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

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**Form 10-Q**

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(Mark One)

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

For the quarterly period ended December 31, 2019

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

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**Powell Industries, Inc.**

(Exact name of registrant as specified in its charter)

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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

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

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

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

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

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

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

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

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

At February 3, 2020, there were 11,597,213 outstanding shares of the registrant's common stock, par value \$0.01 per share.

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**POWELL INDUSTRIES, INC. AND SUBSIDIARIES**  
**TABLE OF CONTENTS**

	<u>Page</u>
<b><u>Part I — Financial Information</u></b>	3
<u>Item 1. Condensed Consolidated Financial Statements</u>	3
<u>Condensed Consolidated Balance Sheets</u>	3
<u>Condensed Consolidated Statements of Operations</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income (Loss)</u>	5
<u>Condensed Consolidated Statements of Stockholders' Equity</u>	6
<u>Condensed Consolidated Statements of Cash Flows</u>	7
<u>Notes to Condensed Consolidated Financial Statements</u>	8
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	24
<u>Item 4. Controls and Procedures</u>	24
<b><u>Part II — Other Information</u></b>	25
<u>Item 1. Legal Proceedings</u>	25
<u>Item 1A. Risk Factors</u>	25
<u>Item 6. Exhibits</u>	26
<u>Signatures</u>	27

PART I — FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

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

	December 31, 2019	September 30, 2019
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 120,966	\$ 118,639
Short-term investments	—	6,042
Accounts receivable, less allowance for doubtful accounts of \$346 and \$301	100,890	112,093
Contract assets	60,296	55,374
Inventories	32,448	29,202
Income taxes receivable	149	233
Prepaid expenses	4,646	4,335
Other current assets	1,906	2,650
Total Current Assets	321,301	328,568
Property, plant and equipment, net	120,795	120,812
Operating lease assets, net	6,213	—
Goodwill and intangible assets, net	1,293	1,337
Deferred income taxes	5,243	5,117
Other assets	11,606	11,577
Total Assets	\$ 466,451	\$ 467,411
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Current maturities of long-term debt	\$ 400	\$ 400
Accounts payable	45,166	51,180
Contract liabilities	77,556	71,464
Accrued compensation and benefits	9,763	20,182
Accrued product warranty	3,162	2,946
Current operating lease liabilities	2,247	—
Income taxes payable	1,034	913
Other current liabilities	10,215	10,811
Total Current Liabilities	149,543	157,896
Long-term debt, net of current maturities	400	800
Deferred compensation	7,052	6,447
Long-term operating lease liabilities	4,792	—
Other long-term liabilities	2,991	3,115
Total Liabilities	164,778	168,258
Commitments and Contingencies (Note F)		
Stockholders' Equity:		
Preferred stock, par value \$.01; 5,000,000 shares authorized; none issued	—	—
Common stock, par value \$.01; 30,000,000 shares authorized; 12,403,231 and 12,372,766 shares issued, respectively	124	124
Additional paid-in capital	59,524	59,153
Retained earnings	289,184	289,422
Treasury stock, 806,018 shares at cost	(24,999)	(24,999)
Accumulated other comprehensive loss	(22,160)	(24,547)
Total Stockholders' Equity	301,673	299,153
Total Liabilities and Stockholders' Equity	\$ 466,451	\$ 467,411

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

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

	Three months ended December 31,	
	2019	2018
Revenues	\$ 134,150	\$ 109,351
Cost of goods sold	112,324	94,720
Gross profit	21,826	14,631
Selling, general and administrative expenses	17,289	15,928
Research and development expenses	1,474	1,694
Amortization of intangible assets	44	44
Operating income (loss)	3,019	(3,035)
Interest expense	67	56
Interest income	(381)	(157)
Income (loss) before income taxes	3,333	(2,934)
Income tax provision (benefit)	558	(239)
Net income (loss)	\$ 2,775	\$ (2,695)
Earnings (loss) per share:		
Basic	\$ 0.24	\$ (0.23)
Diluted	\$ 0.24	\$ (0.23)
Weighted average shares:		
Basic	11,614	11,551
Diluted	11,665	11,551
Dividends per share	\$ 0.26	\$ 0.26

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

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

	<u>Three months ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Net income (loss)	\$ 2,775	\$ (2,695)
Foreign currency translation adjustments	2,387	(4,088)
Comprehensive income (loss)	<u>\$ 5,162</u>	<u>\$ (6,783)</u>

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

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

	Common Stock		Additional	Retained	Treasury Stock		Accumulated	Totals
	Shares	Amount	Paid-in Capital	Earnings	Shares	Amount	Other	
							Comprehensive Income/(Loss)	
Balance, September 30, 2019	12,373	\$ 124	\$ 59,153	\$ 289,422	(806)	\$ (24,999)	\$ (24,547)	\$ 299,153
Net income	—	—	—	2,775	—	—	—	2,775
Foreign currency translation adjustments	—	—	—	—	—	—	2,387	2,387
Stock-based compensation	30	—	982	—	—	—	—	982
Shares withheld in lieu of employee tax withholding	—	—	(611)	—	—	—	—	(611)
Dividends paid	—	—	—	(3,013)	—	—	—	(3,013)
Balance, December 31, 2019	12,403	\$ 124	\$ 59,524	\$ 289,184	(806)	\$ (24,999)	\$ (22,160)	\$ 301,673

	Common Stock		Additional	Retained	Treasury Stock		Accumulated	Totals
	Shares	Amount	Paid-in Capital	Earnings	Shares	Amount	Other	
							Comprehensive Income/(Loss)	
Balance, September 30, 2018	12,281	\$ 123	\$ 56,769	\$ 291,530	(806)	\$ (24,999)	\$ (21,779)	\$ 301,644
Net loss	—	—	—	(2,695)	—	—	—	(2,695)
Foreign currency translation adjustments	—	—	—	—	—	—	(4,088)	(4,088)
Stock-based compensation	41	—	1,220	—	—	—	—	1,220
Shares withheld in lieu of employee tax withholding	—	—	(731)	—	—	—	—	(731)
Dividends paid	—	—	—	(2,992)	—	—	—	(2,992)
Balance, December 31, 2018	12,322	\$ 123	\$ 57,258	\$ 285,843	(806)	\$ (24,999)	\$ (25,867)	\$ 292,358

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

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

	Three months ended December 31,	
	2019	2018
<b>Operating Activities:</b>		
Net income (loss)	\$ 2,775	\$ (2,695)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	2,597	3,221
Stock-based compensation	982	1,220
Bad debt expense	42	27
Deferred income taxes	(126)	(517)
Changes in operating assets and liabilities:		
Accounts receivable, net	11,844	4,385
Contract assets and liabilities, net	1,474	21,036
Inventories	(3,054)	(3,853)
Income taxes	216	6,620
Prepaid expenses and other current assets	498	(565)
Accounts payable	(5,457)	(8,622)
Accrued liabilities	(10,128)	(10,385)
Other, net	445	(763)
Net cash provided by operating activities	2,108	9,109
<b>Investing Activities:</b>		
Purchases of short-term investments	—	(5,869)
Maturities of short-term investments	6,146	11,621
Purchases of property, plant and equipment, net	(2,402)	(755)
Net cash provided by investing activities	3,744	4,997
<b>Financing Activities:</b>		
Payments on industrial development revenue bonds	(400)	(400)
Shares withheld in lieu of employee tax withholding	(611)	(731)
Dividends paid	(3,013)	(2,992)
Net cash used in financing activities	(4,024)	(4,123)
Net increase in cash, cash equivalents and restricted cash	1,828	9,983
Effect of exchange rate changes on cash, cash equivalents and restricted cash	499	(813)
Cash, cash equivalents and restricted cash at beginning of period	118,639	61,725
Cash, cash equivalents and restricted cash at end of period	\$ 120,966	\$ 70,895

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

**POWELL INDUSTRIES, INC. AND SUBSIDIARIES**  
*Notes to Condensed Consolidated Financial Statements (Unaudited)*

**A. Overview and Summary of Significant Accounting Policies**

**Overview**

Powell Industries, Inc. (we, us, our, Powell or the Company) was incorporated in the state of Delaware in 2004 as a successor to a Nevada company incorporated in 1968. The Nevada 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 for the distribution, control and monitoring of electrical energy. Headquartered in Houston, Texas, we serve the oil and gas markets, including onshore and offshore oil and gas production, pipeline, refining and liquid natural gas terminals, as well as petrochemical, electric utility, light rail traction power and other heavy industrial markets.

**Basis of Presentation**

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

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

These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto of Powell and its subsidiaries included in Powell's Annual Report on Form 10-K for the year ended September 30, 2019, which was filed with the Securities and Exchange Commission (SEC) on December 5, 2019.

References to Fiscal 2020 and Fiscal 2019 used throughout this report shall mean our fiscal years ended September 30, 2020 and 2019, respectively.

**Use of Estimates**

The preparation of condensed consolidated 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 condensed consolidated financial statements and accompanying footnotes. The most significant estimates used in our condensed consolidated financial statements affect revenue recognition and estimated cost recognition on our customer contracts, the allowance for doubtful accounts, 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) and other contingent liabilities require judgments regarding the amount of expenses that will ultimately be incurred. We base our estimates on historical experience and on various other assumptions, as well as the specific circumstances surrounding these contingent liabilities, in evaluating the amount of liability that should be recorded. 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 the 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.

**New Accounting Standards**

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 carryforward. 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 I for further discussion of leases.

## B. Earnings Per Share

We compute basic earnings per share by dividing net income (loss) 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):

	Three months ended December 31,	
	2019	2018
<i>Numerator:</i>		
Net income (loss)	\$ 2,775	\$ (2,695)
<i>Denominator:</i>		
Weighted average basic shares	11,614	11,551
Dilutive effect of restricted stock units	51	—
Weighted average diluted shares	11,665	11,551
<i>Income (loss) per share:</i>		
Basic	\$ 0.24	\$ (0.23)
Diluted	\$ 0.24	\$ (0.23)

For the three months ended December 31, 2018, we incurred a net loss and therefore all potential common shares were deemed to be anti-dilutive.

## C. Detail of Selected Balance Sheet Accounts

### Allowance for Doubtful Accounts

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

	Three months ended December 31,	
	2019	2018
Balance at beginning of period	\$ 301	\$ 157
Bad debt expense	42	27
Uncollectible accounts written off, net of recoveries	(10)	(42)
Change due to foreign currency translation	13	(3)
Balance at end of period	<u>\$ 346</u>	<u>\$ 139</u>

### Inventories

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

	December 31, 2019	September 30, 2019
Raw materials, parts and sub-assemblies, net	\$ 31,526	\$ 28,102
Work-in-progress	922	1,100
Total inventories	<u>\$ 32,448</u>	<u>\$ 29,202</u>

### Accrued Product Warranty

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

	Three months ended December 31,	
	2019	2018
Balance at beginning of period	\$ 2,946	\$ 2,604
Increase in warranty expense	843	746
Deduction for warranty charges	(645)	(604)
Change due to foreign currency translation	18	(14)
Balance at end of period	<u>\$ 3,162</u>	<u>\$ 2,732</u>

## D. Revenue

### Revenue Recognition

The majority of our revenues are 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 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 to measure the extent of progress toward the completion of the performance obligation and the recognition of revenue over time. 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. As a practical expedient, 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. Revenues from our custom-engineered products and value-added services transferred to customers over time accounted for approximately 95% and 93% of total revenues for the three months ended December 31, 2019 and 2018, 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 5% and 7% of total revenues for the three months ended December 31, 2019 and 2018, 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 generally include a standard assurance warranty that typically ends 18 months after shipment. Occasionally, we provide service-type warranties that will extend the warranty period. These extended warranties qualify as a separate performance obligation, and revenue is deferred and recognized over the warranty period. If we determine during the evaluation of the contract that there are multiple performance obligations, we allocate the transaction price to each performance obligation using our best estimate of the standalone selling price of each distinct good or service in the contract.

Remaining unsatisfied performance obligations, which we refer to as backlog, represent the estimated transaction price for goods and services for which we have a material right but work has not been performed. As of December 31, 2019, we had backlog of \$425.9 million, of which approximately \$367.4 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. Whenever revisions of estimated contract costs and contract values indicate that the contract costs will exceed estimated revenues, thus creating a loss, a provision for the total estimated loss is recorded in that period.

For the three months ended December 31, 2019 and 2018, our operating results were positively impacted by \$4.3 million and \$3.1 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 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 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.

### **Contract Balances**

The timing of revenue recognition, billings and cash collections affects accounts receivable, costs and estimated earnings in excess of billings on uncompleted contracts (contract assets) and billings in excess of costs and estimated earnings on uncompleted contracts (contract liabilities) in our Condensed Consolidated Balance Sheet.

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 receivables when billing milestones have been met, or we have an unconditional right to payment.

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

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

Contract assets and liabilities as of December 31, 2019 and September 30, 2019 are summarized below (in thousands):

	<b>December 31, 2019</b>	<b>September 30, 2019</b>
Contract assets	\$ 60,296	\$ 55,374
Contract liabilities	(77,556)	(71,464)
Net contract asset (liability)	<u>\$ (17,260)</u>	<u>\$ (16,090)</u>

The increase in net contract liability at December 31, 2019 from September 30, 2019 was primarily due to our progress towards completion on our projects and the timing of contract billing milestones and new orders. To determine the amount of revenue recognized during the period from contract liabilities, we first allocate revenue to the individual contract liability balance outstanding at the beginning of the period until the revenue exceeds that balance. During the three months ended December 31, 2019, we recognized revenue of approximately \$45.6 million related to contract liabilities outstanding at September 30, 2019.

The timing of our invoice process is typically dependent on the completion of certain milestones and contract terms and subject to agreement by our customer. Payment is typically expected within 30 days of invoice. Any uncollected invoiced amounts for our performance obligations recognized over time, including contract retentions, are recorded as accounts receivable in the Condensed Consolidated Balance Sheets. Certain contracts contain retention provisions that become due upon completion of contractual requirements. As of December 31, 2019 and September 30, 2019, accounts receivable included retention amounts of \$5.9 million and \$5.6 million, respectively. Of the retained amount at December 31, 2019, \$5.6 million is expected to be collected in the next twelve months and is recorded in accounts receivable. The remaining \$0.3 million is recorded in other assets.

## Disaggregation of Revenue

The following tables present our disaggregated revenue by geographic destination and market sector for the three months ended December 31, 2019 and 2018 (in thousands):

	Three months ended December 31, 2019	Three months ended December 31, 2018
United States	\$ 107,078	\$ 89,898
Canada	14,454	9,715
Europe, Middle East and Africa	10,166	5,441
Asia/Pacific	1,686	3,744
Mexico, Central and South America	766	553
Total revenues by geographic destination	\$ 134,150	\$ 109,351

  

	Three months ended December 31, 2019	Three months ended December 31, 2018
Oil and gas	\$ 59,994	\$ 49,576
Petrochemical	30,426	19,778
Electric utility	23,015	19,258
Traction power	8,351	5,009
All others	12,364	15,730
Total revenues by market sector	\$ 134,150	\$ 109,351

## E. Long-Term Debt

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

	December 31, 2019	September 30, 2019
Industrial development revenue bonds	\$ 800	\$ 1,200
Less: current portion	(400)	(400)
Total long-term debt	\$ 400	\$ 800

## U.S. Revolver

On September 27, 2019, we entered into an Amended and Restated Credit Agreement with Bank of America, N.A. (the "U.S. Revolver"), which replaced our prior credit agreement. The U.S. Revolver is a \$75.0 million revolving credit facility, that is available for both borrowings and letters of credit and expires September 2024. As of December 31, 2019, there were no amounts borrowed under this facility and letters of credit outstanding were \$13.4 million. There was \$61.6 million available for the issuance of letters of credit and borrowings under the U.S. Revolver as of December 31, 2019.

We are required to maintain certain financial covenants, the most significant of which are a consolidated leverage ratio less than 3.0 to 1.0 and a consolidated interest coverage ratio of greater than 3.0 to 1.0. Additionally, we must maintain a consolidated cash balance of \$30 million at all times. 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 December 31, 2019, 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 bear 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 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). These Bonds were issued by the Illinois Development Finance Authority and were used for the completion of our Northlake, Illinois facility. Pursuant to the Bond issuance, a reimbursement agreement between us and a major domestic bank required an issuance by the bank of an irrevocable direct-pay letter of credit (Bond LC), as collateral, to the Bonds' trustee to guarantee payment of the Bonds' principal and interest when due. The Bond LC is subject to both early termination and extension provisions customary to such agreements, as well as various covenants, for which we were in compliance at December 31, 2019. While the Bonds mature in 2021, the reimbursement agreement requires annual redemptions of \$0.4 million that commenced on October 25, 2002. A sinking fund is used for the annual principal payment. The Bonds bear interest at a floating rate determined weekly by the Bonds' remarketing agent, which was the underwriter for the Bonds and is an affiliate of the bank. This interest rate was 1.79% as of December 31, 2019.

## **F. Commitments and Contingencies**

### ***Letters of Credit, Surety Bonds and Bank Guarantees***

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 \$13.4 million as of December 31, 2019. We also had surety bonds totaling \$180.0 million that were outstanding, with additional bonding capacity of \$570.0 million available, at December 31, 2019.

We have an \$11.9 million facility agreement (Facility Agreement) between Powell (UK) Limited and a large international bank that provides Powell (UK) Limited the ability to enter into bank guarantees as well as forward exchange contracts and currency options. At December 31, 2019, we had outstanding guarantees totaling \$5.2 million and amounts available under this Facility Agreement were \$6.7 million. The Facility Agreement expires in May 2020 and 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. As of December 31, 2019, 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.

## G. Stock-Based Compensation

Refer to our Annual Report on Form 10-K for the fiscal year ended September 30, 2019 for a full description of our existing stock-based compensation plans.

### Restricted Stock Units

We issue restricted stock units (RSUs) to certain officers and key employees of the Company. The fair value of the RSUs is based on the price of our common stock as reported on the NASDAQ Global Market on the grant dates. The typical annual grant vests over a three-year period from the date of issuance and is a blend of time-based and performance-based shares. The portion of the grant that is time-based typically vests over a three-year period on each anniversary of the grant date, based on continued employment. The performance-based shares vest based on the three-year earnings performance of the Company following the grant date. At December 31, 2019, there were 154,200 RSUs outstanding. The RSUs do not have voting rights but do 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 three months ended December 31, 2019 is summarized below:

	Number of Restricted Stock Units	Weighted Average Fair Value Per Share
Outstanding at September 30, 2019	131,850	\$ 33.76
Granted	70,000	38.57
Vested	(46,900)	35.65
Forfeited/canceled	(750)	33.16
Outstanding at December 31, 2019	154,200	35.37

During the three months ended December 31, 2019 and 2018, we recorded compensation expense of \$0.9 million and \$1.2 million, respectively, related to the RSUs.

### Restricted Stock

Each non-employee director receives 2,000 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. During the three months ended December 31, 2019 and 2018, there were no restricted shares granted. During the three months ended December 31, 2019 and 2018, we recorded compensation expense of \$0.1 million and less than \$0.1 million, respectively related to restricted stock.

## H. Fair Value Measurements

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

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

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

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

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

The following table summarizes the fair value of our assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2019 (in thousands):

	Fair Value Measurements at December 31, 2019			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at December 31, 2019
<b>Assets:</b>				
Cash and cash equivalents	\$ 120,966	\$ —	\$ —	\$ 120,966
Other assets	—	7,205	—	7,205
<b>Liabilities:</b>				
Deferred compensation	—	6,869	—	6,869

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, 2019 (in thousands):

	Fair Value Measurements at September 30, 2019			
	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, 2019
<b>Assets:</b>				
Cash and cash equivalents	\$ 118,639	\$ —	\$ —	\$ 118,639
Short-term investments	6,042	—	—	6,042
Other assets	—	6,825	—	6,825
<b>Liabilities:</b>				
Deferred compensation	—	6,249	—	6,249

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

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

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

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

There were no transfers between levels within the fair value measurement hierarchy during the quarter ended December 31, 2019.



## I. 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 three months ended December 31, 2019 (in thousands):

Lease Cost	Three months ended December 31, 2019	
Operating lease cost	\$	628
Less: sublease income		(79)
Variable lease cost <sup>(1)</sup>		94
Short-term lease cost <sup>(2)</sup>		190
Total lease cost	\$	<u>833</u>

<sup>(1)</sup> Variable lease cost represents common area maintenance charges related to our Canadian office space leases.

<sup>(2)</sup> Short-term lease cost includes leases and rentals with initial terms of one year or less.

We recognize operating lease assets and operating lease liabilities representing the present value of the remaining lease payments for leases with initial terms greater than twelve months. Leases with initial terms of twelve months or less are not recorded in our Condensed Consolidated Balance Sheets. Our operating lease assets have been reduced by a lease accrual of \$0.8 million 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 Condensed Consolidated Balance Sheets as of December 31, 2019 (in thousands):

Operating Leases	December 31, 2019	
<b>Assets:</b>		
Operating lease assets, net	\$	<u>6,213</u>
<b>Liabilities:</b>		
Current operating lease liabilities		2,247
Long-term operating lease liabilities		4,792
Total lease liabilities	\$	<u>7,039</u>

The following table provides the maturities of our operating lease liabilities as of December 31, 2019 (in thousands):

	Operating Leases	
Remainder of 2020	\$	1,811
2021		2,392
2022		2,131
2023		1,103
2024		85
Thereafter		—
Total future minimum lease payments		7,522
Less: present value discount (imputed interest)		(483)
Present value of lease liabilities	\$	<u>7,039</u>

The weighted average discount rate as of December 31, 2019 was 4.25%. The weighted average remaining lease term was 3.2 years at December 31, 2019.

## J. Income Taxes

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

	Three months ended December 31,	
	2019	2018
Income (loss) before income taxes	\$ 3,333	\$ (2,934)
Income tax provision (benefit)	558	(239)
Net income (loss)	\$ 2,775	\$ (2,695)
Effective tax rate	17%	8%

Our income tax provision (benefit) reflects an effective tax rate on pre-tax results of 17% for the first quarter of Fiscal 2020 compared to 8% in the first quarter of Fiscal 2019. The effective tax rate for the three months ended December 31, 2019 was favorably impacted by the 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. Conversely, losses recognized in Canada reserved with a valuation allowance negatively impacted the effective tax rate in the three months ended December 31, 2018. There were no material discrete items recognized in the first quarter of Fiscal 2020 or 2019.

Due to the expiration of certain federal statutes of limitations and voluntary filings, management believes that, within the next twelve months, it is reasonably possible that the unrecognized tax benefits will decrease by approximately \$0.9 million and would positively impact our effective tax rate. We are unable to make reasonably reliable estimates regarding the timing of future cash outflows, if any, associated with the remaining unrecognized tax benefits.

## K. Subsequent Events

On February 4, 2020, 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 March 18, 2020 to shareholders of record at the close of business on February 19, 2020.

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

### ***Risk Factors Related to our Business and Industry***

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

### ***Risk Factors Related to our Financial Condition and Markets***

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

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

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

***Risk Factors Related to Legal and Regulatory Matters***

- Our operations could be adversely impacted by the effects of government regulations.
- Changes in tax laws and regulations may change our effective tax rate and could have a material effect on our financial results.
- Actual and potential claims, lawsuits and proceedings could ultimately reduce our profitability and liquidity and weaken our financial condition.
- Changes in and compliance with environmental laws could adversely impact our financial results.
- Provisions of our charter documents or Delaware law could delay or prevent an acquisition of our company, even if the acquisition would be beneficial to our stockholders, and could make it more difficult to change management.
- Significant developments arising from recent U.S. Government proposals concerning tariffs and other economic proposals could adversely impact our business.

We believe the items we have outlined above are important factors that could cause estimates included in our financial statements to differ materially from actual results and those expressed in a forward-looking statement made in this report or elsewhere by us or on our behalf. We have discussed these factors in more detail in our Annual Report on Form 10-K for the year ended September 30, 2019. These factors are not necessarily all of the factors that could affect us. Unpredictable or unanticipated factors we have not discussed in this report could also have material adverse effects on actual results. We do not intend to update our description of important factors each time a potential important factor arises, except as required by applicable securities laws and regulations. We advise our shareholders that they should (1) be aware that factors not referred to above could affect the accuracy of our forward-looking statements and (2) use caution when considering our forward-looking statements.

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

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the accompanying condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q and with our Annual Report on Form 10-K for the year ended September 30, 2019, which was filed with the Securities and Exchange Commission (SEC) on December 5, 2019 and is available on the SEC's website at [www.sec.gov](http://www.sec.gov).*

### **Overview**

We develop, design, manufacture and service custom-engineered equipment and systems for the distribution, control and monitoring of electrical energy. Headquartered in Houston, Texas, we serve the oil and gas markets, including onshore and offshore oil and gas production, pipeline, refining and liquid natural gas terminals, as well as petrochemical, electric utility and light traction power. 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. Cyclicalities is predominantly driven by customer demand, global economic conditions and anticipated environmental, safety or regulatory changes which 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 highly correlated to the level of capital expenditures of our end user customers as well as prevailing global economic conditions. Substantial volatility in commodity prices in recent years has resulted in many of our industrial end user customers deferring, suspending or terminating capital expenditures, resulting in reduced volumes across the business.

More recently, the combination of a growing global economy and abundant sources of favorably priced natural gas feedstock are driving an increase in capital investment opportunities, specifically across the oil, gas and petrochemical sectors. We continue to see opportunities for natural gas related projects targeting growing global demand for cleaner burning fuels. Additionally, and in conjunction with growing global demand, projects within the domestic petrochemical sector are also benefiting from the low feedstock prices of natural gas.

### **Results of Operations**

#### **Quarter Ended December 31, 2019 Compared to the Quarter Ended December 31, 2018 (Unaudited)**

##### **Revenue and Gross Profit**

Revenues increased by 23%, or \$24.8 million, to \$134.2 million in the first quarter of Fiscal 2020, primarily due to improved market conditions in our petrochemical and oil and gas markets over the past few quarters. Domestic revenues increased by 18%, or \$16.2 million, to \$106.1 million in the first quarter of Fiscal 2020. International revenues increased by 44%, or \$8.6 million, to \$28.0 million in the first quarter of Fiscal 2020, primarily driven by increased activity in our international operations. 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 oil and gas markets increased by 21%, or \$10.4 million, to \$60.0 million in the first quarter of Fiscal 2020 while petrochemical revenue increased by 54%, or \$10.6 million, to \$30.4 million in the first quarter of Fiscal 2020 driven by the strength across the core oil and gas and petrochemical end markets. Revenues from utility markets increased by 20%, or \$3.8 million, to \$23.0 million and traction market revenues increased by 67%, or \$3.3 million, to \$8.4 million in the first quarter of Fiscal 2020, primarily driven by our mix of projects. Revenue from all other markets combined decreased by \$3.4 million to \$12.4 million in the first quarter of Fiscal 2020.

Gross profit increased by 49%, or \$7.2 million, to \$21.8 million, for the first quarter of Fiscal 2020 compared to the first quarter of Fiscal 2019. Gross profit as a percentage of revenues increased to 16% in the first quarter of Fiscal 2020, compared to 13% in the first quarter of Fiscal 2019 due to improved market conditions and efficiencies from increased volume in our domestic and international manufacturing facilities.

### ***Selling, General and Administrative Expenses***

Selling, general and administrative expenses increased by 9%, or \$1.4 million, to \$17.3 million in the first quarter of Fiscal 2020, primarily due to increased personnel costs associated with increased project volume. Selling, general and administrative expenses, as a percentage of revenues, decreased to 13% during the first quarter of Fiscal 2020 compared to 15% in the first quarter of Fiscal 2019, primarily due to the increase in revenues and our continued focus on our cost structure.

### ***Income Tax Provision/Benefit***

We recorded an income tax provision of \$0.6 million in the first quarter of Fiscal 2020, compared to an income tax benefit of \$0.2 million in the first quarter of Fiscal 2019. The effective tax rate for the first quarter of Fiscal 2020 was 17%, compared to an effective tax rate of 8% in the first quarter of Fiscal 2019. For the three months ended December 31, 2019, the effective tax rate was favorably impacted by the R&D Tax Credit as well as the utilization of net operating loss carryforwards in Canada that were fully reserved with a valuation allowance while the effective tax rate for the three months ended December 31, 2018 was negatively impacted by Canadian losses recognized that were fully reserved with a valuation allowance.

### ***Net Income***

In the first quarter of Fiscal 2020, net income of \$2.8 million, or \$0.24 per diluted share, improved from a net loss of \$2.7 million, or \$0.23 per diluted share, in the first quarter of Fiscal 2019, primarily due to improved market conditions and efficiencies from increased volume in our domestic and international manufacturing facilities.

### ***Backlog***

The order backlog at December 31, 2019 was \$425.9 million, a slight increase from the \$419.0 million at September 30, 2019 and a 32% increase over the \$322.0 million backlog at December 31, 2018. New orders decreased by 20% in the first quarter of Fiscal 2020 to \$137.4 million, compared to \$172.4 million in the first quarter of Fiscal 2019, due to the timing of select orders awarded in the first quarter of Fiscal 2019.

### ***Outlook***

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

A significant portion of our revenues have 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 delayed some of their major capital investment projects. Our customers' decisions to continue to invest in projects in our key oil and gas and petrochemical markets have been influenced somewhat by the stabilization of commodity prices and the increased global demand for cleaner burning fuels. We believe this change in market sentiment over recent quarters had a favorable impact on our orders and backlog. Specific to natural gas, the business was awarded a substantial contract in January 2020 that will support the integrated electrical distribution requirements for a large industrial complex being built in the United States. This specific project will take over three years to design, manufacture, integrate, test and ship.

Our operating results have been 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 could 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 and negatively impact our ability to cover our fixed costs. The increased orders in Fiscal 2018 and 2019 have led to improvement in revenues and operating results that we anticipate will continue throughout Fiscal 2020. We continue to focus on maintaining our cash position, improving efficiencies in production and investing in future business opportunities and research and development. We also continue to monitor the factors that drive our markets and will continue to strive to maintain our leadership and competitive advantage in the markets we serve while aligning our cost structure with market conditions.

## **Liquidity and Capital Resources**

As of December 31, 2019, current assets exceeded current liabilities by 2.1 times and our debt to total capitalization was 0.26%.

Cash, cash equivalents and short-term investments decreased to \$121.0 million at December 31, 2019, compared to \$124.7 million at September 30, 2019. Our increase in project volume typically requires cash to fund operations. We believe that our strong working capital position, available borrowings under our credit facility (U.S. Revolver) and available cash should be sufficient to finance future operating activities, capital improvements, research and development initiatives and debt repayments for the foreseeable future.

Our U.S. Revolver is a \$75.0 million revolving credit facility, which is available for both borrowings and letters of credit. As of December 31, 2019, there were no amounts borrowed under this facility, and letters of credit outstanding were \$13.4 million. As of December 31, 2019, \$61.6 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 \$0.8 million at December 31, 2019 related to outstanding industrial development revenue bonds. For further information regarding our debt, see Note E of Notes to Condensed Consolidated Financial Statements.

Approximately \$21.8 million of our cash and cash equivalents at December 31, 2019 was held outside of the U.S. for international operations. It is our intention to indefinitely reinvest all current and future foreign earnings internationally in order to ensure sufficient working capital to support our international operations. In the event that we elect to repatriate some or all of the foreign earnings that were previously deemed to be indefinitely reinvested outside the U.S., we may incur additional tax expense upon such repatriation under current tax laws.

### ***Operating Activities***

Operating activities provided net cash of \$2.1 million during the three months ended December 31, 2019 and \$9.1 million during the same period in Fiscal 2019. Cash flow from operations is primarily influenced by project volume, the timing of milestone payments from our customers and the payment terms with our suppliers. This decrease in operating cash flow was primarily due to the receipt of a \$6.6 million income tax refund during the three months ended December 31, 2018.

### ***Investing Activities***

Investing activities provided \$3.7 million during the three months ended December 31, 2019 compared to \$5.0 million during the same period in Fiscal 2019. The decrease in cash provided by investing activities in Fiscal 2020 was primarily due to an increase in the purchases of plant, property and equipment to \$2.4 million in Fiscal 2020 and is primarily related to our increase in project activity.

### ***Financing Activities***

Net cash used in financing activities was \$4.0 million during the three months ended December 31, 2019 and \$4.1 million during the same period in Fiscal 2019, which primarily consisted of approximately \$3.0 million of dividends paid in each period.

### **New Accounting Standards**

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

### **Critical Accounting Policies and Estimates**

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

Effective October 1, 2019, we adopted the new lease accounting standard which resulted in changes to our lease policy. See Note I of Notes to Condensed Consolidated Financial Statements for information on the new lease accounting guidance and related disclosures. There have been no other material changes to our critical accounting policies as disclosed in our Annual Report on Form 10-K for the year ended September 30, 2019.

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

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

#### **Market Risk**

We are exposed to general market risk and its potential impact on accounts receivable 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 liquid natural gas terminals, as well as petrochemical, electric utility and light traction power. Occasionally, we may have a contract directly with the engineering, procurement and construction (EPC) firm, which may increase our 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 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 operations that expose us to currency risk in the British Pound Sterling, the Canadian Dollar and to a lesser extent the Euro. Amounts invested in our foreign operations are translated into U.S. Dollars at the exchange rates in effect at the balance sheet date. The resulting translation adjustments are recorded as accumulated other comprehensive loss, a component of stockholders' equity in our Condensed Consolidated Balance Sheets. We believe the exposure to the effects that fluctuating foreign currencies have on our consolidated results of operations is limited because the foreign operations primarily invoice customers and collect obligations in their respective currencies or U.S. Dollars. Additionally, expenses associated with these transactions are generally contracted and paid for in the same local currencies. For the three months ended December 31, 2019, our realized foreign exchange loss was \$0.3 million and is included in selling, general and administrative expenses in the Condensed Consolidated Statements of Operations.

Our accumulated other comprehensive loss, which is included as a component of stockholders' equity, was \$22.2 million as of December 31, 2019, a decrease of \$2.4 million compared to September 30, 2019. 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 4. Controls and Procedures**

##### **Evaluation of Disclosure Controls and Procedures**

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

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

##### **Changes in Internal Control over Financial Reporting**

Effective October 1, 2019, we adopted the new lease standard which resulted in certain updates to our internal control processes during the quarter ended December 31, 2019. See Note I of Notes to Condensed Consolidated Financial Statements for more information. There were no other 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.

## **PART II — OTHER INFORMATION**

### **Item 1. Legal Proceedings**

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

### **Item 1A. Risk Factors**

There are no material changes from the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2019.

**Item 6. Exhibits**

<b>Number</b>	<b>Description of Exhibits</b>
3.1	— <a href="#">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).</a>
3.2	— <a href="#">Amended and Restated Bylaws of Powell Industries, Inc. (filed as Exhibit 3.1 to our Form 8-K filed October 12, 2012, and incorporated herein by reference).</a>
*31.1	— <a href="#">Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a).</a>
*31.2	— <a href="#">Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a).</a>
**32.1	— <a href="#">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.</a>
**32.2	— <a href="#">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.</a>
*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

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\* Filed herewith

\*\* Furnished herewith

## SIGNATURES

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

POWELL INDUSTRIES, INC.

(Registrant)

Date: February 5, 2020

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

Date: February 5, 2020

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

## CERTIFICATION

I, Brett A. Cope, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Powell Industries, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

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

Date: February 5, 2020

## CERTIFICATION

I, Michael W. Metcalf, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Powell Industries, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

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

Date: February 5, 2020

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

In connection with this Quarterly Report (the "Report") on Form 10-Q of Powell Industries, Inc. (the "Company") for the quarter ended December 31, 2019, 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: February 5, 2020

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

In connection with this Quarterly Report (the "Report") on Form 10-Q of Powell Industries, Inc. (the "Company") for the quarter ended December 31, 2019, 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: February 5, 2020