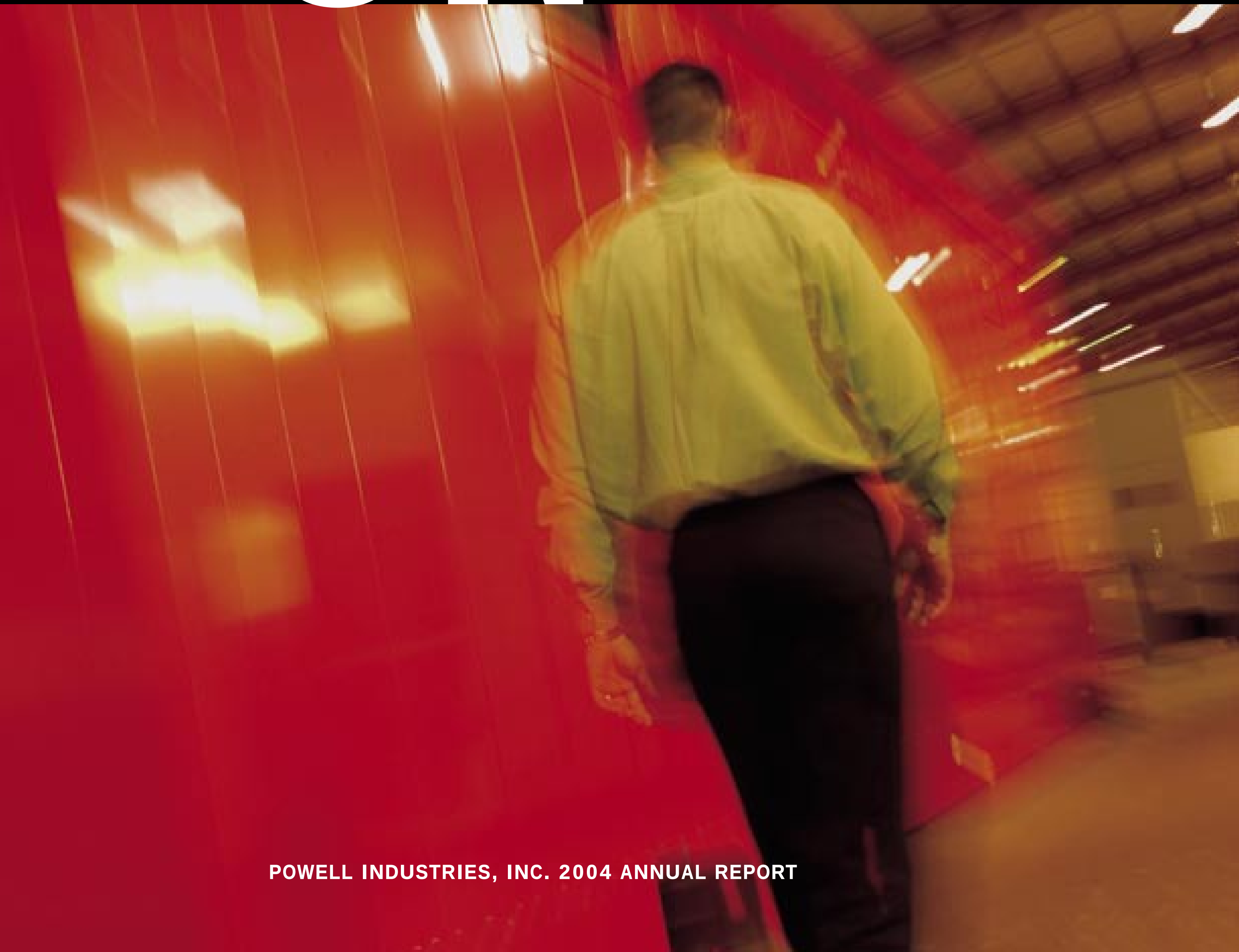
ALWAYS ON



POWELL INDUSTRIES, INC. 2004 ANNUAL REPORT

"Always On." These are reassuring words, reflecting a state of confidence and security. When it comes to the complex systems — electrical, water, traffic, and petrochemical — that keep our lives working, these are the words we want to hear.

For more than 50 years, Powell has engineered and manufactured equipment to manage the distribution of electrical energy and other critical processes. Our performance for our energy, transportation, municipality, and industrial clients has been unfailingly high.

Over the decades we have proven that we are always ready to respond to challenges. Always raising the bar in safety and reliability. Always able to add value through expertise and innovation.

As a company, Powell represents continuity. The commitment lives on.

"AS INVESTORS, YOU CAN BE CONFIDENT, AS WE ARE CONFIDENT, OF THE STRONG POSITION POWELL CONTINUES TO HOLD IN THIS INDUSTRY. WE ARE STILL THE SAME STEADFAST, COMMITTED COMPANY WE WERE IN THE BEGINNING. THE ECONOMY MAY FLUCTUATE AND CUSTOMERS' NEEDS MAY CHANGE, BUT POWELL'S CORE VALUES — RESPONSIVENESS, SAFETY, QUALITY, AND RELIABILITY — CONTINUE TO DELIVER INNOVATION AND ADDED VALUE IN THE MARKETPLACE."

Dear Investors, Employees, and Friends,

For more than 50 years, Powell has been a dependable and reliable company in an industry that is historically cyclical. We are emerging from a downturn, and although the industry is cyclical, our performance must be consistent and reliable. It is fitting that our business is the control and management of critical processes — wherever Powell's products and services are used, clients demand and expect reliability.

We are equally consistent in our customer-focused business strategy. Even in the most difficult business environments, Powell remains firm in our approach and true to our beliefs: customer service, flexibility, quality, and progressive product advancement.

In spite of our efforts, 2004 was a difficult year. The company was faced with markedly higher costs for our most basic raw materials, and generally low capital spending by customers in a fiercely competitive market.

Signs of Improvement. We begin 2005 with a healthier global economy emerging and many reasons to believe that Powell is entering a period of recovery and growth.

Stability is a key factor in the capital investment decisions of our customers, and today we see the price of oil and gas, while high, becoming less volatile. As the economy gains traction, we are seeing renewed interest within the municipal, transit, and industrial sectors in repowering and upgrading infrastructure.

Powell ended the year with inquiries at healthy levels. The pace of orders grew stronger during the course of the year, and we ended with an order rate that we have not experienced for several years.

We have nearly completed a strategic consolidation of our manufacturing operations — we closed our Greenville, Texas, facility, merging switch products into North Canton, Ohio; we consolidated our bus duct products into the Northlake, Illinois, facility; and we are completing the transfer of power electronics products from Watsonville, California, to Houston, Texas. We expect these changes to yield efficiencies and have a positive impact on our bottom line in the near-term.

Legislative Mandates. Several key pieces of legislation, either pending or recently passed, signal areas of increased opportunity for Powell.

After the recent passage of the wind energy legislation by Congress, a contract was released that had been held at the design stage. Our delivery of this project within six weeks demonstrated our continued strength in performing under pressure. Due to our performance, we have received a commitment for five additional projects.

President Bush has announced that a top priority in 2005 will be an initiative to combat air pollution

Thomas W. Powell
Chairman, President, and CEO

from the nation's power plants. Legislation scheduled for this spring will appropriate $50 billion for emission reduction programs — creating excellent integrated packaging opportunities for Powell switchgear, motor controls, smart systems, and Power Control Rooms.

The TEA-21 Reauthorization, scheduled for action in early 2005, allots at least $200 billion for the type of highway and transit initiatives that should impact our traction substation and our traffic management systems businesses.

Future Technologies. Powell continues to work on new solutions to address the considerable growth in electrical power consumption anticipated over the next 20 years. We have been working together with utilities on mobile systems to extend the useful life of existing facilities. We are supporting independent power producers in the development of power plants fired by natural gas. We are also involved in efforts to utilize the latest clean coal technologies in many new utility coal-fired generating plants.

Powell has reinforced our leadership role in arc-resistant switchgear by expanding our 38kV switchgear to include an arc-resistant option and developed a new arc-resistant motor control center design. We have made significant strides in our development of a solid-state current limiter, and we have received financial support from large utility companies with a strong interest in this product.

Next Challenges. Powell continues to prepare for the years ahead. Based on a strong cash position, Powell is engaged in an active acquisition program. Our objective is to find products with applications and marketplaces that complement our own.

In preparing for the future, we have strengthened our corporate management team. As part of that effort, Mark Reid joined Powell as Executive Vice President in August. Mark brings a fresh approach and broad experience to our business strategy and planning efforts.

As investors, you can be confident, as we are confident, of the strong position Powell continues to hold in this industry. We are still the same steadfast, committed company we were in the beginning. The economy may fluctuate and customers' needs may change, but Powell's core values — responsiveness, safety, quality, and reliability — continue to deliver innovation and added value in the marketplace. We appreciate the support and continued confidence our shareholders, customers, and employees have demonstrated, and we look forward with anticipation and confidence to the challenges the coming years will bring.

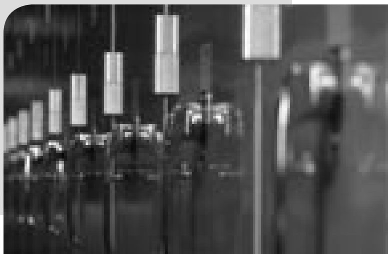
Thos W Powell

Thomas W. Powell
Chairman, President, and CEO

In an industry where many suppliers strive toward standardization, Powell brings a unique approach. We continue to specialize in the engineering and packaging of projects with distinctive needs — whether in location, technology, or logistics. Our ability to develop custom solutions makes us the preferred supplier for domestic and international customers who require this type of expertise.

We can expand our clients' capabilities, providing technical know-how and problem-solving skills to meet special challenges. Whether designing a new traffic control system or retrofitting an aging power plant, our strength lies in making large-scale projects manageable and successful, even under extreme circumstances.

On Task. In 2004, Powell delivered a completely integrated power substation with more than 25 vertical sections of metal-clad switchgear on time and on budget — as part of a multiyear partnership with a major Midwest municipal utility. Again and again, Powell delivers exactly what the customers want, exactly when they want it.



ON FOCUS

POWELL'S GREATEST STRENGTHS LIE IN ENGINEERING AND PROJECT MANAGEMENT. WE'RE THE COMPANY THAT CUSTOMERS CALL WHEN A CRITICAL PROCESS CONTROL OR DISTRIBUTION SYSTEM IS COMPLEX AND IT HAS TO BE DONE RIGHT AND ON TIME.

POWELL FOCUS

- Light Industry
- Heavy Industry
- Power Generation
- Power Distribution
- Process Management

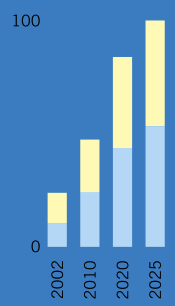
Powell has always been out in front of the marketplace. As environmental concerns mount, we continue to develop products and services for power alternatives such as wind, solar, and co-generation. Our development staff continually designs products that raise awareness and standards in safety and reliability. We are also taking the lead in smart systems that add monitoring and expand communications capabilities to system control equipment.

Following up on an extensive re-engineering effort, Powell continues to invest in improvements to our internal processes. A recently completed fabrication-and-finish facility measurably increased our production capacity and improved our process quality record.

On Earth. With custom engineering and manufacturing capabilities, Powell is one of the few companies able to respond to the requirements necessary for the development of new energy sources. Current and future legislation regarding wind, solar, and other renewable energy sources will only boost this activity in years to come.

ON
INNOVATION

WE ADVANCE THE MANAGEMENT OF CRITICAL PROCESSES IN EACH OF THE INDUSTRIES WE SERVE — ENERGY, MANUFACTURING, TRANSPORTATION, UTILITIES. OUR GOAL? MAKING THE SYSTEMS MORE EFFICIENT AND INTELLIGENT, AND THUS, MORE DEPENDABLE.



Nonhydroelectric Renewable Electricity Generation 2002-2025 (billion kilowatt hours)
Wind Geothermal
Source: Energy Information Administration

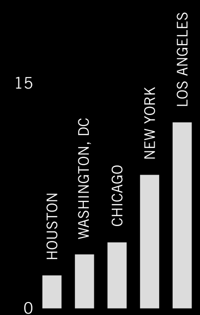
Powell consistently seeks markets and clients whose needs match our capabilities. Today we are responding to the needs of several regional municipalities and utilities as they improve systems to meet modern standards and expand to meet infrastructure demands. Our custom services and products are playing a role in rebuilding the nation’s power, transportation, water, and wastewater systems.

In addition, we are aggressively expanding our alliances overseas, increasing our commitment in Asia and the Middle East. Our aim is to take part in the global development that is projected for decades to come.

On Location. Powell’s integration and control capability works to improve the associated processes of both complex power systems and complex transportation systems. Our highway management systems optimize a city’s traffic infrastructure and offer a cost-effective alternative to the never-ending need for additional rebar, concrete, and asphalt.

ON
OPPORTUNITY

OUR GROWTH STEMS FROM THE NEED FOR CUSTOM QUALITY IN PROCESS CONTROL SYSTEMS — WE'RE SPECIALIZED PROBLEM-SOLVERS. THE BUILDING AND REBUILDING OF INFRASTRUCTURE WORLDWIDE REPRESENTS HUGE POTENTIAL FOR POWELL.



Annual Congestion Costs in Major U.S. Urban Areas (in billions of dollars)
Source: Texas Transportation Institute

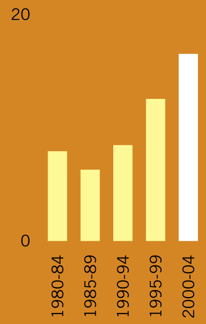
With our continued focus on reliability, safety, and efficiency, Powell's approach has earned confidence and loyalty from customers, and respect across the industry. We continue to expand both our product line and services to make Powell a more comprehensive provider.

Drawing on our technical expertise and established relationships, Powell has steadily expanded our involvement in aftermarket engineering and services. We are helping industrial customers make their facilities safer, more efficient, and more economical through upgrades in power distribution and control systems. Through advanced engineering services, Powell provides training and maintenance services to help our customers meet today's performance requirements.

On Line. Power systems for the pulp and paper industry both in the United States and around the world represented a significant portion of Powell's metal-clad switchgear installations during 2004. Specialized industries with unique requirements continue as a core market for Powell.

ON
DIRECTION

POWELL HAS ALWAYS FILLED UNIQUE SEGMENTS IN OUR MARKETS. WE SUPPLY SPECIALIZED SERVICES TO HELP OPTIMIZE CRITICAL PROCESSES BEFORE AND AFTER THE INITIAL EQUIPMENT DELIVERY. OUR TASK REMAINS: KEEPING THE PROCESS “ON.”



Powell Research & Development Expenditure (in millions of dollars)

ON
TO THE FUTURE

Powell today maintains the vision of our founders more than 50 years ago. We remain a consistent and reliable provider of custom-engineered solutions when a project involves extreme challenges and critical processes.

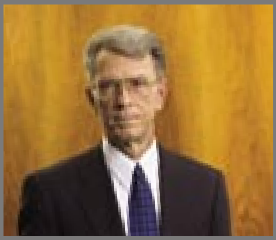
We continue to act as an engaged and reliable resource, to provide positive solutions, to earn the confidence of our customers. That is how we keep our relationships growing and our value clear.

Today's electrical market challenges traditional opportunities, but we are seeing and creating new possibilities. Powell is finding success in adapting to new markets, improving our operations to become a more effective provider, and earning our place in the new global marketplace.

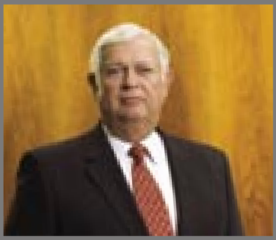
Constant effort keeps Powell focused, inventive, directed, and eager as the new investment cycle begins. That's what we mean by **"Always On."**

Board of Directors

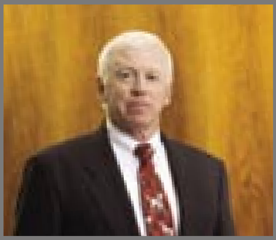
Thomas W. Powell
Chairman, President, and CEO



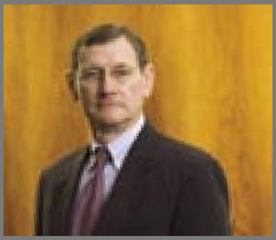
Joseph L. Becherer
Consultant



Eugene L. Butler
Chairman - Intercoastal Terminal, Inc.



James F. Clark
Vice President - Square D Corporation (Retired)

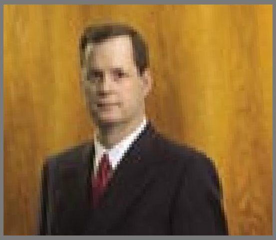


Stephen W. Seale, Jr.
Director - Operations, Materials and, Structures, Southwest Research Institute (Retired)

Robert C. Tranchon
President and CEO
Reveille Technology

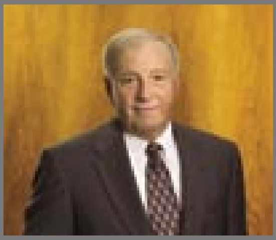
Ronald J. Wolny
Vice President - Fluor Daniel, Inc. (Retired)

Corporate Officers



Mark W. Reid
Executive Vice President

Don R. Madison
Vice President,
Chief Financial Officer



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

Robert B. Gregory
Corporate Controller

Consolidated Financial Highlights

Revenues
(in millions of dollars)

Net Income
(in millions of dollars)

Free Cash Flow**
(in millions of dollars)

Years Ended October 31,	2004	2003*	2002*	2001	2000
(In thousands, except per-share data)					
Consolidated Statement of Operations Data					
Revenues	$ 206,142	$ 253,381	$ 306,403	$ 271,243	$ 223,019
Gross Profit	35,977	48,796	67,520	56,797	40,679
Net Income	1,669	6,985	17,798	13,542	7,061
Per-Share Data					
Basic Earnings	0.16	0.66	1.69	1.30	0.68
Diluted Earnings	0.15	0.65	1.66	1.28	0.67
Consolidated Balance Sheet Data					
Working Capital	99,270	96,969	86,466	88,981	63,508
Total Assets	196,079	190,478	189,708	186,361	137,926
Long-Term Debt	6,626	6,891	7,264	21,285	5,714
Total Stockholders' Equity	139,835	136,364	128,100	109,369	94,087

* As restated, see Note O of the Notes to Consolidated Financial Statements.
** Free cash flow is defined as total cash flow from operations less all capital expenditures.

2004
FINANCIAL
REVIEW

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the accompanying consolidated financial statements and related notes. 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.

The effects of the restatement discussed in Note O of the Notes to Consolidated Financial Statements have been reflected in the accompanying Management's Discussion and Analysis of Financial Condition and Results of Operations.

OVERVIEW

We have continued to experience a significant reduction in market demand for our products. The difficult market conditions that existed in fiscal 2003 have continued through fiscal 2004. Additionally, market price levels have deteriorated as competition for available business volume intensified. However, we have been able to expand revenues related to system modification and equipment replacement as customers look for ways to extend the lives of their existing systems.

Although we currently face reduced demand and prices, there are indications of improvement in our principal markets. Historically, business expansion within our principal markets—public and private utilities, heavy industry and public agencies—have lagged general economic trends by six to twelve months as our revenues are principally driven by new capital investments. One of the positive trends we have experienced is an increase in new order activity. Orders received during the third and fourth quarters of fiscal 2004 totaled $42.1 million and $62.5 million, respectively, versus $35.8 million and $36.3 million in the same periods a year ago. We are optimistic that we will see further improvement in fiscal 2005.

In anticipation of improving business opportunities, we are taking advantage of lower production volumes to make necessary capital improvements to our manufacturing facility in Houston, Texas. We have committed to capital improvement projects totaling $6.1 million. These projects include a new metal finishing and paint system and replacement of some older metal fabricating equipment with a laser cut fabricating center and material handling system. Consistent with other lean initiatives, these investments will improve our quality and efficiency as well as lead to lower working capital requirements. These projects are scheduled to be completed in March 2005.

We also expect international business opportunities to strengthen. To enhance our ability to serve the oil and gas and petrochemical industries, we increased our interest in Powell Industries Asia Private Limited (PIA) from 50% to 60% on August 1, 2004. Since that time, these operations have been fully consolidated in our financial statements. PIA was formed in 2000 as a joint venture between Powell and Rotary Engineering Limited, Singapore (Rotary). We anticipate the business opportunities to increase, and, with increased support from our domestic operations, we should be able to improve our ability to support the development of oil and gas production in Southeast Asia.

To reduce overhead costs and improve efficiency, we initiated a consolidation plan that will reduce the number of facilities within our Electrical Power Products segment. During 2004, we consolidated our Greenville, Texas, and North Canton, Ohio, operations, closing the Greenville facility as of June 30; we consolidated our Elyria, Ohio, and Northlake, Illinois, operations, closing the Elyria facility as of October 31; and in September, we announced plans to consolidate our Watsonville, California, and Houston, Texas, operations, exiting the leased Watsonville facility by December 31, 2004. Total pretax expenses associated with these plant closings are estimated to be approximately $2.6 million. In fiscal 2004, we incurred pretax expenses associated with the plant closings of $2.2 million. For additional information related to consolidation costs, see Note M of the Notes to Consolidated Financial Statements.

RESULTS OF OPERATIONS

Year ended October 31, 2004, compared with year ended October 31, 2003

Revenue and Gross Profit

Consolidated revenues decreased 19% to $206.1 million in fiscal 2004 compared to fiscal year 2003 revenues of $253.4 million. Domestic revenues decreased $36.9 million to $176.7 million in 2004 compared to 2003. Revenues outside of the United States accounted for 14% of consolidated revenues in fiscal 2004 compared to 16% in 2003.

Electrical Power Products

Our Electrical Power Products segment recorded revenues of $173.5 million in fiscal 2004 compared to $227.0 million in fiscal 2003. Customers have been reluctant to commit to new capital construction projects throughout fiscal 2004 due to economic uncertainty. However, we have been able to expand revenues related to system modification and equipment replacement as customers look for ways to extend the lives of their existing systems. Overall, we have experienced a decline in revenues in each of our major markets. Revenues from industrial customers were $98 million in 2004 compared to

$125 million in 2003. Utility revenues were $59 million in 2004 compared to $79 million in 2003. Municipal and transit projects generated revenues of $17 million compared to $23 million a year ago.

Gross profit, as a percentage of revenues, decreased to 16.8% in fiscal 2004 from 18.8% in fiscal 2003. Fiscal 2004 costs of goods sold included one-time expenses of $1.8 million to consolidate our operations. Consolidation expenses include employee severance, training and equipment relocation costs. Inflationary pressures, primarily due to higher commodity prices in copper, aluminum and steel, increased direct material expenses by approximately 4%, or $3.3 million, compared to fiscal 2003.

Both revenue and gross profit have been adversely impacted by competitive pricing in a depressed marketplace. Partially offsetting adverse market conditions have been the results of our efforts to reduce our production overhead costs by improving operating efficiencies through the implementation of lean initiatives.

Process Control Systems

Revenues in our Process Control Systems segment increased 24% to $32.7 million compared to $26.4 million in fiscal 2003. The increase in revenue is primarily attributed to our contract to design and build Intelligent Transportation Systems (ITS) for the Holland and Lincoln tunnels for the Port Authority of New York and New Jersey. This contract accounted for $14.3 million of segment revenues in fiscal 2004 and $4.2 million in fiscal 2003. As of October 31, 2004, the remaining value associated with this project in our backlog was $19.5 million, or 44% of segment backlog, which is expected to be recognized as revenue in 2005. Export revenue increased to $0.8 million in fiscal 2004 from $0.7 million in fiscal 2003.

Segment gross profit, as a percentage of revenues, was 21.0% in fiscal 2004, compared to 23.5% in fiscal year 2003. Gross profits as a percentage of revenues were reduced in 2004 due to the large amount of subcontract work and material pass-through purchases on the Holland and Lincoln tunnels contract, which typically will generate significantly lower profits compared to our other professional services.

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

Consolidated Operating Expenses

Selling, general and administrative expenses were $35.4 million, or 17.2% of revenues, in fiscal 2004 compared to $35.3 million, or 13.9% of revenues, in fiscal 2003. In fiscal 2004, accounting and auditing fees increased $0.8 million compared to 2003, primarily attributable to Sarbanes-Oxley compliance efforts. One-time consolidation expenses of $0.4 million were incurred in fiscal 2004. These expenses were costs associated with actions to consolidate our operations and close certain facilities which represented excess capacity. The benefit of lower operating overheads should be realized beginning in 2005. Excluding the impact of these increases, selling, general and administrative expenses would have decreased consistent with revenues.

Research and development expenditures were $3.5 million in 2004 compared to $3.6 million in fiscal 2003. Our research efforts are directed toward the discovery and development of new products and processes as well as improvements in existing products and processes. Research and development costs are included in selling, general and administrative expenses.

Interest Income and Expense

We incurred $0.1 million in interest expense in fiscal 2004 compared to $0.4 million in fiscal 2003. Interest expense has been reduced by favorable interest rates and decreasing balances on our industrial revenue bond debt. Our industrial revenue bonds have scheduled payments of $0.4 million that become due each year in October. Additionally, in fiscal 2003, we incurred $0.2 million in interest expense on our term loan and the associated interest rate swap. In September 2003, we paid the remaining principal balance on our term loan, which has reduced our interest expense.

We earned $0.9 million in interest income in fiscal 2004 compared to $0.6 million in the previous year. Interest income increased primarily due to higher levels of invested funds.

Provision for Income Taxes

Our income tax provision/(benefit) for fiscal 2004 and 2003 was ($0.3 million) and $6.1 million, and our effective tax rate was (21%) and 45%, respectively. During 2004, we recorded several nonrecurring tax adjustments related to the following items:

a) A $0.4 million benefit was recorded primarily for the benefit of revised extraterritorial income exclusion amounts for the years ended 2002 and 2003. This benefit was derived by calculating the extraterritorial income exclusion amount on a transaction by transaction basis in 2004, as opposed to an aggregate basis as originally estimated.
b) A $0.3 million valuation allowance related to capital losses was released in 2004. We entered into an agreement in 2004 to sell a capital asset that will trigger enough capital gain to utilize the capital loss carryforward; and
c) We released $0.2 million of state income tax reserve in 2004 due to acceptance by certain state taxing authorities of voluntary disclosure agreements in 2004.

Without these adjustments, our 2004 effective tax rate would have been 40%.

Net Income

Net income was $1.7 million, or $0.15 per diluted share, in fiscal year 2004 compared to $7.0 million, or $0.65 per diluted share, in fiscal year 2003. The decrease in net income primarily relates to lower business volume and decreased gross profits in fiscal 2004. Gross profits declined as a result of one-time consolidation costs, inflationary pressures on materials costs, and depressed market price levels. Partially offsetting lower gross profits were higher interest income and a net income tax benefit.

In fiscal 2003, net income was negatively impacted as a result of our adoption of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." During the first quarter of fiscal 2003, we recorded a goodwill impairment loss of $0.5 million as a cumulative effect of a change in accounting principle. The goodwill impairment charge accounted for a loss of $0.05 per diluted share a year ago.

Year ended October 31, 2003, compared with year ended October 31, 2002

Revenue and Gross Profit

Consolidated revenues decreased 17% to $253.4 million in fiscal 2003 as compared to fiscal year 2002 revenues of $306.4 million. Domestic revenues decreased $64.8 million to $213.6 million in 2003 compared to 2002. Despite weaknesses in domestic markets, new investments in oil and gas production facilities contributed to increased international revenues in fiscal 2003. Revenues outside of the United States accounted for 16% of consolidated revenues in 2003 compared to 9% in 2002.

Electrical Power Products

Our Electrical Power Products segment recorded revenues in fiscal 2003 of $227.0 million compared to $283.6 million in fiscal 2002. Revenues from public and private utilities fell by 55% in fiscal 2003. In particular, there was a significant decline in new investments in electrical power generation facilities. Utility revenues were $79 million in 2003 compared to a record $173 million in 2002. Our municipal customers faced a reduced tax base with which to fund infrastructure projects in 2003. Municipal and transit projects generated revenues of $23 million compared to $29 million in 2002. However, revenues from industrial customers totaled $125 million in fiscal 2003, an increase of $44 million, or 54%, over 2002. This increase in revenue from industrial customers resulted primarily from revenues related to the manufacture and delivery of power control modules for new oil and gas production facilities. These long-term projects to construct new oil and gas production facilities were initiated by our customers during 2001 and 2002.

Gross profit, as a percentage of revenues, was 18.8% in fiscal 2003, compared to 22.0% in fiscal year 2002. Gross profit has been adversely impacted by lower production volumes and competitive pricing pressures. Partially offsetting adverse market conditions were the results of our efforts to reduce our costs of production by improving operating efficiencies through the implementation of lean initiatives. In addition, we incurred an impairment loss of $0.4 million to decrease the carrying value of machinery and equipment to their estimated market value. This impairment loss resulted from our decision to discontinue certain product lines. These product lines generated aggregate revenues of less than $1.0 million in fiscal 2003.

Process Control Systems

Revenues in our Process Control Systems segment increased 16% to $26.4 million compared to $22.8 million in fiscal 2002. Our most significant award during 2003 was a contract to design and build Intelligent Transportation Systems (ITS) for the Holland and Lincoln tunnels from the Port Authority of New York and New Jersey valued at $37.4 million as of October 31, 2003. Revenue attributable to this project totaled $4.2 million during fiscal 2003. Gross profit, as a percentage of revenues, was 23.5% in fiscal 2003, compared to 23.0% in fiscal year 2002.

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

Consolidated Operating Expenses

Selling, general and administrative expenses increased to 13.9% of revenues in fiscal 2003 compared to 12.7% of revenues in fiscal year 2002. Our commitment to continue to develop our customer markets and products resulted in an increase in operating expenses relative to our revenues. Research and development expenditures were $3.6 million in fiscal 2003 compared to $3.4 million in fiscal year 2002. 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

We incurred $0.4 million in interest expense on our term debt and outstanding industrial development revenue bonds during fiscal 2003 compared to $0.5 million in 2002. As a result of lower levels of debt and decreased interest rates, our interest expense has declined.

Interest income increased by $0.3 million to $0.6 million in 2003 compared to the same period of the previous year. An increase in invested funds during 2003 has been partially offset by the lower interest rate environment.

Provision for Income Taxes

Our provision for income taxes reflects an effective tax rate on earnings before income taxes of 45.0% in fiscal 2003 compared to 37.1% in fiscal 2002. Included in our provision is $1.3 million for state taxes (net of federal tax benefit), of which $0.9 million reflects revised estimates in state tax exposures related to prior years. Over the past several years, our business has expanded and we are now conducting activities in more states. We have accordingly increased our estimates for such state tax exposures.

Cumulative Effect of Change in Accounting Principle

As a result of the adoption of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," we recorded a goodwill impairment loss of $0.5 million, net of $0.3 million taxes, as a cumulative effect of a change in accounting principle during the first quarter of 2003. We recorded an impairment charge of $0.4 million, net of $0.2 million taxes, to write off the full value of goodwill in our Process Control Systems segment. In our Electrical Power Products segment, we recorded an impairment charge of $0.1 million, net of approximately $71,000 taxes. The goodwill impairment charge accounted for a loss of $0.05 per diluted share.

Net Income

Net income was $7.0 million, or $0.65 per diluted share, in fiscal year 2003 compared to $17.8 million, or $1.66 per diluted share, in fiscal year 2002. The decrease in net income primarily relates to lower business volume and decreased gross profits in fiscal 2003. Additionally, net income was negatively impacted as a result of an impairment loss of $0.2 million, net of taxes, recorded to decrease the carrying value of machinery and equipment; an increase in estimates for state tax exposures related to prior years of $0.9 million, net of federal tax benefits; and the net effect of a change in accounting principle related to goodwill accounted for $0.5 million. Each of these adjustments to net income is discussed in the Notes to Consolidated Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES

Year ended October 31, 2004, compared with year ended October 31, 2003

We have continued to improve our liquidity position. Working capital was $99.3 million at October 31, 2004, compared to $97.0 million at October 31, 2003. As of October 31, 2004, current assets exceeded current liabilities by 3.1 times and our debt to capitalization ratio was less than 0.1 to 1.

At October 31, 2004, we had cash, cash equivalents and marketable securities of $63.2 million, compared to $42.3 million at October 31, 2003. Long-term debt, including current maturities, totaled $7.1 million at October 31, 2004, compared to $7.4 million at October 31, 2003. In addition to our long-term debt, we maintain a revolving credit agreement which at year end provided for a borrowing capacity of $15 million through February 2007. As of October 31, 2004 and 2003, there were no outstanding borrowings under this line of credit. For further information regarding our debt, see Note G of the Notes to Consolidated Financial Statements.

Operating Activities

Net cash provided by operating activities was $24.9 million for fiscal 2004. A net reduction in operating assets and liabilities provided $20.1 million, with the remainder of the increase related to net earnings adjusted for depreciation, amortization and other noncash expenses. Of the $20.1 million provided by the net reduction in operating assets and liabilities, $14.5 million was provided due to a reduction of investments in contract costs and inventories as projects in our backlog reached contractual billing milestones. In addition, lower sales volumes have resulted in less cash being reinvested in operating assets. During fiscal 2003, operating activities provided net cash of $36.5 million, of which $22.5 million resulted from a reduction in operating assets and liabilities, with the remainder of the increase related to net earnings adjusted for depreciation, amortization and other noncash expenses.

Investing Activities

Investments in property, plant and equipment during fiscal 2004 totaled $6.5 million compared to $4.5 million in fiscal 2003. The majority of our 2004 capital investments will be used to improve our capabilities to manufacture switchgear and electrical power control rooms. We have committed to capital projects totaling $6.1 million to acquire a new metal finishing and paint system, a laser cut fabricating center, and material handling system. As of the end of fiscal 2004, we have incurred costs of $4.2 million for these projects. We expect to incur the balance during the first half of 2005. Consistent with other lean initiatives, these investments will improve our quality and efficiency as well as lead to lower working capital requirements.

Proceeds from the sale of fixed assets provided cash of $1.8 million in fiscal 2004, primarily from the sale of our Franklin Park, Illinois, manufacturing facility, which was idled in 2002. Net trades in marketable securities provided cash of $1.8 million in fiscal 2004. During 2003, we purchased $5.8 million of these investment-grade corporate bonds and classified them as available for sale. The maturity dates of these bonds vary from one to nine years.

Financing Activities

Net cash provided by financing activities was $0.6 million in fiscal 2004, primarily from the exercise of stock options. Net cash used in financing activities in fiscal 2003 was $3.7 million. In September 2003, we paid the remaining principal balance on our term loan. The repayment of this loan was the primary use of cash for financing activities in fiscal year 2003.

Contractual Obligations

At October 31, 2004, our long-term contractual obligations were limited to debt and leases. The table below details our commitments by type of obligation and the period that the payment will become due (in thousands).

As of October 31, 2004

Payments Due by Period	Long-Term Debt Obligations	Capital Lease Obligations	Operating Lease Obligations	Total
Less than 1 year	$ 419	$ 55	$ 1,694	$ 2,168
1 to 3 years	858	98	2,731	3,687
3 to 5 years	800	70	1,438	2,308
More than 5 years	4,800	—	—	4,800
Total long-term contractual obligations	$ 6,877	$ 223	$ 5,863	$12,963

We are contingently liable for secured and unsecured letters of credit of $10.3 million as of October 31, 2004. We also had performance bonds totaling approximately $167.9 million that were outstanding at October 31, 2004. Performance bonds are used to guarantee contract performance to our customers.

Year ended October 31, 2003, compared with year ended October 31, 2002

Working capital was $97.0 million at October 31, 2003, compared to $86.5 million at October 31, 2002. As of October 31, 2003, current assets exceeded current liabilities by 3.2 times and our debt-to-capitalization ratio was less than 0.1 to 1.

At October 31, 2003, we had cash, cash equivalents and marketable securities of $42.3 million, compared to $14.4 million at October 31, 2002. Long-term debt, including current maturities, totaled $7.4 million at October 31, 2003, compared to $12.0 million at October 31, 2002. In addition to our long-term debt, we maintain a revolving credit agreement which at year-end 2003 provided for a credit facility of $15 million through February 2006. As of October 31, 2003, there were no borrowings under this line of credit. For further information regarding our debt, see Note G of the Notes to Consolidated Financial Statements.

Operating Activities

Net cash provided by operating activities was $36.5 million for fiscal 2003. A net reduction in operating assets and liabilities provided $22.5 million, with the remainder of the increase related to net earnings adjusted for depreciation, amortization and other noncash expenses. During fiscal 2002, operating activities provided net cash of $31.7 million, of which $8.8 million resulted from a reduction in operating assets and liabilities.

Investing Activities

Investments in property, plant and equipment during fiscal 2003 totaled $4.5 million compared to $13.9 million in fiscal 2002. The majority of these expenditures were used to complete a project initiated during 2002 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.

During 2003, we purchased $5.8 million of investment-grade corporate bonds. As of October 31, 2003, the maturity dates of these bonds vary from five to nine years.

Financing Activities

Financing activities used $3.7 million in fiscal 2003. Approximately $4.8 million was used for repayments on our long-term debt. Other financing activities were limited primarily to the exercise of stock options. During fiscal 2002, net cash used by financing activities was $10.0 million, primarily from payments on long-term debt.

OUTLOOK FOR FISCAL 2005

We expect our principal markets to strengthen throughout 2005. Customer inquiries, or requests for proposals, have steadily strengthened during the second half of fiscal 2004. One of the positive trends we have experienced is an increase in new order activity. Orders received during the third and fourth quarters of fiscal 2004 totaled $42.1 million and $61.5 million, respectively, versus $35.8 million and $36.3 million in the same periods a year ago. We are optimistic that we will see further improvement in fiscal 2005.

In our Electrical Power Products segment, third and fourth quarter orders increased both sequentially and year over year. In addition, we expect to realize lower overhead expenses and increased efficiencies as a result of our consolidation efforts and capital improvements, both of which should improve our competitive position. Although our Process Controls Systems segment continues to experience soft market conditions, we anticipate increased funding for municipal projects will be available as general economic conditions strengthen. We believe we will be well positioned to take advantage of improving economic conditions.

We anticipate that we will begin reinvesting a portion of our cash in operating working capital in fiscal 2005. Working capital needs are anticipated to increase with growing levels of business activity. We believe that working capital, borrowing capabilities and funds generated from operations will be sufficient to finance anticipated operational activities, capital improvements, debt repayment and possible future acquisitions for the foreseeable future.

EFFECTS OF INFLATION AND RECESSION

In 2003, we experienced a significant deterioration in business volume due to the effects of the U.S. economy on our markets and customers. New investments in infrastructure projects were curtailed in both our utility and industrial market segments. Our municipal clients faced a reduced tax base with which to fund infrastructure projects. Along with indications of an improving U.S economy, new business inquiry levels strengthened throughout 2004. The pace of orders grew stronger as 2004 progressed, and we ended the year with an order rate that we have not experienced since 2002. We anticipate these conditions will continue into 2005.

As the U.S. economy began to show signs of improvement, we experienced significant price pressures with our key raw materials, primarily copper, aluminum and steel. Competitive market pressures limited our ability to pass these cost increases to our customers. These competing pressures eroded our earnings in 2004. We anticipate these inflationary pressures will continue to adversely impact our operations in 2005.

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

Revenue Recognition

Our revenues are generated from the engineering and manufacturing of custom products. We recognize revenues under both the completed contract method and the percentage-of-completion method, depending upon the duration and the scope of the project. At the onset of each project, the size, scope and duration of the contract is reviewed to determine the appropriate revenue recognition method, based upon company policy and applicable accounting standards. Due to the long-term and fixed-price nature of the projects in the Process Control Systems segment, all revenues are recorded using percentage-of-completion. However, projects in the Electrical Power Products segment vary widely; thus, both the completed contract and percentage-of-completion methods are used. During the last three years, approximately 61% to 71% of revenues in our Electrical Power Product's segment were recognized using the percentage of completion method.

Under the completed contract method, revenues are recognized upon the transfer of title, which is generally at the time of shipment or delivery (depending upon the terms of the contract), when all significant contractual obligations have been satisfied, the price is fixed or determinable and collectibility is reasonably assured. We use shipping documents and customer acceptance, when applicable, to verify the transfer of title to the customer. We assess whether the price is fixed or determinable based on the payment terms associated with the transaction and whether the sales price is subject to refund or adjustment. Collectibility is assessed based on the creditworthiness of the customer assessed through credit verification, the customer's payment history and other relevant factors.

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

Allowance for Doubtful Accounts

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

Impairment of Long-Lived Assets

We have significant investments in long-lived assets, including property and equipment and goodwill. We evaluate the recoverability of the carrying amount of long-lived assets whenever events or changes in circumstances indicate that the carrying value of an asset may not be fully recoverable. The review for impairment of long-lived assets and goodwill takes into account estimates of future cash flows. Our estimates of future cash flows are based upon budgets and longer-range plans. These budgets and plans are used for internal purposes and are also the basis for communication with outside parties about future business trends. While we believe the assumptions we use to estimate future cash flows are reasonable, there can be no assurance that the expected future cash flows will be realized. As a result, impairment charges that possibly should have been recognized in earlier periods may not be recognized until later periods if actual cash flows deviate unfavorably from earlier estimates. For assets held for sale or disposal, the fair value of the asset is measured using quoted market prices or an estimation of net realizable value. Based on general economic conditions and conditions specific to our industry, the ultimate amounts realized on assets held for sale may differ materially from their currently estimated realizable values.

Accruals for Contingent Liabilities

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

Accounting for Income Taxes

We account for income taxes under the asset and liability method. This approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. Developing our provision for income taxes requires significant judgment and expertise in federal and state income tax laws, regulations and strategies, including the determination of deferred tax assets and liabilities and, if necessary, any valuation allowances that may be required for deferred tax assets. We recorded a state tax valuation allowance of approximately $54,000 during the year ended October 31, 2004. We have not recorded any other valuation allowances as of October 31, 2004, because we believe that future taxable income will, more likely than not, be sufficient to realize the benefits of those assets as the temporary differences in basis reverse over time. Our judgments and tax strategies are subject to audit by various taxing authorities. While we believe we have provided adequately for our income tax liabilities in the consolidated financial statements, adverse determinations by taxing authorities could have a material adverse effect on our consolidated financial condition and results of operations.

NEW ACCOUNTING STANDARDS

In November 2003, the Emerging Issues Task Force (EITF) reached a consensus opinion on EITF 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." EITF 03-1 provides guidance on the new requirements for other-than-temporary impairment and its application to debt and marketable equity investments that are accounted for under SFAS No. 115. The new requirements are effective for fiscal years ending after December 15, 2003. The adoption of EITF 03-1 during the quarter ended January 31, 2004, had no impact on our consolidated financial position, results of operations or cash flows.

In March 2004, the EITF reached a consensus opinion on EITF 03-06, "Participating Securities and the Two-Class Method under FASB Statement No. 128, Earnings Per Share." EITF 03-06 provides guidance in applying the two-class method of calculating earnings per-share for companies that have issued securities other than common stock that contractually entitle the holder to participate in any dividends declared and earnings of the company. The opinion defines what constitutes a participating security and how to apply the two-class method of calculating earnings per-share to those securities. EITF 03-06 became effective during the quarter ended July 31, 2004, and the adoption did not have an impact on our calculation of earnings per-share.

In May 2004, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement, and Modernization Act of 2003," to provide accounting and disclosure guidance for employers that sponsor postretirement health care plans that provide prescription drug benefits. The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (the "Act") was signed into law on December 8, 2003. The Act introduces a prescription drug benefit under Medicare as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. The new requirements are effective for interim periods beginning after June 15, 2004. We provide postretirement health benefits that include prescription drug benefits, but this benefit ends when the employee reaches the age of 65. The adoption of FSP 106-2 during the quarter ended October 31, 2004, had no impact on our postretirement benefit cost.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs, an Amendment of ARB No. 43, Chapter 4." The amendments made by SFAS No. 151 clarify that abnormal amounts of idle facility expense, freight, handling costs and wasted materials (spoilage) should be recognized as current-period charges and require the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. The guidance is effective for inventory costs incurred during fiscal years beginning after November 23, 2004. We do not believe the adoption of SFAS No. 151 will have a material impact on our consolidated financial position, results of operations or cash flows.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment." SFAS No. 123(R) will require that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. SFAS No. 123(R) covers a wide range of share-based compensation arrangements, including share options, restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans. SFAS No. 123(R) replaces FASB Statement No. 123, "Accounting for Stock-Based Compensation," and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS No. 123, as originally issued in 1995, established as preferable a fair value-based method of accounting for share-based payment transactions with employees. However, that Statement permitted entities the option of continuing to apply the guidance in APB Opinion No. 25, as long as the footnotes to financial statements disclosed what net income would have been had the preferable fair value-based method been used. Public entities will be required to apply SFAS No. 123(R) as of the first interim or annual reporting period that begins after June 15, 2005. We are in the process of evaluating the impact the adoption of SFAS No. 123(R) will have on our consolidated financial position, results of operations and cash flows.

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 are subject to market risk resulting from changes in interest rates related to our outstanding debt and investments in marketable debt securities. Regarding our various debt instruments outstanding at October 31, 2004 and 2003, a 100-basis-point increase in interest rates would result in a total annual increase in interest expense of less than $75,000. Our investments in marketable debt securities are carried at fair value on the consolidated balance sheet, with unrealized gains and losses reported in other comprehensive income. Changes in interest rates will affect the fair value of the marketable securities as reported. While we do not currently have any derivative contracts to hedge our exposure to interest rate risk, we have in the past and may in the future enter into such contracts. Overall, we believe that changes in interest rates will not have a material near-term impact on our future earnings or cash flows. During each of the past three years, we have not experienced a significant effect on our business due to changes in interest rates.

Our market risk associated with foreign currency rates is not considered to be material, since we primarily arrange compensation in U.S. dollars. During each of the past three years, we have not experienced a significant effect on our business due to fluctuations in foreign exchange rates.

We are subject to market risk from fluctuating market prices of certain raw materials. While such materials are typically available from numerous suppliers, commodity raw materials are subject to price fluctuations. We attempt to pass along such commodity price increases to our customers on a contract-by-contract basis to avoid profit margin erosion. While we may do so in the future, we have not entered into any derivative contracts to hedge our exposure to commodity risk in fiscal years 2004, 2003 or 2002. During 2004, we experienced significant price pressures with some of our key raw materials. Competitive market pressures limited our ability to pass these cost increases to our customers, thus eroding our earnings in 2004. We did not experience a significant effect on our business due to fluctuations in commodity prices in 2003 or 2002. Fluctuations in commodity prices may have a material near-term effect on our future earnings and cash flows.

POWELL INDUSTRIES, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per-share data)

October 31,	2004	2003
Assets		(As Restated, See Note O)
Current Assets:		
Cash and cash equivalents	$ 59,259	$ 36,788
Marketable securities	3,923	5,528
Accounts receivable, less allowance for doubtful accounts of $617 and $1,283, respectively	42,659	45,265
Costs and estimated earnings in excess of billings on uncompleted contracts	19,822	32,174
Inventories	15,332	18,060
Income taxes receivable	1,179	1,045
Deferred income taxes	729	—
Prepaid expenses and other current assets	2,717	2,453
Total Current Assets	145,620	141,313
Property, plant and equipment, net	45,041	43,998
Other assets	5,418	5,167
Total Assets	$ 196,079	$ 190,478
Liabilities and Stockholders' Equity		
Current Liabilities:		
Current maturities of long-term debt and capital lease obligations	$ 474	$ 468
Income taxes payable	1,358	1,999
Accounts payable	14,239	14,342
Accrued salaries, bonuses and commissions	7,964	6,396
Billings in excess of costs and estimated earnings on uncompleted contracts	15,174	13,216
Accrued product warranty	1,545	1,929
Other accrued expenses	5,596	5,994
Total Current Liabilities	46,350	44,344
Long-term debt and capital lease obligations, net of current maturities	6,626	6,891
Deferred compensation	1,744	1,608
Other liabilities	1,306	1,271
Total Liabilities	56,026	54,114
Commitments and contingencies (Note K)		
Minority interest	218	—
Stockholders' Equity:		
Preferred stock, par value $.01; 5,000,000 shares authorized; none issued		
Common stock, par value $.01; 30,000,000 shares authorized; 11,000,000 and 10,994,000 shares issued, respectively; 10,730,000 and 10,641,000 shares outstanding, respectively	110	110
Additional paid-in capital	9,433	8,961
Retained earnings	134,419	132,750
Treasury stock, 270,000 and 352,000 shares, respectively, at cost	(2,514)	(3,312)
Accumulated other comprehensive income (loss)	54	(118)
Deferred compensation	(1,667)	(2,027)
Total Stockholders' Equity	139,835	136,364
Total Liabilities and Stockholders' Equity	$ 196,079	$ 190,478

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

POWELL INDUSTRIES, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per-share data)

Years Ended October 31,	2004	2003	2002
		(As Restated, See Note O)	(As Restated, See Note O)
Revenues	$ 206,142	$ 253,381	$ 306,403
Cost of goods sold	170,165	204,585	238,883
Gross profit	35,977	48,796	67,520
Selling, general and administrative expenses	35,357	35,339	39,031
Income before interest, income taxes and cumulative effect of change in accounting principle	620	13,457	28,489
Interest expense	136	403	508
Interest income	(880)	(578)	(298)
Income from continuing operations before income taxes and cumulative effect of change in accounting principle	1,364	13,632	28,279
Income tax provision (benefit)	(282)	6,137	10,481
Minority interest in net loss	(23)	—	—
Income from continuing operations before cumulative effect of change in accounting principle	1,669	7,495	17,798
Cumulative effect of change in accounting principle, net of tax	—	(510)	—
Net income	$ 1,669	$ 6,985	$ 17,798

Net Earnings per Common Share

Basic:			
Earnings from continuing operations	$ 0.16	$ 0.71	$ 1.69
Cumulative effect of change in accounting principle	—	(0.05)	—
Net earnings	$ 0.16	$ 0.66	$ 1.69
Diluted:			
Earnings from continuing operations	$ 0.15	$ 0.70	$ 1.66
Cumulative effect of change in accounting principle	—	(0.05)	—
Net earnings	$ 0.15	$ 0.65	$ 1.66
Weighted Average Shares:			
Basic	10,688	10,591	10,511
Diluted	10,774	10,681	10,698

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

POWELL INDUSTRIES, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands)

	Other Comprehensive Income	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Deferred Compensation	Total
Balance, November 1, 2001		10,964	$ 109	$ 8,680	$ 107,967	$ (4,887)	$ (140)	$ (2,360)	$ 109,369
Net income (As Restated, See Note O)	$17,798				17,798				17,798
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	(627)		962			336
Income tax benefit from stock options exercised				292					292
Comprehensive Income (As Restated, See Note O)	$17,851								
Balance, October 31, 2002 (As Restated, See Note O)		10,979	110	8,345	125,765	(3,925)	(87)	(2,108)	128,100
Net income (As Restated, See Note O)	6,985				6,985				6,985
Amortization of deferred compensation-ESOP								277	277
Change in value of interest rate swap, net of $49 income taxes	87						87		87
Change in value of marketable securities, net of $64 income taxes	(118)						(118)		(118)
Exercise of stock options				131		510			641
Income tax benefit from stock options exercised				119					119
Issuance of stock		15		366		103		(196)	273
Comprehensive Income (As Restated, See Note O)	$ 6,954								
Balance, October 31, 2003 (As Restated, See Note O)		10,994	110	8,961	132,750	(3,312)	(118)	(2,027)	136,364
Net income	1,669				1,669				1,669
Foreign currency translation adjustments, net of $11 income taxes	17						17		17
Change in value of marketable securities, net of $85 income taxes and reclassification adjustment (see Note B)	155						155		155
Amortization of deferred compensation-ESOP								297	297
Exercise of stock options				240		798			1,038
Income tax benefit from stock options exercised				157					157
Amortization of restricted stock								63	63
Issuance of stock		6		75					75
Comprehensive Income	$ 1,841								
Balance, October 31, 2004		11,000	$ 110	$ 9,433	$ 134,419	$ (2,514)	$ 54	$ (1,667)	$ 139,835

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

POWELL INDUSTRIES, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

Years Ended October 31,	2004	2003	2002
		(As Restated, See Note O)	(As Restated, See Note O)
Operating Activities:			
Net income	$ 1,669	$ 6,985	$ 17,798
Adjustments to reconcile net income to net cash provided by operating activities:			
Cumulative effect of change in accounting principle, net of tax	—	510	—
Depreciation and amortization	4,533	5,155	4,898
(Gain) loss on disposition of assets	(184)	75	68
Loss on impairment of assets	535	382	—
Deferred income taxes	(1,718)	823	75
Changes in operating assets and liabilities:			
Accounts receivable, net	2,620	24,256	7,071
Costs and estimated earnings in excess of billings on uncompleted contracts	12,353	654	3,336
Inventories	2,193	1,498	1,867
Prepaid expenses and other current assets	(728)	(147)	110
Other assets	72	(442)	(436)
Accounts payable and income taxes payable	(704)	551	(2,907)
Accrued liabilities	1,640	(4,503)	659
Billings in excess of costs and estimated earnings on uncompleted contracts	1,958	(262)	(1,380)
Deferred compensation	491	364	370
Other liabilities	178	568	137
Net cash provided by operating activities	24,908	36,467	31,666
Investing Activities:			
Proceeds from sale of fixed assets	1,766	—	—
Purchases of property, plant and equipment	(6,472)	(4,541)	(13,872)
Purchase of additional interest in consolidated subsidiary	(66)	—	—
Sales of marketable securities	2,773	—	—
Purchases of marketable securities	(1,018)	(5,763)	—
Net cash used in investing activities	(3,017)	(10,304)	(13,872)
Financing Activities:			
Borrowings on revolving line of credit	516	—	14,450
Repayments on revolving line of credit	(516)	—	(23,450)
Borrowing on long-term debt and capital lease obligations	—	103	—
Repayments of long-term debt and capital lease obligations	(458)	(4,754)	(1,704)
Proceeds from issuance of stock	—	273	—
Proceeds from exercise of stock options	1,038	641	752
Net cash provided by (used in) financing activities	580	(3,737)	(9,952)
Net increase in cash and cash equivalents	22,471	22,426	7,842
Cash and cash equivalents at beginning of year	36,788	14,362	6,520
Cash and cash equivalents at end of year	$ 59,259	$ 36,788	$ 14,362
Supplemental Disclosures of Cash Flow Information:			
Cash paid during the period for:			
Interest	$ 134	$ 423	$ 566
Income taxes	$ 1,930	$ 5,252	$ 8,200
Noncash Investing and Financing Activities:			
Change in fair value of interest rate swap, net of $0, $49 and $33 income taxes, respectively	$ —	$ 87	$ 53
Change in fair value of marketable securities, net of $85 and $64 income taxes, respectively	$ 207	$ (118)	$ —
Issuance of common stock for deferred directors' fees	$ 75	$ —	$ —
Assets acquired under capital lease obligations	$ 200	$ —	$ —

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

POWELL INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. BUSINESS AND ORGANIZATION

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 Delaware in 2004 as a successor to a Nevada company incorporated in 1968. The Nevada corporation was the successor to a company founded by William E. Powell in 1947, which merged into the Company in 1977. Our major subsidiaries, all of which are wholly owned, include: Powell Electrical Systems, Inc.; Transdyn Controls, Inc.; and Powell Industries International, Inc.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Powell Industries, Inc. and its wholly owned subsidiaries. The financial position and results of operation of our Singapore joint venture, in which we acquired a majority ownership on August 1, 2004, have been consolidated since August 1, 2004. As a result of this consolidation, we recorded minority interest on our balance sheet for our joint-venture partner's share of equity. All significant intercompany accounts and transactions are eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management 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 consolidated financial statements and the reported amounts of revenues and expenses during the periods reported. The amounts we record for insurance claims, warranties, legal and other contingent liabilities require judgments regarding the amount of expenses that will ultimately be incurred. We use past experience and history, as well as the specific circumstances surrounding these contingent liabilities, in evaluating the amount of liability that should be recorded. Actual results could differ from our estimates.

Cash and Cash Equivalents

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

Marketable Securities

Marketable securities consist of investment-grade corporate bonds that are classified as available-for-sale. These investments are carried at fair value, with unrealized gains and losses, net of related tax effects, included in other comprehensive income. The maturity dates of these investments as of October 31, 2004, vary from one to nine years.

Fair Value of Financial Instruments

Financial instruments include short-term investments, marketable securities and debt obligations. Due to the short-term nature of the investments, the book value is representative of their fair value. The carrying value of debt approximates fair value as interest rates are indexed to LIBOR or the bank's prime rate.

Accounts Receivable and Market Risk

Accounts receivable are stated net of allowances for doubtful accounts. We maintain and continually assess the adequacy of an allowance for doubtful accounts representing our estimate for losses resulting from the inability of our customers to pay amounts due to us. This estimated allowance is based on historical experience of uncollected accounts, the level of past-due accounts, the overall level of outstanding accounts receivable, information about specific customers with respect to their inability to make payments and expectations of future conditions that could impact the collectibility of accounts receivable. However, future changes in our customers' operating performance and cash flows or in general economic conditions could have an impact on their ability to fully pay these amounts, which could have a material impact on our operating results. Our domestic receivables are not collateralized. However, we utilize letters of credit to secure payment on sales outside of the U.S. and Canada. At October 31, 2004 and 2003, accounts receivable included retention amounts of $7.5 million and $6.2 million, respectively. Retention amounts are in accordance with applicable provisions of engineering and construction contracts and become due upon completion of contractual requirements. Approximately $0.5 million of the retained amount at October 31, 2004, is expected to be collected subsequent to October 31, 2005. No customers accounted for 10% or more of our consolidated accounts receivable balances as of fiscal year ends 2004 and 2003.

Costs and Estimated Earnings in Excess of Billings on Uncompleted Contracts

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

Costs and estimated earnings in excess of billings on uncompleted contracts also include certain costs associated with unapproved change orders. These costs are included when change order approval is probable. Amounts are carried at the lower of cost or net realizable value. No profit is recognized on costs incurred until change order approval is obtained. We also include claims for extra work or changes in scope of work to the extent of costs incurred in contract revenues when we believe collection is probable. At October 31, 2004 and 2003, we have included in contract costs approximately $1.9 million and $2.9 million, respectively, relating to commercial contract claims whose final settlement is subject to future determination through negotiations or other procedures that had not been completed. As of October 31, 2004, we anticipate that $1.5 million of the claims included in contract costs will not be settled within one year. The amounts recorded involve the use of judgments and estimates; thus, actual recoverable amounts could differ from original assumptions.

Assets and liabilities related to costs and estimated earnings in excess of billings on uncompleted contracts as well as billings in excess of costs and estimated earnings on uncompleted contracts have been classified as current and noncurrent under the operating cycle concept whereby all contract-related items are regarded as current regardless of whether cash will be received or paid within a 12-month period.

Inventories

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

Property, Plant and Equipment

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

Impairment of Long-Lived Assets

We evaluate the recoverability of the carrying amount of long-lived assets whenever events or changes in circumstances indicate that the carrying value of an asset may not be fully recoverable. The review for impairment of long-lived assets and goodwill takes into account estimates of future cash flows. Our estimates of future cash flows are based upon budgets and longer-range plans. These budgets and plans are used for internal purposes and are also the basis for communication with outside parties about future business trends. While we believe the assumptions we use to estimate future cash flows are reasonable, there can be no assurance that the expected future cash flows will be realized. As a result, impairment charges that possibly should have been recognized in earlier periods may not be recognized until later periods if actual cash flows deviate unfavorably from earlier estimates. For assets held for sale or disposal, the fair value of the asset is measured using quoted market prices or an estimation of net realizable value. Based on general economic conditions and conditions specific to our industry, the ultimate amounts realized on assets held for sale may differ materially from their currently estimated realizable values.

Intangible Assets

We adopted SFAS No. 142, "Goodwill and Other Intangible Assets," on November 1, 2002. This statement requires that goodwill and other intangible assets with indefinite useful lives are no longer amortized but instead requires a test for impairment to be performed annually, or immediately if conditions indicate that impairment could exist. Intangible assets with definite useful lives are amortized over their estimated useful lives. For additional information regarding our intangible assets, see Note I.

Income Taxes

We account for income taxes in accordance with 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

Our revenues are generated from the engineering and manufacturing of custom products. We recognize revenues under both the completed contract method and the percentage-of-completion method, depending upon the duration and the scope of the project. At the onset of each project, the size, scope and duration of the contract is reviewed to determine the appropriate revenue recognition method based upon company policy and applicable accounting standards. Due to the long-term and fixed-price nature of the projects in the Process Control Systems segment, all revenues are recorded using percentage-of-completion. However, projects in the Electrical Power Products segment vary widely; thus, both the completed contract and percentage-of-completion methods are used.

Under the completed contract method, revenues are recognized upon the transfer of title, which is generally at the time of shipment or delivery (depending upon the terms of the contract), when all significant contractual obligations have been satisfied, the price is fixed or determinable, and collectibility is reasonably assured. We use shipping documents and customer acceptance, when applicable, to verify the transfer of title to the customer. We assess whether the price is fixed or determinable based on the payment terms associated with the transaction and whether the sales price is subject to refund or adjustment. Collectibility is assessed based on the creditworthiness of the customer assessed through credit verification, the customer's payment history and other relevant factors.

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

Warranties

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

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 $3.5 million, $3.6 million and $3.4 million in fiscal years 2004, 2003 and 2002, respectively.

Foreign Currency

Assets and liabilities of our foreign joint-venture operation, located in Singapore, are translated at year-end exchange rates, and revenues and expenses are translated at average exchange rates prevailing during the period. Translation adjustments are recorded as other comprehensive income, a separate component of stockholders' equity, in the accompanying consolidated financial statements. Gains and losses from foreign currency transactions are included in earnings.

Stock-Based Compensation

In accordance with the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," we have elected to account for our stock-based employee compensation plans under the intrinsic-value method established by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." Under APB No. 25, no compensation expense is recorded when the exercise price of the employee stock option is greater than or equal to the market price of the common stock on the grant date.

If compensation expense for our stock option plans had been determined based on the fair value at the grant date for awards consistent with the provisions of SFAS No. 123, our net income and earnings per-share would have been as follows:

Years Ended October 31,	2004	2003	2002
Net income, as reported	$ 1,669	$ 6,985	$17,798
Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(802)	(745)	(834)
Pro forma net income	$ 867	$ 6,240	$16,964
Basic earnings per-share:			
As reported	$ 0.16	$ 0.66	$ 1.69
Pro forma	$ 0.08	$ 0.59	$ 1.61
Diluted earnings per-share:			
As reported	$ 0.15	$ 0.65	$ 1.66
Pro forma	$ 0.08	$ 0.58	$ 1.59

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:

	2004	2003	2002
Expected life of options	7 years	7 years	7 years
Risk-free interest rate	4.03%	3.98%	3.45%
Expected dividend yield	0.00%	0.00%	0.00%
Expected stock price volatility	37.28%	38.51%	38.15%

Comprehensive Income

Accumulated other comprehensive income, which is included as a component of stockholders' equity, includes unrealized gains or losses on available-for-sale marketable securities and derivative instruments and currency translation adjustments in foreign consolidated subsidiaries.

During 2004, we sold two of our corporate bonds that were classified as available-for-sale securities. We recognized the gain on the sale of these securities in our consolidated statement of operations, and the unrealized gain shown in other comprehensive income for the year ended October 31, 2004, was affected by this reclassification adjustment as follows (in thousands):

Unrealized holding gains arising during period	$ 189
Less: Reclassification adjustment for gains included in net income	(34)
Net unrealized gains on marketable securities	155

New Accounting Standards

In November 2003, the Emerging Issues Task Force (EITF) reached a consensus opinion on EITF 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." EITF 03-1 provides guidance on the new requirements for other-than-temporary impairment and its application to debt and marketable equity investments that are accounted for under SFAS No. 115. The new requirements are effective for fiscal years ending after December 15, 2003. The adoption of EITF 03-1 during the quarter ended January 31, 2004, had no impact on our consolidated financial position, results of operations or cash flows.

In March 2004, the EITF reached a consensus opinion on EITF 03-06, "Participating Securities and the Two-Class Method under FASB Statement No. 128, Earnings Per Share." EITF 03-06 provides guidance in applying the two-class method of calculating earnings per-share for companies that have issued securities other than common stock that contractually entitle the holder to participate in any dividends declared and earnings of the company. The opinion defines what constitutes a participating security and how to apply the two-class method of calculating earnings per-share to those securities. EITF 03-06 became effective during the quarter ended July 31, 2004, and the adoption did not have an impact on our calculation of earnings per-share.

In May 2004, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement, and Modernization Act of 2003," to provide accounting and disclosure guidance for employers that sponsor postretirement health care plans that provide prescription drug benefits. The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (the "Act") was signed into law on December 8, 2003. The Act introduces a prescription drug benefit under Medicare as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. The new requirements are effective for interim periods beginning after June 15, 2004. We provide postretirement health benefits that include prescription drug benefits, but this benefit ends when the employee reaches the age of 65. The adoption of FSP 106-2 during the quarter ended October 31, 2004, had no impact on our postretirement benefit cost.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs, an Amendment of ARB No. 43, Chapter 4." The amendments made by SFAS No. 151 clarify that abnormal amounts of idle facility expense, freight, handling costs and wasted materials (spoilage) should be recognized as current-period charges and require the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. The guidance is effective for inventory costs incurred during fiscal years beginning after November 23, 2004. We do not believe the adoption of SFAS No. 151 will have a material impact on our consolidated financial position, results of operations or cash flows.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment." SFAS No. 123(R) will require that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. SFAS No. 123(R) covers a wide range of share-based compensation arrangements, including share options, restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans. SFAS No. 123(R) replaces FASB Statement No. 123, "Accounting for Stock-Based Compensation," and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS No. 123, as originally issued in 1995, established as preferable a fair value-based method of accounting for share-based payment transactions with employees. However, that Statement permitted entities the option of continuing to apply the guidance in APB Opinion No. 25, as long as the footnotes to financial statements disclosed what net income would have been had the preferable fair value-based method been used. Public entities will be required to apply SFAS No. 123(R) as of the first interim or annual reporting period that begins after June 15, 2005. We are in the process of evaluating the impact the adoption of SFAS No. 123(R) will have on our consolidated financial position, results of operations and cash flows.

C. STOCK-BASED COMPENSATION

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 2004, 2003 and 2002. Stock options granted to the employees are nonqualified and are granted at an exercise price equal to the fair market value of the common stock on the date of grant. Generally, options granted have an expiration date of seven years from the grant date and will vest in increments of 20 percent per year over a five-year period. Pursuant to the stock option plan, option holders who exercise their options and hold the underlying shares of common stock for five years vest in a stock grant equal to 20 percent of the original option shares. While restricted until the expiration of five years, the stock grant is considered issued at the date of the stock option exercise and included in earnings per-share. There were 154,232 shares available to be granted under this plan as of October 31, 2004.

In 2002, stockholders approved the Non-Employee 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, will 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 was 35,117 as of October 31, 2004. Stock options granted to the Directors are nonqualified 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 expiration terms of seven years from the date of grant and will vest in full one year from the grant date.

Stock option activity (number of shares) for the Company during fiscal years 2004, 2003 and 2002 was as follows:

	Stock Options	Weighted Average Exercise Price
Outstanding at October 31, 2001	834,300	$ 13.51
Granted	26,883	23.52
Exercised	(118,970)	8.16
Forfeited	(22,040)	11.51
Outstanding at October 31, 2002	720,173	$ 14.82
Granted	320,700	15.10
Exercised	(53,510)	12.02
Forfeited	(600)	15.81
Outstanding at October 31, 2003	986,763	$ 15.06
Granted	27,000	16.38
Exercised	(82,986)	12.47
Forfeited	(103,384)	15.91
Outstanding at October 31, 2004	827,393	$ 15.26

The following table summarizes information about stock options outstanding as of October 31, 2004:

	Outstanding			Exercisable	
Range of Exercise Prices	Number Outstanding at 10/31/04	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at 10/31/04	Weighted Average Exercise Price
$ 8.44 - $ 8.50	150,410	1.9 years	$ 8.50	150,410	$ 8.50
13.06 - 15.10	304,783	5.6	15.09	66,223	15.07
16.30 - 17.85	348,200	3.7	17.74	195,360	17.85
23.48 - 27.10	24,000	4.3	23.91	20,000	23.94
Total Options	827,393	4.1	15.26	431,993	14.45

The weighted average fair value of options granted was $7.63, $7.16 and $10.83 per option for the fiscal years ended October 31, 2004, 2003 and 2002, respectively.

D. 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,	2004	2003	2002
Numerator:			
Income from continuing operations	$ 1,669	$ 7,495	$ 17,798
Cumulative effect of change in accounting principle, net of tax	—	(510)	—
Net income	$ 1,669	$ 6,985	$ 17,798
Denominator:			
Denominator for basic earnings per-share-weighted average shares	10,688	10,591	10,511
Dilutive effect of stock options	86	90	187
Denominator for diluted earnings per-share-adjusted weighted average shares with assumed conversions	10,774	10,681	10,698
Basic Earnings Per-Share:			
Earnings from continuing operations	$ 0.16	$ 0.71	$ 1.69
Cumulative effect of change in accounting principle	—	(0.05)	—
Net earnings	$ 0.16	$ 0.66	$ 1.69
Diluted Earnings Per-Share:			
Earnings from continuing operations	$ 0.15	$ 0.70	$ 1.66
Cumulative effect of change in accounting principle	—	(0.05)	—
Net earnings	$ 0.15	$ 0.65	$ 1.66

For the years ended October 31, 2004, 2003 and 2002, options to purchase approximately 352,000, 380,000 and 26,000 shares, 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.

E. DETAIL OF SELECTED BALANCE SHEET ACCOUNTS

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

October 31,	2004	2003
Balance at beginning of period	$ 1,283	$ 1,209
Adjustments to the allowance	(498)	277
Deductions for uncollectible accounts written off, net of recoveries	(168)	(203)
Balance at end of period	$ 617	$ 1,283

Activity in our accrued product warranty account consists of the following (in thousands):

October 31,	2004	2003
Balance at beginning of period	$ 1,929	$ 2,123
Additions to the accrual	1,387	1,749
Deductions for warranty charges	(1,771)	(1,943)
Balance at end of period	$ 1,545	$ 1,929

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

October 31,	2004	2003
Raw materials, parts and subassemblies	$ 9,167	$12,122
Work-in-progress	6,165	5,938
Total inventories	$ 15,332	$18,060

The components of costs and estimated earnings on uncompleted contracts (in thousands):

October 31,	2004	2003
Costs incurred on uncompleted contracts	$ 271,442	$ 283,750
Estimated earnings	49,691	49,676
	321,133	333,426
Less: Billings to date	316,485	314,468
	$ 4,648	$ 18,958
Included in accompanying balance sheets under the following captions:		
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 19,822	$ 32,174
Billings in excess of costs and estimated earnings on uncompleted contracts	(15,174)	(13,216)
	$ 4,648	$ 18,958

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

October 31,	2004	2003	Range of Asset Lives
Land	$ 4,720	$ 5,075	—
Buildings and improvements	39,629	36,881	3-39 Years
Machinery and equipment	29,804	33,392	3-15 Years
Furniture and fixtures	2,752	2,964	3-10 Years
Construction in process	5,336	7,128	—
	82,241	85,440	
Less-accumulated depreciation	(37,200)	(41,442)	
Total property, plant and equipment, net	$ 45,041	$ 43,998	

Included in property and equipment are assets under capital lease of $325,000 and $177,000 at October 31, 2004 and 2003, with related accumulated depreciation of $80,000 and $74,000, respectively. Depreciation expense, including the depreciation of capital leases, was $4.3 million, $5.0 million and $4.7 million for fiscal years 2004, 2003 and 2002, respectively.

F. 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 6 percent of each employee's salary. We recognized expenses of $1.2 million, $1.4 million and $1.4 million in fiscal years 2004, 2003 and 2002, respectively, under this plan.

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, 2004 and 2003, there were 606,912 and 634,629 shares in the trust with 375,858 and 358,712 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 $424,000 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. Compensation expense for fiscal years 2004, 2003 and 2002 was $297,000, $277,000 and $252,000, respectively, and interest income for fiscal years 2004, 2003 and 2002 was $128,000, $148,000 and $166,000, 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. As of October 31, 2004 and 2003, the remaining ESOP receivable was $1.5 million and $1.8 million, respectively.

In October 1985 and February 1987, we entered into Executive Benefit Agreements with several key officers and employees. Three participants remain in this plan, which provides for payments in accordance with a 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.

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 a minimum of 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 health care 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 benefit cost and accumulated benefit obligation.

The plan was amended effective January 1, 2000, to provide coverage for employees age 55 or more but less than 65 who retire on or after January 1, 2000, with at least 10 years of service. The retiree is required to pay the full retiree cost less the amount paid by the Company, which is a percentage of the year 2000 cost. Effective as of the November 1, 2002, valuation date, retirees are required to pay the COBRA rate, instead of the full retiree cost, less the Company's subsidy.

For the year ended October 31, 2004, the measurement of postretirement benefit expense was based on assumptions used to value the postretirement benefit liability as of November 1, 2003, our measurement date. The following table illustrates the components of net periodic benefit expense, funded status, the change in funded status and the change in accumulated benefit obligation of the postretirement benefit plans (in thousands):

October 31,	2004	2003	2002
Components of net periodic postretirement benefit expense:			
Service cost	$ 75	$ 92	$ 20
Interest cost	73	106	39
Prior service cost	108	121	13
Net (gain) loss recognized	(26)	(3)	2
Net periodic postretirement benefit expense	$ 230	$ 316	$ 74
Funded status:			
Retirees	$ 94	$ 166	$ 120
Fully eligible active participants	507	659	182
Other actual participants	754	898	300
Accumulated postretirement benefit obligation	1,355	1,723	602
Less unrecognized balances:			
Prior service cost	822	1,066	129
Net actuarial (gain) loss	(544)	(149)	(57)
Net amount recognized	$1,077	$ 806	$ 530
Changes in accumulated postretirement benefit obligation:			
Balance at beginning of year	$1,723	$ 602	$ 494
Service cost	75	92	20
Interest cost	73	106	39
Loss due to plan change	—	1,058	—
Actuarial (gain) loss	(316)	(95)	74
Curtailment (gain)	(150)	—	—
Benefits paid	(50)	(40)	(25)
Balance at end of year	$1,355	$1,723	$ 602
Fair value of plan assets	—	—	—
Weighted average assumptions:			
Discount rate	5.8%	6.0%	6.5%

It is assumed that 70% of employees who are eligible will elect medical coverage, decreasing to 40% in 2014. The assumed health care cost trend measuring the accumulated postretirement benefit obligation was 9% in fiscal year 2004. This trend is expected to grade down to 5% in fiscal year 2008. If the health care trend rate assumptions were increased or decreased by 1% as of October 31, 2004, the effect of this change on the accumulated postretirement benefit obligation would be approximately $80,000. The effect on the aggregate service and interest cost components of the net periodic postretirement benefit cost from a 1% increase or decrease would be approximately $12,000.

As of October 31, 2004, the cash flow estimates for expected benefit payments during each of the next ten years are as follows (in thousands):

Years Ending October 31,	Expected Benefit Payments
2005	$ 93
2006	88
2007	98
2008	121
2009	133
2010 through 2014	781

G. LONG-TERM DEBT

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

October 31,	2004	2003
Industrial development revenue bonds, maturing in October 2021, with annual sinking-fund payments of $400,000	$ 6,800	$ 7,200
Capital lease obligations	223	64
Other borrowings	77	95
Subtotal long-term debt and capital lease obligations	7,100	7,359
Less current portion	(474)	(468)
Total long-term debt and capital lease obligations	$ 6,626	$ 6,891

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 Northlake, Illinois, facility. Pursuant to the Bond issuance, 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 ("Bond LC") to the Bonds' trustee to guarantee payment of the Bonds' principal and interest when due. The Bond LC periodically changes in amount to equal the outstanding balance of the Bonds and terminates on October 25, 2006. The Bond LC is subject to both early termination and extension provisions customary to such agreements. While the Bonds mature in 2021, the reimbursement agreement requires annual redemptions of $400,000 beginning on October 25, 2002. A sinking fund is used for the redemption of the Bonds. 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 1.9% per annum on October 31, 2004.

We have a $15 million revolving line of credit agreement with a major domestic bank, which was amended in October 2004 to extend the maturity date to February 2007. The $15 million revolving line of credit agreement also provides for the issuance of letters of credit. 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, 2004, less .5% on the first $5 million and the bank's prime rate on additional borrowings, or (2) the LIBOR rate, which was 2.3% at October 31, 2004, 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. The amount available under this agreement is reduced by $3.4 million for our outstanding letters of credit, which excludes the Bond LC that does not affect the available credit under this agreement. There were no borrowings under this line of credit as of October 31, 2004 or 2003.

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 obligations are at a fixed interest rate of 3%.

The annual maturities of long-term debt as of October 31, 2004, are as follows (in thousands):

Year Ending October 31,	Long-Term Debt Maturities	Capital Leases	Total
2005	$ 419	$ 55	$ 474
2006	458	48	506
2007	400	50	450
2008	400	52	452
2009	400	18	418
Thereafter	4,800	—	4,800
Total long-term debt maturities	$ 6,877	$ 223	$ 7,100

H. INCOME TAXES

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

October 31,	2004	2003
Current deferred income taxes:		
Gross assets	$ 3,289	$ 3,459
Gross liabilities	(2,560)	(4,080)
Net current deferred income tax asset (liability)	729	(621)
Noncurrent deferred income taxes:		
Gross assets	1,757	1,260
Gross liabilities	(1,145)	(1,122)
Net noncurrent deferred income tax asset	612	138
Net deferred income tax asset (liability)	$ 1,341	$ (483)

As of October 31, 2004, the noncurrent deferred income tax asset is included in other assets on the consolidated balance sheet. As of October 31, 2003, the current and noncurrent deferred income tax liabilities are included in other accrued expenses and other liabilities, respectively, on the consolidated balance sheet.

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,	2004	2003
Allowance for doubtful accounts	$ 232	$ 499
Reserve for accrued employee benefits	881	757
Warranty reserves	581	725
Uncompleted long-term contracts	(2,560)	(4,080)
Depreciation and amortization	(441)	(1,046)
Deferred compensation	656	605
Postretirement benefits liability	354	299
Accrued legal	357	188
Uniform capitalization and inventory	1,114	1,289
Software development costs	(494)	—
Deferred rent	167	175
Other	494	106
Net deferred income tax asset (liability)	$ 1,341	$ (483)

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

Years Ended October 31,	2004	2003	2002
Current:			
Federal	$ 1,318	$ 3,527	$ 9,865
State	186	1,970	541
Deferred:	(1,786)	640	75
Total income tax provision	$ (282)	$ 6,137	$ 10,481

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,	2004	2003	2002
Statutory rate	34%	34%	35%
Revised state tax exposure	(15)	—	—
State income taxes, net of federal benefit	5	10	1
Release of capital loss valuation allowance	(20)	—	—
Federal extraterritorial income exclusion	(27)	—	—
Nontaxable interest income	(8)	—	—
Other permanent tax items	8	—	—
Other	2	1	1
Effective rate	(21)%	45%	37%

Our (benefit) provision for income taxes reflects an effective tax rate on earnings before income taxes of (21%) in fiscal 2004 compared to 45% in fiscal 2003. During 2004, we recorded several nonrecurring tax adjustments related to the following items:

a) A $363,000 benefit was recorded primarily for the benefit of revised extraterritorial income exclusion amounts for the years ended 2002 and 2003. This benefit was derived by calculating the extraterritorial income exclusion amount on a transaction by transaction basis in 2004, as opposed to an aggregate basis as originally estimated.
b) A $268,000 valuation allowance related to capital losses was released in 2004. We entered into an agreement in 2004 to sell a capital asset that will trigger enough capital gain to utilize the capital loss carryforward; and
c) We released $200,000 of state income tax reserve in 2004 due to acceptance by certain state taxing authorities of voluntary disclosure agreements in 2004.

Without these adjustments, our 2004 effective tax rate would have been 40%.

I. GOODWILL AND OTHER INTANGIBLE ASSETS

Effective November 1, 2002, we adopted SFAS No. 142, "Goodwill and Other Intangible Assets." Under the new rules, goodwill and other intangible assets with indefinite useful lives are no longer subject to amortization. As a result, we discontinued the amortization of goodwill beginning November 1, 2002, and the fiscal year 2003 results were favorably impacted by this reduction in amortization expense by $90,000, net of $53,000 taxes, or $0.01 per diluted share. The statement requires a test for impairment to be performed annually, or immediately if conditions indicate that impairment could exist. Intangible assets with definite useful lives will continue to be amortized over their estimated useful lives.

Upon adoption, we estimated the fair value of our reporting units using a present value method that discounted estimated future cash flows. The cash flow estimates incorporated assumptions on future cash flow growth, terminal values and discount rates. Because the fair value of some reporting units was below their carrying value, application of SFAS No. 142 required us to complete the second step of the goodwill impairment test and compare the implied fair value of each reporting unit's goodwill with the carrying value. As a result of completing the impairment test, we recorded an impairment charge of $510,000, net of $285,000 taxes, to write off the impaired goodwill amounts as a cumulative effect of a change in accounting principle in the first quarter of 2003. We recorded an impairment charge of $380,000, net of $214,000 taxes, to write off the full value of goodwill in our Process Control Systems segment. In our Electrical Power Products segment, we recorded an impairment charge of $130,000, net of $71,000 taxes. All remaining goodwill is in our Electrical Power Products segment. No additional impairment was identified as a result of performing our annual impairment test for 2003 and 2004.

The following pro forma information is presented to reflect the net income and net earnings per-share to exclude amortization of goodwill for the year ended October 31, 2002, as if SFAS No. 142 had been adopted as of the beginning of fiscal year 2002 (in thousands, except per-share data):

Years Ended October 31,	2004	2003	2002
Income from continuing operations before cumulative effect of change in accounting principle	$ 1,669	$ 7,495	$ 17,798
Cumulative effect of change in accounting principle	—	(510)	—
Reported net income	1,669	6,985	17,798
Addback: Amortization of goodwill, net of $53 taxes	—	—	90
Adjusted net income	$ 1,669	$ 6,985	$ 17,888
Basic earnings per-share:			
Net earnings per-share— as reported	$ 0.16	$ 0.66	$ 1.69
Amortization of goodwill	—	—	0.01
Adjusted net earnings per-share	$ 0.16	$ 0.66	$ 1.70
Diluted earnings per-share:			
Net earnings per-share— as reported	$ 0.15	$ 0.65	$ 1.66
Amortization of goodwill	—	—	0.01
Adjusted net earnings per-share	$ 0.15	$ 0.65	$ 1.67

A summary of goodwill and other intangible assets follows (in thousands):

	October 31, 2004		October 31, 2003	
	Historical Cost	Accumulated Amortization	Historical Cost	Accumulated Amortization
Goodwill	$ 384	$ 181	$ 304	$ 181
Intangible assets subject to amortization:				
Deferred loan costs	233	35	233	23
Patents and Trademarks	837	563	837	505

The above intangible assets are included in other assets on the consolidated balance sheet. The additional $80,000 of goodwill recorded in 2004 was due to the purchase of an additional 10 percent interest in Powell Industries Asia Private Limited (PIA) on August 1, 2004. Since that time, PIA has been fully consolidated into our financial statements. The effect of our acquisition of PIA to our 2004 and 2003 financial statements is not material. Amortization expense related to intangible assets subject to amortization for the years ended October 31, 2004, 2003 and 2002, was $70,000, $72,000 and $67,000, respectively. Estimated amortization expense for each of the subsequent five fiscal years is expected to be approximately $80,000.

J. SIGNIFICANT SALES DATA

No single customer or export country accounted for more than 10 percent of consolidated revenues in fiscal years 2004, 2003 or 2002.

Export sales are as follows (in thousands):

Years Ended October 31,	2004	2003	2002
Europe (including former Soviet Union)	$ 402	$ 843	$ 386
Far East	5,550	13,120	8,717
Middle East and Africa	12,384	5,255	9,205
North, Central and South America (excluding U.S.)	10,675	20,581	9,706
Total export sales	$ 29,011	$ 39,799	$ 28,014

K. COMMITMENTS AND CONTINGENCIES

Leases

We lease certain offices, facilities and equipment under operating leases expiring at various dates through 2009. At October 31, 2004, the minimum annual rental commitments under leases having terms in excess of one year are as follows (in thousands):

Years Ending October 31,	Operating Leases
2005	$1,694
2006	1,468
2007	1,263
2008	893
2009	545
Thereafter	—
Total lease commitments	$5,863

Lease expense for all operating leases was $1.8 million, $1.7 million and $1.7 million for fiscal years 2004, 2003 and 2002, respectively.

Letters of Credit and Bonds

We are contingently liable for secured and unsecured letters of credit of $10.3 million as of October 31, 2004. We also had performance bonds totaling approximately $167.9 million that were outstanding at October 31, 2004. Performance bonds are used to guarantee contract performance to our customers.

Litigation

We are involved in various legal proceedings, claims and other disputes arising in the ordinary course of business which, in general, are subject to uncertainties, and the outcomes are not predictable. However, we do not believe that the ultimate conclusion of these disputes will materially affect our financial position or results of operations.

Other Contingencies

The Company is a party to a construction 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 allegations that 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. 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 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.

L. BUSINESS SEGMENTS

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

The tables below reflect certain information relating to our operations by segment. 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. Corporate expenses and certain assets are allocated to the operating segments primarily based on revenues. The corporate assets are mainly cash, cash equivalents and marketable securities.

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

Years Ended October 31,	2004	2003	2002
Revenues:			
Electrical Power Products	$ 173,456	$ 227,012	$ 283,592
Process Control Systems	32,686	26,369	22,811
Total	$ 206,142	$ 253,381	$ 306,403
Gross profit:			
Electrical Power Products	$ 29,122	$ 42,609	$ 62,266
Process Control Systems	6,855	6,187	5,254
Total	$ 35,977	$ 48,796	$ 67,520
Income (loss) from continuing operations before income taxes and cumulative effect of change in accounting principle:			
Electrical Power Products	$ (87)	$ 12,491	$ 27,411
Process Control Systems	1,451	1,141	868
Total	$ 1,364	$ 13,632	$ 28,279

October 31,	2004	2003
Identifiable tangible assets:		
Electrical Power Products	$ 114,374	$ 127,266
Process Control Systems	11,889	14,269
Corporate	69,270	48,140
Total	$ 195,533	$ 189,675

M. CONSOLIDATION OF OPERATIONS

To reduce overhead costs and improve efficiency, we initiated a consolidation plan in fiscal 2004 to reduce the number of operations within our Electrical Power Products segment. As of June 30, 2004, the consolidation of our Greenville, Texas, and North Canton, Ohio, facilities was complete, resulting in the transfer of our distribution switch product lines. In October 2004, we completed the consolidation of our bus duct product lines by combining our Elyria, Ohio, and Northlake, Illinois, facilities. By the end of the first quarter 2005, we expect to complete our consolidation plan with the closure of our Watsonville, California, facility. This facility is under lease, with the lease expiring in February 2005. The completed consolidations have resulted in the involuntary termination of 90 employees. The closure of our Watsonville facility will result in the termination of approximately 12 employees.

As of October 31, 2004, the unpaid balance of the consolidation costs is included in accrued salaries, bonuses and commissions and accounts payable on the consolidated balance sheet.

Details of the consolidation reserve during the current period are as follows:

	Accrued Charges at November 1, 2003	Year Ended October 31, 2004 Charges	Year Ended October 31, 2004 Payments	Accrued Charges at October 31, 2004
		(In thousands)		
Cash charges:				
Severance and employee benefits	$ —	$ 1,084	$ (674)	$ 410
Shutdown costs	—	551	(457)	94
Subtotal	$ —	1,635	$ (1,131)	$ 504
Noncash charges:				
Write-down of inventory		535		
Total charges		$ 2,170		

The majority of our consolidation charges relate to severance and employee benefits expense for involuntary terminations during fiscal 2004. The shutdown costs shown above include relocation expenses for employees, equipment and inventory incurred during fiscal 2004. The relocation and setup of equipment constitutes approximately $400,000 of the shutdown costs shown above. Consolidation costs were recorded in the consolidated statement of operations for the year ended October 31, 2004, as follows:

October 31, 2004	
Cost of sales	$ 1,777
Selling and administrative expenses	393
Total	$ 2,170

We expect to incur an additional $400,000 in consolidation expenses in fiscal 2005 to complete the consolidation of our Watsonville facility.

N. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The table below sets forth the unaudited consolidated operating results by fiscal quarter for the years ended October 31, 2004 and 2003, (in thousands, except per-share data):

2004 Quarters	First	Second	Third	Fourth	2004
Revenues	$ 53,227	$ 51,476	$ 52,805	$ 48,634	$ 206,142
Gross profit	9,555	8,619	9,317	8,486	35,977
Net income (loss)	747	360	737	(175)	1,669
Basic earnings (loss) per-share	0.07	0.03	0.07	(0.02)	0.16
Diluted earnings (loss) per-share	0.07	0.03	0.07	(0.02)	0.15

2003 Quarters	First	Second	Third	Fourth	2003
	(As Restated, See Note O)	(As Restated, See Note O)	(As Restated, See Note O)	(As Restated, See Note O)	(As Restated, See Note O)
Revenues	$ 71,580	$ 64,201	$ 60,382	$ 57,218	$ 253,381
Gross profit	14,186	12,078	10,556	11,976	48,796
Income from continuing operations before cumulative effect of change in accounting principle	2,998	1,982	1,287	1,228	7,495
Net income	2,488	1,982	1,287	1,228	6,985
Basic earnings per-share:					
Earnings from continuing operations	0.28	0.19	0.12	0.12	0.71
Net earnings	0.24	0.19	0.12	0.12	0.66
Diluted earnings per-share:					
Earnings from continuing operations	0.28	0.19	0.12	0.11	0.70
Net earnings	0.23	0.19	0.12	0.11	0.65

2003 Quarters	First	Second	Third	Fourth	2003
	(As Previously Reported)	(As Previously Reported)	(As Previously Reported)	(As Previously Reported)	(As Previously Reported)
Revenues	$ 71,580	$ 64,201	$ 60,382	$ 57,218	$ 253,381
Gross profit	14,232	12,124	10,615	11,995	48,966
Income from continuing operations before cumulative effect of change in accounting principle	3,034	2,018	1,336	1,240	7,628
Net income	2,524	2,018	1,336	1,240	7,118
Basic earnings per-share:					
Earnings from continuing operations	0.29	0.19	0.13	0.12	0.72
Net earnings	0.24	0.19	0.13	0.12	0.67
Diluted earnings per-share:					
Earnings from continuing operations	0.28	0.19	0.13	0.12	0.71
Net earnings	0.24	0.19	0.13	0.12	0.67

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.

O. RESTATEMENT

Subsequent to the issuance of our consolidated financial statements for the year ended October 31, 2003, we determined that rent expense for two lease agreements with escalation clauses had been recorded on a cash-paid basis rather than straight-line basis over the term of the lease. As a result, the accompanying consolidated financial statements for the years ended October 31, 2003 and 2002, have been restated from amounts previously reported.

A summary of the significant effects of the restatement is as follows (in thousands, except per-share data):

	Year Ended October 31, 2003		Year Ended October 31, 2002	
	As Previously Reported	As Restated	As Previously Reported	As Restated
Consolidated Statements of Operations				
Cost of goods sold	$ 204,415	$ 204,585	$ 238,745	$ 238,883
Gross profit	48,966	48,796	67,658	67,520
Selling, general and administrative expenses	35,297	35,339	38,997	39,031
Income before interest, income taxes and cumulative effect of change in accounting principle	13,669	13,457	28,661	28,489
Income from continuing operations before income taxes and cumulative effect of change in accounting principle	13,844	13,632	28,451	28,279
Income tax provision (benefit)	6,216	6,137	10,546	10,481
Income from continuing operations before cumulative effect of change in accounting principle	7,628	7,495	17,905	17,798
Net income	7,118	6,985	17,905	17,798
Net earnings per common share:				
Basic:				
Earnings from continuing operations	$ 0.72	$ 0.71	$ 1.70	$ 1.69
Net earnings	$ 0.67	$ 0.66	$ 1.70	$ 1.69
Diluted:				
Earnings from continuing operations	$ 0.71	$ 0.70	$ 1.67	$ 1.66
Cumulative effect of change in accounting principle	$ 0.04	$ 0.05	$ —	$ —
Net earnings	$ 0.67	$ 0.65	$ 1.67	$ 1.66

As of October 31, 2003	As Previously Reported	As Restated
Consolidated Balance Sheet		
Other assets	$ 5,029	$ 5,167
Total Assets	190,340	190,478
Other accrued expenses	6,074	5,994
Total Current Liabilities	44,424	44,344
Other liabilities	813	1,271
Total Liabilities	53,736	54,114
Retained earnings	132,990	132,750
Total Stockholders’ Equity	136,604	136,364
Total Liabilities and Stockholders’ Equity	190,340	190,478

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

In our opinion, the accompanying consolidated balance sheet and the related consolidated statement of operations, stockholders' equity and cash flows present fairly, in all material respects, the financial position of Powell Industries, Inc. and its subsidiaries at October 31, 2004, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Houston, Texas
January 31, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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, 2003, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the two years in the period ended October 31, 2003. 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, such 2003 and 2002 consolidated financial statements present fairly, in all material respects, the financial position of the Company as of October 31, 2003, and the results of its operations and its cash flows for each of the two years in the period ended October 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note I to the consolidated financial statements, the Company changed its method of accounting for goodwill and other intangible assets to conform to Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," on November 1, 2002.

As discussed in Note O, the 2003 and 2002 consolidated financial statements have been restated.

Deloitte & Touche LLP

Deloitte & Touche LLP
Houston, Texas
December 19, 2003 (January 31, 2005, as to the effects of the restatement discussed in Note O)

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