
Vested	(55,748)	32.50
Forfeited/cancelled	(2,917)	30.85
Outstanding at September 30, 2021	199,919	\$ 30.34

We have reserved 750,000 shares of common stock for issuance under the 2014 Plan. As of September 30, 2021, there were 471,556 shares of common stock available for future grants.

Restricted Stock

In February 2014, our stockholders approved the 2014 Non-Employee Director Equity Incentive Plan (the 2014 Director Plan). The total number of shares of common stock reserved under the plan is 150,000 shares. The plan is administered by the Compensation Committee. Eligibility to participate in the plan is limited to those individuals who are members of the Board of Directors of the Company and who are not employees of the Company or any affiliate of the Company.

Under the terms of the 2014 Director Plan, the maximum number of shares that may be granted during any calendar year to any individual is 12,000 shares. The total number of shares that may be issued for awards to any single participant during a calendar year for other stock-based awards (excluding stock options and SARs) is 4,000 shares. The Compensation Committee has determined that each non-employee director will receive 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 vests immediately, while the remaining fifty percent vests on the anniversary of the grant date. Compensation expense is recognized immediately for the first fifty percent of the restricted stock granted, while compensation expense for the remaining fifty percent is recognized over the remaining vesting period.

Under this 2014 Director Plan, in February 2021, 16,800 shares of restricted stock were issued to our non-employee directors at a price of \$31.33 per share. In February 2020, we issued 16,800 shares of restricted stock to our non-employee directors at a price of \$36.25 per share. The total number of shares of common stock available for future awards under the 2014 Director plan was 23,000 shares as of September 30, 2021. At both September 30, 2021 and 2020, there were 8,400 shares of unvested restricted stock outstanding.

Compensation Expense

Total compensation expense related to restricted stock grants under all plans was \$0.5 million, \$0.6 million and \$0.5 million for the years ended September 30, 2021, 2020 and 2019, respectively. Total compensation expense related to RSUs under all plans was \$2.0 million, \$2.9 million and \$3.3 million for the years ended September 30, 2021, 2020 and 2019, respectively.

We record the amortization of non-vested restricted stock and restricted stock units as an increase to additional paid-in capital. As of September 30, 2021 and 2020, amounts of deferred compensation expense not yet recognized related to non-vested stock and RSUs totaled \$1.1 million and \$1.2 million, respectively. As of September 30, 2021, the total weighted average remaining contractual life of our non-vested restricted stock and RSUs is approximately six months and 1.5 years, respectively.

L. 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 that 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 September 30, 2021 (in thousands):

	Fair Value Measurements at September 30, 2021			
	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, 2021
Assets:				
Cash and cash equivalents	\$ 114,314	\$ —	\$ —	\$ 114,314
Short-term investments	19,667	—	—	19,667
Other assets	—	9,100	—	9,100
Liabilities:				
Deferred compensation	—	8,527	—	8,527

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, 2020 (in thousands):

	Fair Value Measurements at September 30, 2020			
	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, 2020
Assets:				
Cash and cash equivalents	\$ 160,216	\$ —	\$ —	\$ 160,216
Short-term investments	18,705	—	—	18,705
Other assets	—	7,351	—	7,351
Liabilities:				
Deferred compensation	—	6,569	—	6,569

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

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 Consolidated Balance Sheets.

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

Other 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 Consolidated Balance Sheets. Because the mutual funds and company-owned life insurance policies are combined in the plan, they are therefore 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 year ended September 30, 2021.

M. Leases

Our leases consist primarily of office and manufacturing space, construction equipment and office equipment. All of our future lease obligations are related to non-cancelable operating leases. The most significant portion of our lease portfolio relates to leases of office and manufacturing facilities in Canada which we no longer occupy. We currently sublease the majority of these Canadian facilities. The following table provides a summary of lease cost components for the years ended September 30, 2021 and 2020, respectively (in thousands):

Lease Cost	2021	2020
Operating lease cost	\$ 2,435	\$ 2,389
Less: sublease income	(706)	(555)
Variable lease cost ⁽¹⁾	443	351
Short-term lease cost ⁽²⁾	1,281	677
Total lease cost	\$ 3,453	\$ 2,862

⁽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.

For the year ended September 30, 2019, rent expense related to operating leases was \$3.5 million; however, this amount did not include rent expense related to leases and rentals with initial terms of one year or less, which are included in short-term cost in the table above. For the year ended September 30, 2019, sublease income from third parties was \$1.3 million; however, this amount included common area maintenance charges, which are included in variable lease cost in the table above.

In Fiscal 2019, we recorded additional lease expense of \$0.7 million related to certain facility leases in Canada that are no longer utilized in our operations.

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 Consolidated Balance Sheets. As of September 30, 2021 and 2020, our operating lease assets have been reduced by a lease accrual of \$0.4 million and \$0.6 million, respectively, related to certain unused facility leases in Canada. The following table provides a summary of the operating lease assets and operating lease liabilities included in our Consolidated Balance Sheets as of September 30, 2021 and 2020, respectively (in thousands):

Operating Leases	September 30,	
	2021	2020
Assets:		
Operating lease assets, net	\$ 3,453	\$ 5,217
Liabilities:		
Current operating lease liabilities	1,415	2,352
Long-term operating lease liabilities	2,413	3,434
Total lease liabilities	\$ 3,828	\$ 5,786

The following table provides the maturities of our operating lease liabilities as of September 30, 2021 (in thousands):

	Operating Leases	
2021	\$	2,351
2022		1,448
2023		164
2024		—
2025		—
Thereafter		—
Total future minimum lease payments	\$	3,963
Less: present value discount (imputed interest)		(135)
Present value of lease liabilities	\$	3,828

The weighted average discount rate as of September 30, 2021 was 4.04%. The weighted average remaining lease term was 1.75 years at September 30, 2021.

N. Segment Information

We manage our business as one reportable operating segment related to the development, design, manufacturing and servicing of custom-engineered equipment and systems for the distribution, control and monitoring of electrical energy.

Revenues by country represent sales to unaffiliated customers as determined by the ultimate destination of our products and services, summarized for the last three fiscal years by region in the table below (in thousands):

	Year Ended September 30,		
	2021	2020	2019
United States	\$ 351,422	\$ 397,983	\$ 406,609
Canada	68,655	66,064	64,326
Middle East and Africa	26,615	18,162	18,420
Asia/Pacific	8,889	18,079	11,405
Europe	13,027	15,866	13,746
Mexico, Central and South America	1,951	2,345	2,674
Total revenues	\$ 470,559	\$ 518,499	\$ 517,180

Long-lived assets by country consist of property, plant and equipment, net of accumulated depreciation and are determined based on the location of the tangible assets, summarized for the last two fiscal years in the table below (in thousands):

	September 30,	
	2021	2020
Long-lived assets:		
United States	\$ 62,308	\$ 67,071
Canada	42,375	42,580
United Kingdom	4,774	4,721
Total	<u>\$ 109,457</u>	<u>\$ 114,372</u>

O. Quarterly Information

The table below sets forth the unaudited consolidated operating results by fiscal quarter for the years ended September 30, 2021 and 2020 (in thousands, except per share data):

	2021 Quarters				2021
	First ⁽¹⁾	Second ⁽¹⁾	Third ⁽¹⁾	Fourth ⁽²⁾	
Revenues	\$ 106,575	\$ 118,716	\$ 115,813	\$ 129,455	\$ 470,559
Gross profit	18,271	17,153	17,167	22,472	75,063
Net income (loss)	(364)	(225)	(2,041)	3,261	631
Earnings (loss) per share:					
Basic	\$ (0.03)	\$ (0.02)	\$ (0.17)	\$ 0.28	\$ 0.05
Diluted	\$ (0.03)	\$ (0.02)	\$ (0.17)	\$ 0.28	\$ 0.05

⁽¹⁾ The results for the first quarter of Fiscal 2021 demonstrated normal seasonality and were negatively impacted by holidays and work schedules related to other quarterly periods. Gross profit continued to decrease during the first three quarters of Fiscal 2021 as compared to Fiscal 2020 quarterly gross profit due to a decrease in orders as well as project delays and cancellations of potential projects associated with the global economic impact resulting from the COVID-19 pandemic and associated reduction in demand across our industrial end markets.

⁽²⁾ The results for the fourth quarter of Fiscal 2021 were positively impacted by higher volume and favorable productivity across the service and manufacturing entities.

	2020 Quarters				2020
	First ⁽¹⁾	Second ⁽¹⁾	Third ⁽¹⁾⁽²⁾	Fourth ⁽¹⁾⁽³⁾	
Revenues	\$ 134,150	\$ 151,570	\$ 118,062	\$ 114,717	\$ 518,499
Gross profit	21,826	29,685	21,344	21,720	94,575
Net income	2,775	7,421	3,481	2,983	16,660
Earnings per share:					
Basic	\$ 0.24	\$ 0.64	\$ 0.30	\$ 0.26	\$ 1.43
Diluted	\$ 0.24	\$ 0.64	\$ 0.30	\$ 0.25	\$ 1.42

⁽¹⁾ The results for the first quarter of Fiscal 2020 demonstrated normal seasonality and were negatively impacted by holidays and work schedules related to other quarterly periods. The results for the second quarter of Fiscal 2020 improved due to the timing of orders and execution of backlog while revenues and gross profit decreased during the third and fourth quarters of Fiscal 2020 due to a decrease in orders resulting from a decline in demand across our industrial end markets, as well as project delays, cancellations and scope reductions associated with the global decline in demand across the oil and gas markets resulting from COVID-19.

⁽²⁾ The results for the third quarter of Fiscal 2020 were negatively impacted by separation costs of \$1.4 million as a result of workforce reductions.

⁽³⁾ The results for the fourth quarter of Fiscal 2020 were positively impacted by other income of \$0.5 million related to a death benefit received from our company-owned life insurance policy related to a retired employee.

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.

P. Separation Costs

In response to the COVID-19 pandemic, reductions in oil and gas demand and volatility of commodity prices, we implemented workforce reductions at most of our locations. As a result, we recorded \$1.4 million of separation costs in restructuring and other, net on the Consolidated Statement of Operations during the third quarter of Fiscal 2020.

Q. Subsequent Events

Long-Term Debt Repayment

On October 1, 2021, our long-term debt fully matured and our final bond redemption of \$0.4 million was made. See Note G for additional disclosure regarding our industrial revenue development bonds.

Quarterly Dividend Declared

On November 2, 2021, our Board of Directors declared a quarterly cash dividend on our common stock in the amount of \$0.26 per share. The dividend is payable on December 15, 2021 to shareholders of record at the close of business on November 17, 2021.

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

None.

Item 9A. 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 Annual Report on Form 10-K. Based on such evaluation, our CEO and CFO have each concluded that, as of September 30, 2021, the end of the period covered by this Annual Report on Form 10-K, 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.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining effective internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. Our system of internal control was designed using a top-down risk-based approach 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. Due to 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 ineffective due to changes in conditions or deterioration in the degree of compliance with the policies or procedures.

Management of the Company has assessed the effectiveness of our internal control over financial reporting as of September 30, 2021. Management evaluated the effectiveness of our internal control over financial reporting based on the criteria in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on management's evaluation, management has concluded that our internal control over financial reporting was effective at the reasonable assurance level as of September 30, 2021, based on criteria in Internal Control – Integrated Framework (2013) issued by the COSO.

PricewaterhouseCoopers LLP, an independent registered public accounting firm, has audited and issued their report on the effectiveness of our internal control over financial reporting as of September 30, 2021, which appears in their report on the financial statements included herein.

Changes in Internal Control Over Financial Reporting

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

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, 2021.

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 Road, 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, 2021.

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, 2021.

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, 2021.

Item 14. Principal Accounting 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, 2021.

PART IV

Item 15. Exhibits. 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 financial statement schedules are omitted because they are not applicable, or the required information is shown in the Consolidated Financial Statements or the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

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	— Amended and Restated By-laws 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 By-laws 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	— 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).
10.2	— 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).
10.3	— 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).
10.4	— 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).
10.5	— 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).
10.6	— 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).
10.7	— Employment Agreement dated as of May 8, 2012 between the Company and Milburn E. Honeycutt (filed as Exhibit 10.2 to our Form 10-Q for the quarter ended March 31, 2012, and incorporated herein by reference).
10.8	— Amended and Restated Credit Agreement dated as of April 26, 2012, 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 10.4 to our Form 10-Q for the quarter ended March 31, 2012, and incorporated herein by reference).
10.9	— Stock Purchase Agreement dated as of January 15, 2014, between the Company and Kapsch TrafficCom IVHS, Inc. (filed as Exhibit 10.1 to our Form 8-K filed January 17, 2014, and incorporated herein by reference).
*10.10	— Amended and Restated Powell Supply Agreement dated as of December 30, 2013, between the Company and General Electric Company (filed as Exhibit 10.2 to our Form 10-Q filed February 5, 2014 and incorporated herein by reference).
10.11	— 2014 Equity Incentive Plan (filed as Exhibit 10.2 to our Form 10-Q filed May 7, 2014 and incorporated herein by reference).
10.12	— Form of Restricted Stock Award Agreement under 2014 Equity Incentive Plan (filed as Exhibit 10.3 to our Form 10-Q filed May 7, 2014 and incorporated herein by reference).

Number	Description of Exhibits
10.13	— Form of Restricted Stock Unit Award Agreement under 2014 Equity Incentive Plan (filed as Exhibit 10.4 to our Form 10-Q filed May 7, 2014 and incorporated herein by reference).
10.14	— Form of Performance Unit Award Agreement under 2014 Equity Incentive Plan (filed as Exhibit 10.5 to our Form 10-Q filed May 7, 2014 and incorporated herein by reference).
10.15	— Form of Stock Option Award Agreement under 2014 Equity Incentive Plan (filed as Exhibit 10.6 to our Form 10-Q filed May 7, 2014 and incorporated herein by reference).
10.16	— Form of Stock Appreciation Right Award Agreement under 2014 Equity Incentive Plan (filed as Exhibit 10.7 to our Form 10-Q filed May 7, 2014 and incorporated herein by reference).
10.17	— 2014 Non-Employee Director Equity Incentive Plan (filed as Exhibit 10.8 to our Form 10-Q filed May 7, 2014 and incorporated herein by reference).
10.18	— Form of Restricted Stock Award Agreement under 2014 Non-Employee Director Equity Incentive Plan (filed as Exhibit 10.9 to our Form 10-Q filed May 7, 2014 and incorporated herein by reference).
10.19	— Renewed banking facilities between HSBC Bank plc and Powell (UK) Limited dated October 20, 2014 (filed as Exhibit 10.48 to our Form 10-K filed December 3, 2014, and incorporated herein by reference).
10.20	— Amending Agreement to Amended and Restated Credit Agreement, effective as of March 31, 2015, between Powell Canada Inc., Powell Industries, Inc., Nextron Limited, PCG Northern Services Inc. and HSBC Bank Canada (filed as Exhibit 10.1 to our Form 10-Q filed May 6, 2015 and incorporated herein by reference).
10.21	— Employment Agreement dated September 29, 2016, between the Company and Brett A. Cope (filed as Exhibit 10.1 to our 8-K filed September 30, 2016 and incorporated herein by reference).
10.22	— Employment Agreement effective November 5, 2018 by and between the Company and Michael W. Metcalf (filed as Exhibit 10.1 to our Form 8-K filed November 1, 2018 and incorporated herein by reference).
10.23	— Amended and Restated Credit Agreement, dated September 27, 2019, by and between the Company, as Borrower, certain subsidiaries of the Company identified therein, as Guarantors, Bank of America, N.A., as Administrative Agent, Swingline Lender and L/C Issuer, the Lenders party thereto and BofA Securities, Inc., as Sole Lead Arranger and Sole Bookrunner (filed as Exhibit 10.25 to our Form 10-K filed December 5, 2019 and incorporated herein by reference).
10.24	— First Amendment to Credit Agreement dated March 12, 2021 (filed as Exhibit 10.1 to our Form 8-K filed March 16, 2021 and incorporated herein by reference).
**21.1	— Subsidiaries of Powell Industries, Inc.
**23.1	— 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.

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

* 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.

** Filed herewith.

*** Furnished herewith.

Item 16. Form 10-K Summary

None.

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/ Brett A. Cope
Brett A. Cope
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:

<u>Signature</u>	<u>Title</u>
<u>/s/Brett A. Cope</u> Brett A. Cope	Chairman of the Board President and Chief Executive Officer (Principal Executive Officer)
<u>/s/Michael W. Metcalf</u> Michael W. Metcalf	Executive Vice President Chief Financial Officer (Principal Financial Officer)
<u>/s/Milburn Honeycutt</u> Milburn Honeycutt	Vice President Chief Accounting Officer Corporate Controller (Principal Accounting Officer)
<u>/s/Thomas W. Powell</u> Thomas W. Powell	Chairman Emeritus of the Board Director
<u>/s/ Christopher E. Cragg</u> Christopher E. Cragg	Director
<u>/s/ Katheryn B. Curtis</u> Katheryn B. Curtis	Director
<u>/s/ Perry L. Elders</u> Perry L. Elders	Director
<u>/s/ James W. McGill</u> James W. McGill	Director
<u>/s/ John D. White</u> John D. White	Director
<u>/s/ Richard E. Williams</u> Richard E. Williams	Director

Date: December 8, 2021

SUBSIDIARIES OF POWELL INDUSTRIES, INC.

Name of Subsidiary	Incorporated
Powell Industries, Inc.	Delaware
Powell Electrical Systems, Inc.	Delaware
Powell Industries International, Inc.	Delaware
Powell Industries International B.V.	Netherlands
Powell International B.V.	Netherlands
Powell (UK) Limited	United Kingdom
Powell Industries Asia, Pte, Ltd.	Singapore
Powell Canada B.V.	Netherlands
Powell Canada Inc.	Canada
Powell (Middle East) B.V.	Netherlands
Powell B.V.	Netherlands
Powell Equipment (Mexico) SA de CV	Mexico
Powell Trading (Mexico) SA de CV	Mexico

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-196171) of Powell Industries, Inc. of our report dated December 8, 2021September 30, 2021 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
Houston, Texas
December 8, 2021

CERTIFICATION

I, Brett A. Cope, certify that:

1. I have reviewed this Annual Report on Form 10-K 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: December 8, 2021

CERTIFICATION

I, Michael W. Metcalf, certify that:

1. I have reviewed this Annual Report on Form 10-K 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: December 8, 2021

**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 Annual Report (the "Report") on Form 10-K of Powell Industries, Inc. (the "Company") for the year ended September 30, 2021, 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: December 8, 2021

**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 Annual Report (the "Report") on Form 10-K of Powell Industries, Inc. (the "Company") for the year ended September 30, 2021, 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: December 8, 2021