WE DON'T PLAY GAMES WITH ELECTRICITY, OUR CUSTOMERS OR OUR FINANCES.

POWELL INDUSTRIES, INC.
2002 ANNUAL REPORT

SERVING HEAVY INDUSTRY:

oil and gas production

petrochemical plants

pulp and paper mills

transportation systems

public and private utilities

governmental agencies

October 10, 2002

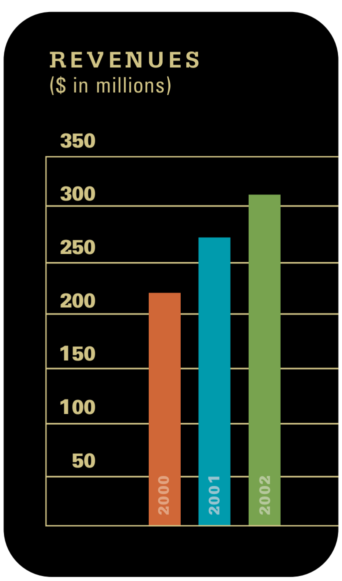
FORBES Magazine names Powell Industries as one of America's 200 Best Small Companies

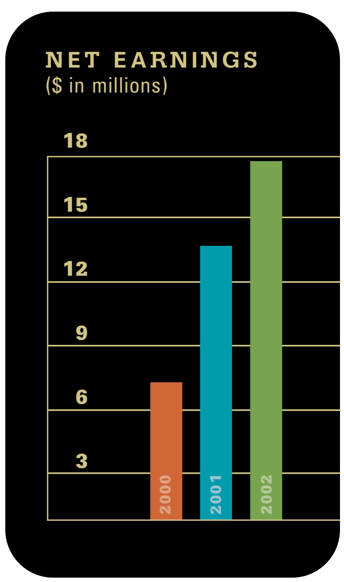
Powell Industries, Inc. develops, designs, manufactures, and services equipment and systems for the management and control of electrical energy and other critical processes.

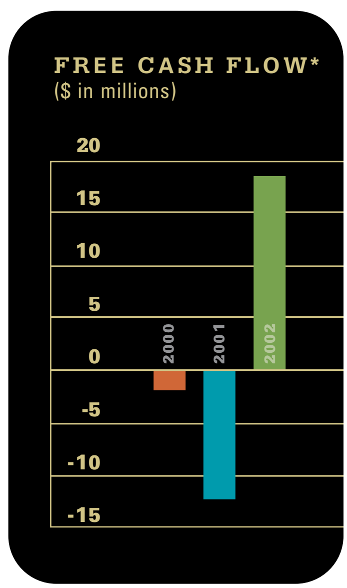
Headquartered in Houston, Texas, we serve the transportation, environmental, industrial, and utility industries. Our principal products are designed for use by and marketed to sophisticated users of large amounts of electrical energy or complex processes. Our markets include: oil and gas producers, oil and gas pipelines, refineries, petrochemical plants, electrical power generators, public and private utilities, mining, pulp and paper mills, transportation systems, governmental agencies, and other large industrial customers. ■ Powell realizes powerful advantages through rapid response, innovation, service, and craftsmanship. Powell is a customer-focused, technology-driven, and solutions-oriented company offering single point sourcing to our customers, no matter how diverse the project. ■ Powell operates wholly-owned major subsidiaries including: Powell Electrical Manufacturing Company; Powell Power Electronics Company, Inc.; Powell-ESCO Company; Unibus, Inc.; Delta-Unibus Corporation; and Transdyn Controls, Inc.

FINANCIAL HIGHLIGHTS
(all items in thousands except per share data)

Years Ended October 31,	2002	2001	2000
Consolidated Statement of Operations Data			
Total Revenues	$ 306,403	$ 271,243	$ 223,019
Gross Profit	67,658	56,797	40,679
Net Earnings	17,905	13,542	7,061
Per Share Data			
Basic Earnings	1.70	1.30	0.68
Diluted Earnings	1.67	1.28	0.67
Consolidated Balance Sheet Data			
Working Capital	86,466	88,981	63,508
Total Assets	189,643	186,361	137,926
Long-term Debt	7,264	21,285	5,714
Total Stockholder's Equity	128,207	109,369	94,087







* Free cash flow is defined as total cash flow from operations less all capital expenditures.

Dear Investors and Employees:

We are proud of the results of fiscal 2002, which saw your company continue to achieve increased performance in all categories. The world's economic backdrop was less than cooperative with the third year in a row of declining industry revenues. As we have in the past, we have grown in a contracting and evermore competitive marketplace. Financial highlights include a 13% growth in revenues, 32% growth in net earnings, $18 million in free cash flow, debt reduction of $11 million, and a healthy backlog of $190 million.

The past year has seen the completion of new plant construction at Delta-Unibus, as well as major expansions at the North Canton and Jacintoport operations of Powell Electrical Manufacturing. These facilities are fully operational and together with our continuous lean process efforts, have improved corporate operating efficiency by 6% and improved our inventory to sales ratio by 19%. In 2003 we will complete additional new facilities at Jacintoport that will immediately increase our productive capacity in the very active offshore oil production market. In addition to increasing our internal manufacturing capacity, we continue to search for logical acquisitions that will complement our core competencies.

Powell Industries' business strategy is simple. Our people are personally invested in delivering high quality electrical power products and customized solutions to heavy industry. We continually invest in research and development on new products to be a technology leader in the markets we serve. We provide superior service and support to maintain our existing customer base while directing focused efforts to develop new customers and capabilities, domestically and internationally, to grow our business.

Market projections continue to point to declining industry revenues. We are concentrating on initiatives to offset this trend and we are encouraged by recent international sales successes, as well as significant opportunities in our country's efforts to enhance national security. The climate for 2003 will be difficult and challenging, but we believe we will again outperform the industry trends.

The company has set a great foundation in the last few years for growth and performance going forward. We have expanded and modernized facilities, improved operational efficiencies, broadened and expanded our product scope, and improved our international presence. These are all important steps in setting a strong foundation for the future.

Powell Industries is fortunate to have great employees, loyal customers, valued suppliers, effective operations, and quality products. We have always known that this is cyclical business. While others falter, we will stay the course and grow stronger. We have proven time and again that through challenge comes strength. Thank you for your investment and support.

Thomas W. Powell
Chairman, President and CEO

It is a given that you must supply a quality product that satisfies unique customer requirements but success requires more. You must ask a lot of questions, respect and lean on the talent of many people, and create the proper atmosphere.

Whether a vendor, a customer or an employee, they have something important to say. I talk with employees at every level of the organization and believe strongly that you must foster open communication, but it is not easy and requires daily effort. ■ At Powell everybody has input, in a culture of open dialog and discussion. Management must consider and react in a timely manner to keep the free flow of ideas. I do not mean taking every suggestion, but considering all input, from all levels as business plans are formulated. Encourage employees and listen to customers, together they will lead you to success. It is that simple. ■ Tom Powell

The strength of Powell Industries comes from a company culture carefully fostered for decades that directs the company with a clear sense of vision and knowledge of the business.

Policies and procedures are overseen by experienced and seasoned business veterans that run a tight ship with down-to-earth honesty and integrity. The Powell board of directors sets a business standard where information is forthcoming and directly to the point. Powell board members, management, and employees all agree that Powell Industries is a company where potential turns into reality.

Management is about operational execution. Every day employees make **decisions** that determine the direction and outcome of the business. The Powell management team works with employees solving issues not from the top down, but from the bottom up.

We try to understand issues from the perspective of the employee and empower them to not just point out the problem but contribute to the solution. Key to our management effectiveness is open access and approachability, for that fosters a free flow of ideas where the best can rise to the top.

Our customers get what they want; when they want it. We have learned to **listen** with an open mind and a quick response because customer service is not just a department, but a belief. We work to develop long-term customer relationships.

The customer's problem is our problem and the customer's schedule is our schedule. Customers expect more than just a product or service, they expect total value. Our customers may be demanding and require attention to detail, but they are our customers and that is what is important.

2002 Financial Review

MANAGEMENT'S DISCUSSION AND ANALYSIS
of Financial Condition and Results of Operations

We are pleased to report to you our financial condition and results of operations. During our fiscal year 2002, Powell Industries achieved record revenues of $306.4 million, a 13% increase from fiscal 2001, and net earnings grew 32% to $17.9 million. The following discussion should be read in conjunction with the accompanying consolidated financial statements and related notes.

In the course of operations, we are subject to certain risk factors, including but not limited to competition and competitive pressures, sensitivity to general economic and industry conditions, international political and economic risks, availability and price of raw materials and execution of business strategy. Any forward-looking statements made by or on our behalf are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Readers are cautioned that such forward-looking statements involve risks and uncertainties in that the actual results may differ materially from those projected in the forward-looking statements.

Results of Operations

Revenue and Gross Profit

Revenues increased 13% to a record $306.4 million in fiscal 2002 as compared to fiscal year 2001. Revenues in fiscal 2001 were $271.2 million, an increase of 22% over fiscal 2000 revenues of $223.0 million. Our electrical power products, which consists of the Switchgear and Bus Duct segments, recorded revenues in fiscal 2002 of $283.6 million compared to $244.8 million in fiscal 2001 and $193.7 million in fiscal 2000. During fiscal 2002, one aspect of our revenue growth was due to new worldwide investments in oil & gas production facilities. Furthermore, demand for additional electrical power generation capacities in the United States strengthened over the expansion realized in fiscal 2001. Revenues in our Process Control Systems segment were $22.8 million compared to $26.4 million in fiscal 2001 and $29.3 million in fiscal 2000. For additional information related to our business segments, see Note L of the Notes to Consolidated Financial Statements.

International revenues increased in fiscal 2002 following a decline in the previous two years. Revenues outside of the United States accounted for 9% of consolidated revenues in fiscal 2002 compared to 8% and 20% in fiscal 2001 and 2000, respectively.

Gross profit, as a percentage of revenues, improved to 22.1% in fiscal 2002, compared to 21.0% and 18.2% in fiscal years 2001 and 2000, respectively. Higher production volumes, improved operating efficiencies, along with the quality of our backlog have all contributed to the improvement in gross profit. We continue to implement lean manufacturing initiatives to reduce costs and respond to the competitive markets that we serve.

Operating Expenses

Selling, general and administrative expenses, including research and development expenditures, were $39.0 million (12.7% of revenues) in fiscal 2002 compared to $35.0 million (12.9% of revenues) and $29.8 million (13.4% of revenues) in fiscal years 2001 and 2000, respectively. Increases in operating expenses are largely due to the growth in business volumes during the same periods.

We have continued to invest in research activities. Research and development expenditures were $3.4 million in fiscal 2002 compared to $3.1 million and $2.9 million in fiscal years 2001 and 2000, respectively. Our research efforts are directed toward the discovery and development of new products and processes as well as improvements in existing products and processes.

Interest Income and Expense

Net interest expense decreased to $210 thousand in fiscal 2002 from $359 thousand in fiscal 2001 due to lower levels of debt. Interest expense is related to our revolving credit facility and long-term debt which is partially offset by interest income from short-term investments. Fiscal 2000 resulted in net interest income of $44 thousand.

Provision for Income Taxes

Our provision for income taxes reflects an effective income tax rate on earnings before income taxes of 37.1% in fiscal 2002 compared to 36.8% in fiscal 2001. The increase in our effective tax rate is primarily a result of higher state taxes and is also partly attributable to increases in non-deductible expenses.

Net Earnings

Net earnings were $17.9 million, or $1.67 per diluted share, in fiscal year 2002 compared to $13.5 million, or $1.28 per diluted share, and $7.1 million, or $0.67 per diluted share, in fiscal years 2001 and 2000, respectively. Growth in business volume and increased gross profits resulted in earnings improvement in fiscal 2002 and fiscal 2001. In fiscal 2000 we incurred additional costs on a major project in our Process Control Systems segment which decreased earnings in the period.

Liquidity and Capital Resources

We have maintained a strong liquidity position. Working capital was $86.5 million at October 31, 2002 compared to $89.0 million at October 31, 2001. As of October 31, 2002, current assets exceeded current liabilities by nearly 2.7 times and our debt to capitalization ratio was less than 0.1 to 1.

Cash and cash equivalents were $14.4 million at October 31, 2002, an increase of 120% over year end 2001. Long-term debt, including current maturities, totaled $12.0 million at October 31, 2002 compared to $22.7 million at October 31, 2001. In addition to our long-term debt, we have a $25.0 million revolving credit agreement expiring February 2005. As of October 31, 2002, there were no borrowings under this line of credit. For further information regarding our debt, see Note F of the Notes to Consolidated Financial Statements.

Operating Activities

Net cash provided by operating activities was $31.7 million in fiscal 2002. A net reduction in operating assets and liabilities provided $8.7 million with the remainder of the increase related to net earnings adjusted for non-cash costs such as depreciation and amortization. During fiscal 2001, operating activities used $2.1 million primarily due to growth in working capital associated with higher production volumes.

Investing Activities

Cash used for the purchase of property, plant and equipment during fiscal 2002 increased to $13.9 million, as compared to $10.3 million in fiscal 2001. During 2002, we completed a new facility in Northlake, IL for the manufacture of our isolated phase bus duct product line. The expansion of our North Canton, OH facility, which is used in the manufacture of our Switchgear product lines, was also completed. Capital expenditures also supported process improvements throughout our manufacturing operations.

Financing Activities

Financing activities used $10.0 million in fiscal 2002. Approximately $10.7 million was used for net repayments on our revolving line of credit and our long-term debt. Other financing activities were limited to the exercise of stock options. During fiscal 2001, net cash provided by financing activities was $16.8 million, primarily from increases in long-term debt.

Outlook for Fiscal 2003

Due to the current economic environment and the outlook for the markets we serve, we anticipate consolidated revenues to decrease in 2003 by 5% to 10%. Our revenue growth in 2001 and 2002 was due to worldwide investments in oil and gas production facilities and electrical power generation capacities. We anticipate new investments in oil and gas facilities to strengthen our export sales during the coming year. However, additional investments in power generation facilities are expected to soften during 2003.

For the fiscal year 2003, we expect full year earnings from continuing operations to range between $1.50 and $1.60 per diluted share. Based on initial tests, we expect to record a pre-tax goodwill impairment charge of approximately $800 thousand. The impairment charge will be recorded as a cumulative effect of a change in accounting principle as of November 1, 2002.

We will continue to invest in our manufacturing capabilities and expect capital expenditures during fiscal year 2003 to range between $8.0 million and $12.0 million. Of this amount, approximately $4.0 million will be needed to complete a project to increase our manufacturing capacity available for the manufacture of electrical power control modules. These modules are provided to the oil and gas industry for use on offshore platforms. This project was initiated during 2002 and will be completed by the middle of 2003.

As a result of our internal operating efficiencies, cost containment, and low levels of debt, we anticipate that our cash position will continue to grow during 2003. We believe that working capital, borrowing capabilities, and funds generated from operations should be sufficient to finance anticipated operational activities, capital improvements, debt repayment and possible future acquisitions for the foreseeable future.

Critical Accounting Policies and Estimates

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

We believe the following critical accounting policy has the greatest impact on the preparation of our consolidated financial statements.

Revenue Recognition

We recognize revenues from product sales upon transfer of title at the time of shipment or delivery according to terms of the contract, when all significant contractual obligations have been satisfied, the price is fixed or determinable, and collectibility is reasonably assured. Contract revenues are recognized on a percentage-of-completion basis primarily using the ratio of labor dollars or hours incurred to date to total estimated labor dollars or hours to measure the stage of completion. Contract costs include direct material and labor, and certain indirect costs. Revenues are not recognized on change orders until customer approval is obtained. Provisions for total estimated losses on uncompleted contracts are recorded in the period in which such losses are estimable. Conditions such as changes in job performance, job conditions, estimated contract costs and profitability may result in revisions to original assumptions in the period in which the change becomes evident. Thus, actual results could differ from original assumptions, resulting in a different outcome for profits or losses than anticipated.

New Accounting Standards

In June 1998 the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133 – "Accounting for Derivative Instruments and Hedging Activities." In June 1999, the FASB issued SFAS No. 137, which amended the effective adoption date of SFAS No. 133. This statement establishes accounting and reporting standards for derivative instruments, including derivative instruments embedded in other contracts, and for hedging activities. We adopted SFAS No. 133, as amended, on November 1, 2000. As of October 31, 2002, we have recorded a liability of $136 thousand representing the fair value of our interest rate swap agreement which is used as a cash flow hedge in the management of interest rate exposure. We also realized this amount, net of income taxes, as a component of comprehensive income.

In June 2001, the FASB issued SFAS Nos. 141 "Business Combinations" and 142 "Goodwill and Other Intangible Assets." SFAS No. 141 requires that all business combinations completed after June 30, 2001 be accounted for using the purchase method. The adoption of SFAS No. 141 did not have a material impact on our financial statements. SFAS No. 142 requires that good will no longer be amortized but be subject to an annual assessment for impairment based on a fair value test. In addition, acquired intangible assets are required to be separately recognized if the benefit to the asset is based on contractual or legal rights. SFAS No. 142 requires an initial impairment test of the carrying value of goodwill in the year of adoption. We adopted SFAS No. 142 on November 1, 2002 and have completed this initial impairment test. Based on this initial test, we expect to record a pre-tax goodwill impairment charge of approximately $800 thousand in the first quarter of 2003. The impairment charge will be recorded as a cumulative effect of a change in accounting principle as of November 1, 2002. At October 31, 2002, net goodwill was $918 thousand and the annual amortization of such goodwill was $143 thousand, which had an impact on earnings per diluted share of $0.01.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." SFAS No. 144 establishes a single accounting model for long-lived assets to be disposed of by sale and requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. We do not believe that the adoption of SFAS No. 144 will have a material impact on our financial statements.

In April 2002, the FASB issued SFAS No. 145 "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This statement rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment of that statement, SFAS No. 44, "Accounting for Intangible Assets of Motor Carriers," and SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." This statement amends SFAS No. 13, "Accounting for Leases," to eliminate inconsistencies between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects which are similar to sale-leaseback transactions. Also, this statement amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. Provisions of SFAS No. 145 related to the rescission of SFAS No. 4 were effective for the Company on November 1, 2002 and provisions affecting SFAS No. 13 were effective for transactions occurring after May 15, 2002. We do not believe that the adoption of SFAS No. 145 will have a material impact on our financial statements.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement covers restructuring type activities beginning with plans initiated after December 31, 2002. Activities covered by this standard that are entered into after that date will be recorded in accordance with the provisions of SFAS No. 146. Management does not believe there will be a significant impact on our consolidated financial position or results of operations for the periods presented.

Quantitative and Qualitative Disclosures about Market Risk

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

We manage our exposure to changes in interest rates by optimizing the use of variable and fixed rate debt and an interest rate hedge. A 1.0% increase in interest rates would result in an annual increase in interest expense of less than $100 thousand. We believe that changes in interest rates will not have a material near-term impact on our future earnings or cash flows. For additional information regarding our long-term debt agreements, interest rates and maturities, see Note F of the Notes to Consolidated Financial Statements.

We manage our exposure to changes in foreign exchange rates primarily through arranging compensation in U.S. dollars. Risks associated with changes in commodity prices are primarily managed through utilizing contracts with suppliers. Risks related to foreign exchange rates and commodity prices are monitored and actions could be taken to hedge these risks in the future. We believe that fluctuations in foreign exchange rates and commodity prices will not have a material near-term effect on our future earnings and cash flows.

CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

As of October 31,	2002	2001
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 14,362	$ 6,520
Accounts receivable, less allowance for doubtful accounts of $1,209 and $551, respectively	69,521	76,592
Costs and estimated earnings in excess of billings	32,828	36,164
Inventories	19,558	21,425
Deferred income taxes and income taxes receivable	---	1,043
Prepaid expenses and other current assets	2,230	835
Total Current Assets	138,499	142,579
Property, plant and equipment, net	45,020	37,409
Deferred income taxes	589	1,064
Other assets	5,535	5,309
Total Assets	$ 189,643	$ 186,361
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of long-term debt and capital lease obligations	$ 4,746	$ 1,429
Accounts and income taxes payable	15,030	18,857
Accrued salaries, bonuses and commissions	9,774	9,670
Billings in excess of costs and estimated earnings	13,478	14,858
Accrued product warranty	2,123	1,860
Other accrued expenses	6,882	6,924
Total Current Liabilities	52,033	53,598
Long-term debt and capital lease obligations net of current maturities	7,264	21,285
Deferred compensation expense	1,522	1,404
Other liabilities	617	705
Total Liabilities	$ 61,436	$ 76,992
Commitments and contingencies		
Stockholders’ Equity:		
Preferred stock, par value $.01; 5,000,000 shares authorized; none issued		
Common stock, par value $.01; 30,000,000 shares authorized; 10,979,000 and 10,964,000 shares issued, respectively; 10,595,000 and 10,434,000 shares outstanding, respectively	110	109
Additional paid-in capital	8,345	8,680
Retained earnings	125,872	107,967
Treasury stock, 383,920 shares and 530,100 shares respectively, at cost	(3,925)	(4,887)
Accumulated other comprehensive (loss): fair value of interest rate swap	(87)	(140)
Deferred compensation-ESOP	(2,108)	(2,360)
Total Stockholders' Equity	128,207	109,369
Total Liabilities and Stockholders' Equity	$ 189,643	$ 186,361

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

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

Year Ended October 31,	2002	2001	2000
Revenues	$ 306,403	$ 271,243	$ 223,019
Cost of goods sold	238,745	214,446	182,340
Gross profit	67,658	56,797	40,679
Selling, general & administrative expenses	38,997	35,007	29,841
Earnings before interest and income taxes	28,661	21,790	10,838
Interest expense (income), net	210	359	(44)
Earnings before income taxes	28,451	21,431	10,882
Income tax provision	10,546	7,889	3,821
Net earnings	$ 17,905	$ 13,542	$ 7,061
Earnings per common share:			
Basic	$ 1.70	$ 1.30	$ .68
Diluted	1.67	1.28	.67
Weighted average number of common shares outstanding	10,511	10,381	10,451
Weighted average number of common and common equivalent shares outstanding	10,698	10,600	10,530

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

	Other Compre-hensive Income (Loss)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Compre-hensive Income (Loss)	Deferred Compen-sation ESOP	Total
Balance, November 1, 1999		10,675	107	6,043	87,364	—	—	(2,742)	90,722
Net earnings	7,061				7,061				7,061
Amortization of deferred compensation-ESOP								135	135
Exercise of stock options		146	1	692					693
Income tax benefit from stock options exercised				95					95
Purchases of Treasury Stock						(4,669)			(4,669)
Comprehensive Income	$ 7,061								
Balance, October 31, 2000		10,821	108	6,830	94,425	(4,669)	—	(2,607)	94,087
Net earnings	13,542				13,542				13,542
Amortization of deferred compensation-ESOP								247	247
Change in value of interest rate swap, net of $82 income taxes	(140)						(140)		(140)
Exercise of stock options		143	1	1,400					1,401
Income tax benefit from stock options exercised				450					450
Purchases of Treasury Stock						(218)			(218)
Comprehensive Income	$ 13,402								
Balance, October 31, 2001		10,964	109	8,680	107,967	(4,887)	(140)	(2,360)	109,369
Net earnings	17,905				17,905				17,905
Amortization of deferred compensation-ESOP								252	252
Change in value of interest rate swap, net of $33 income taxes	53						53		53
Exercise of stock options		15	1	(211)		962			752
Income tax benefit from stock options exercised				(124)					(124)
Comprehensive Income	$ 17,958								
Balance, October 31, 2002		$ 10,979	$ 110	$ 8,345	$ 125,872	$ (3,925)	$ (87)	$ (2,108)	$ 128,207

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

Year Ended October 31,	2002	2001	2000
Operating Activities:			
Net earnings	$ 17,905	$ 13,542	$ 7,061
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	4,898	4,381	4,669
Loss on disposition of assets	68	85	---
Deferred income tax provision	140	1,029	1,166
Changes in operating assets and liabilities:			
Accounts receivable, net	7,071	(22,387)	(11,202)
Costs and estimated earnings in excess of billings	3,336	(11,872)	(8,101)
Inventories	1,867	(3,902)	(2,350)
Prepaid expenses and other current assets	110	(8)	968
Other assets	(436)	(359)	(177)
Accounts payable and income taxes payable or receivable	(2,907)	2,903	5,546
Accrued liabilities	659	4,514	1,598
Billings in excess of costs and estimated earnings	(1,380)	9,543	1,110
Deferred compensation expense	370	410	250
Other liabilities	(35)	64	(16)
Net cash provided by (used in) operating activities	31,666	(2,057)	522
Investing Activities:			
Purchases of property, plant and equipment	(13,872)	(10,291)	(2,648)
Net cash used in investing activities	(13,872)	(10,291)	(2,648)
Financing Activities:			
Borrowings on revolving line of credit	14,450	31,950	---
Repayments on revolving line of credit	(23,450)	(31,950)	---
Borrowing on long-term debt	---	17,000	---
Repayments of long-term debt and capital lease obligations	(1,704)	(1,429)	(2,430)
Payments to reacquire common stock	---	(218)	(4,669)
Proceeds from exercise of stock options	752	1,401	693
Net cash provided by (used in) financing activities	(9,952)	16,754	(6,406)
Net increase (decrease) in cash and cash equivalents	7,842	4,406	(8,532)
Cash and cash equivalents at beginning of year	6,520	2,114	10,646
Cash and cash equivalents at end of year	$ 14,362	$ 6,520	$ 2,114
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	$ 566	$ 673	$ 638
Taxes	$ 8,200	$ 6,225	$ 3,200
Non-cash investing and finance activities:			
Change in fair value of interest rate swap net of $33, $82, and $0 income taxes, respectively	$ 53	$ (140)	$ ---

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. Business and Organization

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

Powell Industries, Inc. ("we," "us," "our," "Powell," or the "Company") was incorporated in the state of Nevada in 1968 and is the successor to a corporation 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 Manufacturing Company; Powell Power Electronics Company, Inc.; Powell-ESCO Company; Unibus, Inc.; Delta-Unibus Corporation; and Transdyn Controls, Inc.

B. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Powell Industries, Inc. and its wholly-owned subsidiaries. All material intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

We consider all deposits with banks and highly liquid investments purchased with an original maturity of less than three months to be cash equivalents.

Accounts Receivable and Market Risk

Our receivables are generally not collateralized. We perform ongoing credit analyses of the accounts of our customers and provide allowances as deemed necessary. Accounts receivable includes retention ammounts of $7.8 million and $7.9 million at October 31, 2002 and 2001, respectively. Retention amounts are in accordance with applicable provisions of engineering and construction contracts and become due upon completion of contractual requirements. Approximately $540 thousand of the retained amount at October 31, 2002 is expected to be collected subsequent to October 31, 2003.

Costs and Estimated Earnings in Excess of Billings

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

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

Inventories

Inventories are stated at the lower of cost (first-in, first-out or weighted average method) or market and include the cost of material, labor and manufacturing overhead.

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 statement of operations.

Impairment of Long-Lived Assets

In accordance with Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," we evaluate the recoverability of property, plant and equipment and other assets, if facts and circumstances indicate that any of those assets might be impaired. An evaluation compares the estimated future undiscounted cash flows associated with the asset to the asset's book value to determine if the asset is impaired. Any impairment would be recognized as an expense. No impairment charges were recorded in fiscal years 2002, 2001 or 2000. As of November 1, 2002, we adopted SFAS No. 144 as discussed in this Note under "New Accounting Standards".

Intangible Assets

Included in other assets are net intangible assets totaling $1.5 million and $1.5 million at October 31, 2002 and 2001, respectively. Intangible assets primarily include goodwill and patents which are amortized using the straight-line method over periods ranging from five to twenty years. The accumulated amortization of intangible assets totaled $1.7 million and $1.5 million at October 31, 2002 and 2001, respectively.

We adopted SFAS No. 142 on November 1, 2002. This statement requires that goodwill no longer be amortized but be subject to an annual assessment for impairment based on a fair value test. Goodwill amortization expense was $143 thousand, $145 thousand, and $146 thousand for fiscal years 2002, 2001, and 2000, respectively. Amortization expense for all other intangibles was $67 thousand, $83 thousand, and $74 thousand for 2002, 2001, and 2000, respectively.

Income Taxes

We account for income taxes using SFAS No 109 "Accounting for Income Taxes." Under SFAS No. 109, deferred income tax assets and liabilities are computed based on the difference between the financial statement and income tax bases of assets and liabilities using enacted tax rates. Under this standard, the effect on deferred income taxes of a change in tax rates is recognized in income in the period that the tax rate changes.

Revenue Recognition

Revenues from product sales are recognized upon transfer of title at the time of shipment or delivery according to terms of the contract, when all significant contractual obligations have been satisfied, the price is fixed or determinable, and collectibility is reasonably assured. Contract revenues are recognized on a percentage-of-completion basis primarily using the ratio of labor dollars or hours incurred to date to total estimated labor dollars or hours to measure the stage of completion. Contract costs include direct material and labor, and certain indirect costs. Provisions for total estimated losses on uncompleted contracts are recorded in the period in which such losses are estimable.

Warranties

We provide for estimated warranty costs at the time of sale based upon historical rates applicable to individual product lines. In addition, specific provisions are made when the costs of such warranties are expected to exceed accruals.

Research and Development Expense

Research and development costs are charged to expense as incurred. These costs are included as a component of selling, general and administrative expenses on the consolidated statements of operations. Such amounts were $3.4 million, $3.1 million, and $2.9 million in fiscal years 2002, 2001 and 2000, respectively.

New Accounting Standards

In June 1998 the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS")No. 133 – "Accounting for Derivative Instruments and Hedging Activities." In June 1999, the FASB issued SFAS No. 137, which amended the effective adoption date of SFAS No. 133. This statement establishes accounting and reporting standards for derivative instruments, including derivative instruments embedded in other contracts, and for hedging activities. We adopted SFAS No. 133, as amended, on November 1, 2000. As of October 31, 2002, we have recorded a liability of $136 thousand representing the fair value of our interest rate swap agreement which is used as a cash flow hedge in the management of interest rate exposure. We also realized this amount, net of income taxes, as a component of comprehensive income.

In June 2001, the FASB issued SFAS Nos. 141 "Business Combinations" and 142 "Goodwill and Other Intangible Assets." SFAS No. 141 requires that all business combinations completed after June 30, 2001 be accounted for using the purchase method. The adoption of SFAS No. 141 did not have a material impact on our financial statements. SFAS No. 142 requires that good will no longer be amortized but be subject to an annual assessment for impairment based on a fair value test. In addition, acquired intangible assets are required to be separately recognized if the benefit to the asset is based on contractual or legal rights. SFAS No. 142 requires an initial impairment test of the carrying value of goodwill in the year of adoption. We adopted SFAS No. 142 on November 1, 2002 and have completed this initial impairment test. Based on this initial test, we expect to record a pre-tax goodwill impairment charge of approximately $800 thousand in the first quarter of 2003. The impairment charge will be recorded as a cumulative effect of a change in accounting principle as of November 1, 2002. At October 31, 2002, net goodwill was $918 thousand and the annual amortization of such goodwill was $143 thousand, which had an impact on earnings per diluted share of $0.01.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." SFAS No. 144 establishes a single accounting model for long-lived assets to be disposed of by sale and requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. We do not believe that the adoption of SFAS No. 144 will have a material impact on our finance statements.

In April 2002, the FASB issued SFAS No. 145 "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This statement rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment of that statement, SFAS No. 44, "Accounting for Intangible Assets of Motor Carriers," and SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." This statement amends SFAS No. 13, "Accounting for Leases," to eliminate inconsistencies between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. Also, this statement amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. Provisions of SFAS No. 145 related to the rescission of SFAS No. 4 were effective for the Company on

November 1, 2002 and provisions affecting SFAS No. 13 were effective for transactions occurring after May 15, 2002. We do not believe that the adoption of SFAS No. 145 will have a material impact on our financial statements.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement covers restructuring type activities beginning with plans initiated after December 31, 2002. Activities covered by this standard that are entered into after that date will be recorded in accordance with the provisions of SFAS No. 146. Management does not believe there will be a significant impact on our consolidated financial position or results of operations for the periods presented.

C. Earnings per Share

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

Years Ended October 31,	2002	2001	2000
Numerator:			
Numerator for basic and diluted earnings per share-earnings from continuing operations available to common stockholders	$ 17,905	$ 13,542	$ 7,061
Denominator:			
Denominator for basic earnings per share-weighted-average shares	10,511	10,381	10,451
Effect of dilutive securities-Employee stock options and deferred directors' fees	187	219	79
Denominator for diluted earnings per share-adjusted weighted-average shares with assumed conversions	10,698	10,600	10,530
Basic earnings per share	$ 1.70	$ 1.30	$ .68
Diluted earnings per share	$ 1.67	$ 1.28	$ .67

For the years ended October 31, 2002, 2001 and 2000 exercisable stock options of 26 thousand, none and 207 thousand, respectively, were excluded from the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of our common stock.

D. Detail of Certain Balance Sheet Accounts

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

October 31,	2002	2001
Balance at beginning of period	$ 551	$ 505
Additions to costs and expenses	690	62
Deductions for uncollectible accounts written off, net of recoveries	(32)	(16)
Balance at end of period	$ 1,209	$ 551

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

October 31,	2002	2001
Raw materials, parts and subassemblies	$ 14,111	$ 15,186
Work-in-process	5,447	6,239
Total inventories	$ 19,558	$ 21,425

The components of costs and estimated earnings in excess of billings (in thousands):

October 31,	2002	2001
Costs and estimated earnings	$ 190,106	$ 156,822
Progress billings	(157,278)	(120,658)
Total costs and estimated earnings in excess of billings	$ 32,828	$ 36,164

The components of billings in excess of costs and estimated earnings (in thousands):

October 31,	2002	2001
Progress billings	$ 131,840	$ 111,963
Costs and estimated earnings	(118,362)	(97,105)
Total billings in excess of costs and estimated earnings	$ 13,478	$ 14,858

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

October 31,	2002	2001	Range of Asset Lives
Land	$ 5,093	$ 5,232	---
Buildings and improvements	35,791	30,952	3-39 Years
Machinery and equipment	37,191	31,559	3-15 Years
Furniture and fixtures	3,012	3,829	3-10 Years
Construction in progress	6,463	4,985	---
	87,550	76,557	
Less-accumulated depreciation	(42,530)	(39,148)	
Total property, plant and equipment, net	$ 45,020	$ 37,409	

Depreciation exposure was $4.7 million, $4.2 million and $4.4 million for fiscal years 2002, 2001 and 2000, respectively.

E. Employee Benefit Plans

We have a defined employee contribution 401(k) plan for substantially all of our employees. We match 50% of employee contributions up to an employee contribution of six percent of their salary. We recognized expenses of $1.4 million, $1.2 million, and $1.1 million in fiscal years 2002, 2001 and 2000, respectively, under this plan.

In October 1985 and February 1987, we entered into Executive Benefit Agreements with several key officers and employees. Three participants remain in this deferred compensation plan, which provides for payments in accordance with predetermined plan upon retirement or death. We recognize the cost of this plan over the projected years of service of the participant. We have insured the lives of these key employees to assist in the funding of the deferred compensation liability.

We have established an employee stock ownership plan (“ESOP”) for the benefit of substantially all full-time employees other than employees covered by a collective bargaining agreement to which the ESOP has not been extended by any agreement or action of ours. The ESOP initially purchased 793,525 shares of the Company's common stock from a major stockholder. At October 31, 2002 and 2001 there were 651,755 and 674,569 shares in the trust with 330,975 and 308,926 shares allocated to participants, respectively. The funding for this plan was provided through a loan from the Company of $4.5 million. This loan will be repaid by the ESOP over a twenty-year period with equal payments of $424 thousand per year including interest at 7 percent. We recorded deferred compensation as a contra-equity account for the amount loaned to the ESOP in the accompanying consolidated balance sheets. We are required to make annual contributions to the ESOP to enable it to repay its loan to us. The deferred compensation account is amortized as compensation expense over twenty years as employees earn their shares for services rendered. The loan agreement also provides for prepayment of the loan if we elect to make any additional contributions. The compensation expense for fiscal years 2002, 2001 and 2000 was $252 thousand, $247 thousand, and $135 thousand, respectively. The receivable from the ESOP is recorded as a reduction from stockholders’ equity and the allocated and unallocated shares of the ESOP are treated as outstanding common stock in the computation of earnings per share.

In November 1992, we established a plan to extend to retirees health benefits which are available to active employees under our existing health plans. Participants became eligible for retiree health care benefits when they retired from active service at age 55 with ten years of service. Generally, the health plans paid a stated percentage of medical and dental expenses reduced for any deductible and co-payment. These plans are unfunded. Medical coverage may be continued by the retired employee up to age 65 at the average cost to the Company of active employees. At the age of 65, when the employee became eligible for Medicare, the benefits provided by the Company were to be reduced by the amount provided by Medicare and the cost to the retired employee would be reduced to 50 percent of the average cost to the Company of active employees.

In 1994, we modified our postretirement benefits to provide retiree healthcare benefits to only current retirees and active employees who were eligible to retire by December 31, 1999. Participants eligible for such benefits were required to pay between 20 percent and 100 percent of our average cost of benefits based on years of service. In addition, benefits would end upon the employee's attainment of age 65. The effect of these modifications significantly reduced our postretirement benefits cost and accumulated benefits obligation.

In 2000, we again modified our postretirement benefits to provide retiree healthcare benefits to current retirees and active employees who were eligible to retire after December 31, 1999. The retired employees’ cost of the optional retiree coverage under the plan is based on the full COBRA cost of that coverage, reduced by a fixed dollar amount for each additional service year in excess of ten (10) service years.

The following table illustrates the components of net periodic benefits expense, funded status, the change in funded status, and the change in accumulated benefit obligation of the postretirement benefit plans (in thousands):

October 31,	2002	2001	2000
Components of net periodic postretirement benefits expense (income):			
Service cost	$ 20	$ 17	$ 16
Interest cost	39	34	27
Prior service cost (benefit)	13	16	(40)
Net (gain)/loss recognized	2	(5)	(14)
Net periodic postretirement benefits expense (income)	$ 74	$ 62	$ (11)
Funded Status:			
Retirees	$ 120	$ 73	$ 51
Fully eligible active participants	182	167	163
Other actual participants	300	254	257
Accumulated postretirement benefits obligation	$ 602	$ 494	$ 471
Less unrecognized balances:			
Prior service cost	129	145	161
Net actuarial (gain)/loss	(57)	(134)	(109)
Net amount recognized	$ 530	$ 483	$ 419
Changes in accumulated postretirement benefits obligation:			
Balance at beginning of year	$ 494	$ 471	$ 400
Service cost	20	17	16
Interest cost	39	34	27
Loss due to plan change	---	---	174
Actuarial (gain)/loss	74	(30)	(141)
Benefits paid	(25)	2	(5)
Balance at end of year	$ 602	$ 494	$ 471
Fair value of plan assets	$ ---	$ ---	$ ---
Weighted average assumptions:			
Discount rate	6.5%	7%	7%
Expected return on plan assets	N/A	N/A	N/A
Rate of compensation increase	N/A	N/A	N/A

The assumed health care cost trend measuring the accumulated postretirement benefits obligation was 6% in both fiscal years 2002 and 2001. The trend is expected to remain at 6% for fiscal year 2003 and later. If the health care trend rate assumptions were increased by 1% as of October 31, 2002, there would be no significant effect of this change on the accumulated postretirement benefits obligation or net postretirement benefit cost for 2002.

F. Debt

We entered into a $10 million term loan with a domestic bank in September 1998. This loan has a maturity of five years with nineteen equal quarterly payments of $357 thousand. As of October 31, 2002, this loan had a remaining balance of $4.3 million, with final payment of the remaining principal balance due on September 30, 2003. Per the agreement, the rate is the London Interbank Offered Rate ("LIBOR") plus .5%. The effective interest rate, after including the results of an interest rate swap negotiated with the trust company of the same domestic bank is 5.2% per annum plus a .75% to 1.25% fee based on financial covenants.

We entered into an interest rate swap agreement to manage our interest rate exposure. This agreement is accounted for on the accrual basis. Income and expense resulting from this agreement are recorded in the same category as interest expense accruals on the related term loan. Amounts to be paid or received under the interest rate swap agreement are recognized as an adjustment to interest expense in the periods in which they occurred. The original $10 million notional amount of the swap agreement follows the same reduction schedule as the term loan. The agreement requires that we pay the counterparty at the above fixed swap rate and requires the counterparty to pay us interest at the 90 day LIBOR rate. The closing 90 day LIBOR rate on October 31, 2002, was 1.7%. We consider the risk of non-performance by our swap partner to be minimal.

We borrowed $8 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 North Lake, IL facility. A reimbursement agreement between the Company and a major domestic bank required an issuance by the bank of an irrevocable direct-pay letter of credit to the Bonds' trustee to guarantee payment of the Bonds' principal and interest when due. The letter of credit terminates on October 25, 2004, and is subject to both early termination and extension provisions customary to such agreements. The Bonds mature in 2021 but the reimbursement agreement requires the Company to provide for redemption of one twentieth of the par value of the Bonds beginning on October 25, 2002, and each subsequent anniversary. A sinking fund is used for the redemption of the Bonds. As of October 31, 2002, the remaining balance was $7.6 million. 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 2% per annum on October 31, 2002.

We have a $25 million revolving line of credit agreement with a major domestic bank which was amended in September 2002 to extend the maturity date to February 2005. The revolving line of credit allows us to elect an interest rate on amounts borrowed of (1) the bank's prime rate, which was 4.75% at october 31, 2002, less .5% (on the first $5 million) and the bank's prime rate on additional borrowings, or (2) the bank's LIBOR rate, which was 1.7% at October 31, 2002, plus an additional percentage of .75% to 1.25% based on our performance. A fee of .20% to .25% is charged on the unused balance of the line. The agreement contains customary affirmative and negative covenants and requirements to maintain a minimum level of tangible net worth and profitability. As of October 31, 2002, we were in compliance with all debt covenants. The amount available under this agreement is reduced by $3.3 million for our outstanding letters of credit. (The direct pay letter of credit discussed above does not affect our available credit under this agreement.) There were no borrowings under this line of credit as of year-end.

Some machinery and equipment used in our manufacturing facilities were financed through capital lease agreements. These capital lease agreements are collateralized by the leased property. The capital lease obligation is at a fixed interest rate of 3%.

Long-term debt is summarized below (in thousands):

October 31,	**2002**	**2001**
Five year term note	$ 4,286	$ 5,714
Revolving line of credit	0	9,000
Capital lease	124	0
Industrial Development Revenue Bonds	7,600	8,000
Sub-total long-term debt and capital lease obligations	12,010	22,714
Less-current maturities	(4,746)	(1,429)
Total long-term debt and capital lease obligations	$ 7,264	$ 21,285

The interest expense recorded during the year was $508 thousand, $673 thousand, and $639 thousand in 2002, 2001 and 2000, respectively. The annual maturities of long-term debt for the years 2003 through 2007 are as follows:

Year Ending October 31	**Long-term Debt Maturities**	**Capital Lease**	**Total**
2003	4,686	60	4,746
2004	400	64	464
2005	400	---	400
2006	400	---	400
2007	400	---	400
Thereafter	5,600		5,600
Total long-term debt maturities	$ 11,886	$ 124	$ 12,010

See footnote L for discussion of the fair market value of the debt instruments.

G. Income Taxes

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

October 31,		2002		2001
Current deferred income taxes:				
Gross assets	$	3,109	$	2,177
Gross liabilities		(3,607)		(3,010)
Net current deferred income tax liability		(498)		(833)
Noncurrent deferred income taxes:				
Gross assets		1,378		1,231
Gross liabilities		(789)		(167)
Net noncurrent deferred income tax asset		589		1,064
Net deferred income tax asset	$	91	$	231

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

October 31,		2002		2001
Allowance for doubtful accounts	$	461	$	192
Reserve for accrued employee benefits		596		789
Warranty reserves		780		567
Uncompleted long-term contracts		(3,515)		(3,010)
Depreciation and amortization		(374)		165
Deferred compensation		559		495
Postretirement benefits liability		172		294
Accrued legal expenses		217		338
Uniform capitalization and inventory		1,064		315
Other		131		86
Net deferred income tax asset	$	91	$	231

The components of the income tax provision consist of the following (in thousands):

Years Ended October 31,		2002		2001		2000
Current:						
Federal	$	9,865	$	6,478	$	2,445
State		541		382		209
Deferred:						
Federal		140		1,029		1,167
Total income tax provision	$	10,546	$	7,889	$	3,821

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 is as follows:

Years Ended October 31,	2002	2001	2000
Statutory rate	35%	35%	34%
Foreign sales corporation credits	---	---	(1)
State income taxes, net of federal benefit	1	1	2
Other	1	1	---
Effective rate	37%	37%	35%

H. Significant Sales Data

No single customer or export country accounted for more than 10 percent of consolidated revenues in fiscal years 2002, 2001 and 2000.

Export sales are as follows (in thousands):

Years Ended October 31,		2002		2001		2000
Europe (including former Soviet Union)	$	386	$	411	$	734
Far East		8,717		4,437		17,200
Middle East and Africa		9,205		6,152		7,832
North, Central and South America (excluding U. S.)		9,706		10,431		18,655
Total export sales	$	28,014	$	21,431	$	44,421

I. Commitments and Contingencies

Leases

We lease certain offices, facilities and equipment under operating leases expiring at various dates through 2008. At October 31, 2002, the minimum annual rental commitments under leases having terms in excess of one year are as follows (in thousands):

Year Ending October 31	Operating Leases
2003	1,238
2004	1,348
2005	1,132
2006	947
2007	931
Thereafter	1,177
Total lease commitments	$ 6,773

Lease expense for all operating leases, excluding leases with terms of less than one year, was $1.5 million, $1.6 million and $1.3 million for fiscal years 2002, 2001 and 2000, respectively.

Letters of Credit and Bonds

We are contingently liable for secured and unsecured letters of credit of $11.0 million as of October 31, 2002. We also had performance bonds totaling approximately $156.5 million; respectively, that were outstanding at October 31, 2002. Performance bonds are used to guarantee contract performance to our customers.

Insurance

We partially retain the risk for the employee group health claims, resulting from uninsured deductibles per occurrence. Losses up to the deductible amounts are accrued based upon known claims incurred and an estimate of claims incurred but not reported. The accruals are based upon known facts and historical trends and we believe such accruals to be adequate.

Litigation

We are a party to disputes arising in the ordinary course of business. We do not believe that the ultimate outcome of these disputes will materially affect the financial position or future results of our operations.

Other Contingencies

The Company is a partner in a joint venture (the "Joint Venture"), which provided process control systems to the Central Artery/Tunnel Project (the "Project") in Boston, Massachusetts, under a contract with the Massachusetts Turnpike Authority (the "MTA"). The Joint Venture has submitted claims against the MTA seeking additional reimbursement for work done by the Joint Venture on the project. In a separate matter, the Joint Venture received notice dated May 9, 2002 (the "Notice") from the MTA that a follow-on contractor has asserted a claim against the MTA in connection with work done or to be done by the follow-on contractor on the project. One component of the Project involved the Joint Venture performing specific work that the MTA then bid for the follow-on contractor to complete. The follow-on contractor's claim, in part, includes unsubstantiated allegations that such work performed by the Joint Venture was insufficient and defective, thus possibly contributing to the follow-on contractor's claims for damages against the MTA. In the Notice of the potential claim, the MTA advised the Joint Venture that if it is required to pay the follow-on contractor additional amounts and such payment is the result of defective work by the Joint Venture, the MTA will seek indemnification from the Joint Venture for such additional amounts.

The Joint Venture has no reason to believe the systems it delivered under contract to the MTA were defective and accordingly it intends to vigorously defend any such allegations. The ultimate disposition of the Joint Venture's claim against the MTA and the MTA's potential claim for indemnification based on the follow-on contractor's claims are not presently determinable. Although an unfavorable outcome to the follow-on contractor's claim could have a material adverse effect on the Company's financial condition and results of operations, the Company believes that an unfavorable outcome with respect to these matters, under the circumstances and on the basis of the information now available, is unlikely.

J. Stock Options and Grants

We provide an employee stock option plan in which 2.1 million shares of our common stock would be made available through an incentive program for certain employees. The awards available under the plan include both stock options and stock grants, and are subject to certain conditions and restrictions as determined by the Compensation Committee of the Board of Directors. There were no stock grants during fiscal years 2002, 2001 and 2000. Stock options granted to the employees are non-qualified and are granted at an exercise price equal to the fair market value of the common stock at the date of grant. Generally, options granted have terms of seven years from the date of grant and will vest in increments of 20 percent per year over a five year period. The plan provides for additional stock to be awarded equal to 20 percent of all options which are exercised and then held for a period of five years. There were 480,086 shares available to be granted under this plan as of October 31, 2002.

The Shareholders voted at the March 16, 2002 meeting to approve the Non-Employer Director Stock Option Plan for the benefit of members of the Board of Directors of the Company who, at the time of their service, are not employees of the Company or any of its affiliates. Annually each eligible Director who is continuing to serve as a Director, shall receive a grant of an option to purchase 2,000 shares of our Common Stock. The total number of shares of our common stock available under this plan is 59,117. Stock options granted to the Directors are non-qualified and are granted at a price equal to the fair market value of the common stock at the date of grant. Generally, options granted have expiration terms of seven years from the date of grant and will vest in full one year from the date the grant date.

Stock option activity (number of shares) for the Company during fiscal years 2002, 2001 and 2000 was as follows:

	2002	2001	2000
Outstanding, beginning of year	834,300	654,730	778,635
Granted:			
Stock options $8.44 per share	---	---	12,000
Stock options $17.85 per share	---	358,900	---
Stock options ranging from $13.06 to $27.10 per share	26,883	---	---
Exercised:			
Stock options $6.25 per share	(82,900)	(66,730)	(19,960)
Stock options $6.75 per share	---	---	(95,295)
Stock options $15.81 per share	(19,830)	(49,740)	---
Stock options $8.50 per share	(16,140)	(26,090)	(1,280)
Stock options $8.44 per share	---	(2,000)	---
Stock options $17.85 per share	(100)	---	---
Forfeited:			
Stock options $6.25 per share	(800)	---	---
Stock options $15.81 per share	(4,720)	(13,300)	(10,000)
Stock options $8.50 per share	(12,920)	(21,470)	(9,370)
Stock options $17.85 per share	(3,600)	---	---
Outstanding, ranging from $6.25 to $27.10 per share, at the end of year	720,173	834,300	654,730

The following table summarizes information about stock options outstanding as of October 31, 2002:

Outstanding				Exercisable	
Range of Exercise Prices	Number Outstanding at 10/31/02	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at 10/31/02	Weighted Average Exercise Price
$ 15.81	113,510	1.6	$ 15.81	113,510	$ 15.81
8.50	214,580	3.8	8.50	115,140	8.50
8.44	10,000	4.6	8.44	10,000	8.44
17.85	355,200	5.5	17.85	81,280	17.85
13.06-27.10	26,883	6.3	23.52	4,883	23.21
$ 8.44-27.10	720,173	4.4	14.82	324,813	13.61

The weighted average fair value of options granted was $10.83, $9.13, and $4.26 per option for the fiscal years ended October 31, 2002, 2001, and 2000, respectively.

We apply Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," in accounting for employee stock options whereby no compensation expense is recorded related to the options granted equal to the market value of the stock on the date of grant. If compensation expense had been determined based on the Black-Scholes option pricing model value at the grant date for stock option awards consistent with the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," our net income and earnings per share would have been as follows:

	2002	2001	2000
Net income:			
As reported	$ 17,905	$ 13,542	$ 7,061
Pro forma	17,071	13,066	6,585
Basic earnings per share:			
As reported	$ 1.70	$ 1.30	$ .68
Pro forma	1.62	1.26	.63
Diluted earnings per share:			
As reported	$ 1.67	$ 1.28	$ .67
Pro forma	1.60	1.23	.63

The effects of applying SFAS No. 123 in the pro forma disclosure above may not be indicative of future amounts as additional awards in future years are anticipated.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	2002	2001	2000
Expected life of options	7 years	7 years	7 years
Risk-free interest rate	3.45%	5.30%	6.38%
Expected dividend yield	0.00%	0.00%	0.00%
Expected stock price volatility	38.15%	39.53%	36.23%

K. Fair Value of Financial Instruments

Our financial instruments include short-term investments, debt obligations and interest rate hedges. The book value of short-term investments is considered to be representative of fair value because of the short maturity of these instruments. The carrying value of our debt approximates fair value as interest rates are indexed to LIBOR or the bank's prime rate.

At October 31, 2002, we had $4.3 million in borrowings subject to the interest rate swap at a rate of 5.20% through September 30, 2003. This rate is approximately 3.5% above market and represents approximately $150 thousand of increased interest expense for fiscal year 2003 assuming the current market interest rates do not change. The fair value of the swap agreement at October 31, 2002 was a liability of $136 thousand. The fair value is the amount we would pay to terminate the contract. This agreement requires that we pay the counterparty at the above fixed swap rate and requires the counterparty to pay us interest at the 90 day LIBOR rate. The closing 90 day LIBOR rate on October 31, 2002 was 1.7%.

L. Business Segments

We have three reportable segments: Switchgear and related equipment (Switchgear) for the distribution and control of electrical energy, Bus duct products (Bus Duct) for the distribution of electrical energy, and Process Control Systems which consists principally of instrumentation, computer control, communications and data management systems.

The tables below reflect certain information relating to our operations by segment. Substantially all revenues represent sales from unaffiliated customers. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. For purposes of this presentation, all general corporate expenses have been allocated among operating segments based primarily on revenues. In addition, the corporate assets are mainly cash and cash equivalents transferred to the corporate office from the segments.

The required disclosures for the business segments are set forth below (in thousands):

Years Ended October 31,	2002	2001	2000
Revenues:			
Switchgear	$ 242,740	$ 202,219	$ 161,494
Bus Duct	40,852	42,613	32,213
Process Control Systems	22,811	26,411	29,312
Total	$ 306,403	$ 271,243	$ 223,019
Earnings from Operations Before Income Tax Provision:			
Switchgear	$ 21,652	$ 14,518	$ 6,039
Bus Duct	5,759	6,208	6,056
Process Control Systems	1,040	705	(1,213)
Total	$ 28,451	$ 21,431	$ 10,882
Assets:			
Switchgear	$ 132,428	$ 134,872	$ 100,071
Bus Duct	24,156	21,576	15,608
Process Control Systems	14,937	17,579	14,331
Corporate	18,122	12,334	7,916
Total	$ 189,643	$ 186,361	$ 137,926

M. Quarterly Results of Operations (unaudited)

The table below sets forth the unaudited consolidated operating results by fiscal quarter for the years ended October 31, 2002 and 2001 (in thousands, except per share data):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2002-				
Revenues	76,487	80,286	74,287	75,343
Gross profit	15,591	17,267	16,430	18,370
Net earnings	3,734	4,514	4,523	5,134
Net earnings per common and common equivalent share:				
Basic	.36	.43	.43	.48
Diluted	.35	.42	.42	.48
2001-				
Revenues	$ 55,151	$ 68,719	$ 70,780	$ 76,593
Gross profit	11,214	14,226	15,752	15,605
Net earnings	1,884	3,121	4,226	4,311
Net earnings per common and common equivalent share:				
Basic	.18	.30	.41	.41
Diluted	.18	.30	.40	.40

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.

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheet of Powell Industries, Inc. and subsidiaries (the "Company") as of October 31, 2002, and the related consolidated statements of operations, stockholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated balance sheet of the Company as of October 31, 2001 and the consolidated statements of operations, stockholders' equity and cash flows for the two years in the period ended October 31, 2001 were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements in their report dated November 29, 2001.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such 2002 consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of October 31, 2002, and the consolidated results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

DELOITTE & TOUCHE LLP

Houston, Texas
December 6, 2002

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

We have audited the accompanying consolidated balance sheets of Powell Industries, Inc. (a Nevada corporation) and subsidiaries as of October 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity and cash flows for the three years in the period ended October 31, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Powell Industries, Inc. and subsidiaries as of October 31, 2001 and 2000, and the consolidated results of operations and their cash flows for each of the three years in the period ended October 31, 2001, in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

ARTHUR ANDERSEN LLP

Houston, Texas
November 29, 2001

This is a copy of the audit report previously issued by Arthur Andersen LLP. This audit report has not been reissued in connection with this report.

CORPORATE INFORMATION

Powell Industries, Inc.

P.O. Box 12818
Houston, Texas
77217-2818
(713) 944-6900

Thomas W. Powell
Chairman, President and CEO

Don R. Madison
Vice President, CFO,
Secretary and Treasurer

Robert B. Gregory
Corporate Controller

Miles "Gus" M. Zeller
Vice President

Powell Electrical Manufacturing Company

8550 Mosley Drive
Houston, Texas
77075-1180
(713) 944-6900

Miles "Gus" M. Zeller
President

Powell Power Electronics Company, Inc.

5669 Gibralter Drive
Pleasanton, California
94588-8547
(925) 225-0505

John E. Fredrick
President

Unibus, Inc.

145 Keep Court
Elyria, Ohio
44035-2214
(440) 324-9452

Thomas C. Burtnett
President

Delta-Unibus Corp.

515 Railroad Ave.
Northlake, Illinois
60164
(708) 409-1200

Thomas C. Burtnett
President

Powell-Esco Company

3200 Frontage Road
Greenville, Texas
75402-1039
(903) 455-6234

William K. Reffert
President

Transdyn Controls, Inc.

5669 Gibraltar Drive
Pleasanton, California
94588-8547
(925) 225-1600

David J. Dimlich
President

Corporate Counsel

Winstead Sechrest & Minick P.C.
910 Travis, Suite 1700
Houston, Texas 77002-5895
(713) 650-8400

Independent Public Accountants

Deloitte and Touche
333 Clay Street
Houston, Texas 77002
(713) 982-2000

We wish to thank the following employees whose photo appears in this annual report:

Nathan Alexander, Libby Alvarez, James Baker, Theresa Brummett, Tom Burtnett, Felix Cook, David Dimlich, Jose Eapen, Kevin Fields, Ryan Fuselier, Kent Hightower, Hai Nguyen, Rocio Ortiz, Bobby Paul, Efrain Rivera, Kenneth Sayrie, Joe Tran, Silvia Velazquez, and Gus Zeller.

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Manager, Energy Management
Hewlett Packard

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Ronald J. Wolny
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Joseph L. Becherer
Stephen W. Seale, Jr.
Eugene L. Butler
James F. Clark

Lawrence R. Tanner
Thomas W. Powell
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CORPORATE OFFICERS

Don R. Madison
Vice President,
Chief Financial Officer

Miles "Gus" Zeller
Vice President - Powell Industries
President - Powell Electrical Manufacturing

Robert B. Gregory
Corporate Controller

Don R. Madison
Miles "Gus" Zeller
Robert B. Gregory

POWELL INDUSTRIES, INC.

P.O. Box 12818
Houston, Texas 77217-2818
(713) 944-6900
www.powellind.com