

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON D.C. 20549

FORM 10-Q

(Mark one)

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended April 30, 1997

or

Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from \_\_\_\_\_ to \_\_\_\_\_

COMMISSION FILE NUMBER 0-6050

POWELL INDUSTRIES, INC.

-----  
(Exact name of registrant as specified in its charter)

NEVADA

88-0106100

-----  
(State or other jurisdiction of incorporation or organization)

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

8550 Mosley Drive, Houston, Texas

77075-1180

-----  
(Address of principal executive offices)

-----  
(Zip Code)

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

Indicate by "X" whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No  
--- ---

Common Stock, par value \$.01 per share; 10,616,860 shares outstanding on June 2, 1997.

## PART I - Financial Information

Item 1. Financial Statements ..... 3 - 8

Item 2. Management's Discussion and Analysis of  
Financial Condition and Quarterly  
Results of Operations ..... 9 - 10

PART II - Other Information and Signatures ..... 11 - 12

Powell Industries, Inc. and Subsidiaries  
Consolidated Balance Sheets  
(In Thousands, Except Share Data)

ASSETS	April 30, 1997 (unaudited)	October 31, 1996
	-----	-----
Current Assets:		
Cash and cash equivalents .....	\$ 11,846	\$ 8,935
Accounts receivable, less allowance for doubtful accounts of \$726 and \$777, respectively .....	38,804	37,013
Costs and estimated earnings in excess of billings .....	16,432	13,934
Inventories .....	13,168	14,114
Deferred income taxes .....	2,302	2,572
Income taxes receivable .....	--	876
Prepaid expenses and other current assets .....	2,392	1,700
	-----	-----
Total Current Assets .....	84,944	79,144
Property, plant and equipment, net .....	18,967	14,602
Deferred income taxes .....	1,316	1,164
Other assets .....	4,564	4,613
	-----	-----
Total Assets .....	\$ 109,791	\$ 99,523
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts and income taxes payable .....	\$ 14,972	\$ 8,543
Accrued salaries, bonuses and commissions .....	5,955	5,687
Accrued product warranty .....	1,601	1,614
Accrued legal expenses .....	3,523	3,903
Other accrued expenses .....	3,341	3,717
Billings in excess of costs and estimated earnings .....	4,846	5,425
Current maturities of debt .....	3,750	3,750
	-----	-----
Total Current Liabilities .....	37,988	32,639
Deferred compensation expense .....	1,358	2,157
Postretirement benefits liability .....	1,393	1,502
Commitments and contingencies		
Stockholders' Equity:		
Preferred stock, par value \$.01; 5,000,000 shares authorized; none issued		
Common stock, par value \$.01; 30,000,000 shares authorized; 10,616,203 and 10,604,644, shares issued and outstanding .....	106	106
Additional paid-in capital .....	5,647	5,601
Retained earnings .....	66,584	60,943
Deferred compensation-ESOP .....	(3,285)	(3,425)
	-----	-----
Total Stockholders' Equity .....	69,052	63,225
	-----	-----
Total Liabilities and Stockholders' Equity .....	\$ 109,791	\$ 99,523
	=====	=====

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

Powell Industries, Inc. and Subsidiaries  
 Consolidated Statements of Operations (unaudited)  
 (In Thousands, Except Per Share Data)

	Three Months Ended April 30,	
	1997	1996
Revenues .....	\$ 48,439	\$ 43,127
Cost of goods sold .....	35,897	32,004
Gross profit .....	12,542	11,123
Selling, general and administrative expenses .....	7,535	6,546
Earnings from continuing operations before interest and income taxes .....	5,007	4,577
Interest expense (income), net .....	(98)	82
Earnings from continuing operations before income taxes .....	5,105	4,495
Income tax provision .....	1,832	1,584
Earnings from continuing operations .....	3,273	2,911
Loss from discontinued operations, net of income taxes .....	--	(268)
Net earnings .....	\$ 3,273	\$ 2,643
Net earnings (loss) per common and common equivalent share:		
Continuing operations .....	\$ 0.30	\$ 0.27
Discontinued operations .....	--	(0.03)
Net earnings per common and common equivalent share .....	\$ 0.30	\$ 0.24
Weighted average number of common and common equivalent shares outstanding .....	10,836,702	10,753,695

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

Powell Industries, Inc. and Subsidiaries  
 Consolidated Statements of Operations (unaudited)  
 (In Thousands, Except Per Share Data)

	Six Months Ended April 30,	
	1997	1996
Revenues .....	\$ 91,566	\$ 82,988
Cost of goods sold .....	68,737	63,006
Gross profit .....	22,829	19,982
Selling, general and administrative expenses .....	14,421	12,469
Earnings from continuing operations before interest and income taxes .....	8,408	7,513
Interest expense (income), net .....	(235)	125
Earnings from continuing operations before income taxes .....	8,643	7,388
Income tax provision .....	3,001	2,615
Earnings from continuing operations .....	5,642	4,773
Loss from discontinued operations, net of income taxes .....	--	(447)
Net earnings .....	\$ 5,642	\$ 4,326
Net earnings (loss) per common and common equivalent share:		
Continuing operations .....	\$ 0.52	\$ 0.44
Discontinued operations .....	--	(0.04)
Net earnings per common and common equivalent share .....	\$ 0.52	\$ 0.40
Weighted average number of common and common equivalent shares outstanding .....	10,834,249	10,745,361

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

Powell Industries, Inc. and Subsidiaries  
Consolidated Statements of Cash Flows (unaudited)  
(In Thousands)

	Six Months Ended April 30,	
	1997	1996
<b>Operating Activities:</b>		
Net earnings .....	\$ 5,642	\$ 4,326
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization .....	1,754	1,635
Deferred income taxes .....	118	172
Postretirement benefits liability .....	(91)	(376)
Changes in operating assets and liabilities:		
Accounts receivable .....	(1,791)	(12,388)
Costs and estimated earnings in excess of billings .....	(2,498)	204
Inventories .....	946	(526)
Prepaid expenses and other current assets .....	(692)	520
Other assets .....	58	(58)
Accounts payable and income taxes payable or receivable .....	7,305	3,091
Accrued liabilities .....	(501)	(380)
Billings in excess of costs and estimated earnings .....	(579)	1,864
Deferred compensation expense .....	(803)	178
Changes in net assets of discontinued operations .....	--	2,382
Net cash provided by operating activities .....	8,868	644
<b>Investing Activities:</b>		
Purchases of property, plant, and equipment .....	(6,003)	(1,215)
Net cash used in investing activities .....	(6,003)	(1,215)
<b>Financing Activities:</b>		
Exercise of stock options and grants .....	46	257
Net cash provided by financing activities .....	46	257
Net increase (decrease) in cash and cash equivalents .....	2,911	(314)
Cash and cash equivalents at beginning of period .....	8,935	2,796
Cash and cash equivalents at end of period .....	\$ 11,846	\$ 2,482
	=====	=====
<b>Supplemental disclosure of cash flow information (in thousands):</b>		
Cash paid during the quarter for:		
Interest .....	\$ 195	\$ 357
	=====	=====
Income taxes .....	\$ 950	\$ 1,500
	=====	=====

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

Part I  
Item 1

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

A. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, in the opinion of management, reflect all adjustments which are of a normal recurring nature necessary for a fair presentation of financial position, results of operations and cash flows. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's October 31, 1996 annual report on Form 10K.

B. INVENTORIES

	April 30, 1997 (unaudited)	October 31, 1996
	-----	-----
The components of inventory are summarized below (in thousands):		
Raw materials, parts and subassemblies .....	\$ 8,391	\$ 8,118
Work-in-process .....	4,777	5,996
	-----	-----
Total inventories .....	\$13,168	\$14,114
	=====	=====

C. PROPERTY, PLANT AND EQUIPMENT

	April 30, 1997 (unaudited)	October 31, 1996
	-----	-----
Property, plant and equipment is summarized below (in thousands):		
Land .....	\$ 2,362	\$ 2,362
Buildings and improvements .....	13,549	13,255
Machinery and equipment .....	21,916	21,157
Furniture & fixtures .....	3,047	2,923
Construction in progress .....	6,178	1,869
	-----	-----
	47,052	41,566
Less-accumulated depreciation .....	(28,085)	(26,964)
	-----	-----
Total property, plant and equipment, net .....	\$ 18,967	\$ 14,602
	=====	=====

Part I  
Item 1

D. Production Contracts

For contracts in which the percentage-of-completion method is used, costs and estimated earnings in excess of billings are reported as a current asset and billings in excess of costs and estimated earnings are reported as a current liability. The components of these contracts are as follows (in thousands):

	April 30, 1997 (unaudited) -----	October 31, 1996 -----
Costs and estimated earnings .....	\$ 66,537	\$ 45,559
Progress billings .....	(50,105)	(31,625)
Total costs and estimated earnings in excess of billings ...	\$ 16,432 =====	\$ 13,934 =====
Progress billings .....	\$ 46,561	\$ 50,667
Costs and estimated earnings .....	(41,715)	(45,242)
Total billings in excess of costs and estimated earnings ...	\$ 4,846 =====	\$ 5,425 =====

E. New Accounting Pronouncement

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings Per Share." SFAS No. 128 revises the methodology to be used in computing earnings per share (EPS) such that the computations required for primary and fully diluted EPS are to be replaced with "basic" and "diluted" EPS. Basic EPS is computed by dividing net income by the weighted average number of shares of common stock outstanding during the year. Diluted EPS is computed in the same manner as fully diluted EPS, except that, among other changes, the average share price for the period is used in all cases when applying the treasury stock method to potentially dilutive outstanding options.

The Company will adopt SFAS No. 128 effective January 31, 1998, and will restate EPS for all periods presented. The Company anticipates that the amounts reported for basic EPS for the unaudited three months ended April 30, 1997 and 1996 will be \$.31 and \$.24, respectively. The Company anticipates that the amounts reported for diluted EPS for the unaudited three months ended April 30, 1997 and 1996 will be \$.30 and \$.23, respectively. The Company anticipates the amounts reported for basic EPS for the unaudited six months ended April 30, 1997 and 1996 will be \$.53 and \$.41, respectively. The Company anticipates the amounts reported for diluted EPS for this same six month period will be \$.52 and \$.40, respectively.



Part I  
Item 2

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

RESULTS OF OPERATIONS

The following table sets forth, as a percentage of revenues, certain items from the Consolidated Statements of Operations.

	April 30, 1997		April 30, 1996	
	three months ended	six months ended	three months ended	six months ended
Revenues	100.0%	100.0%	100.0%	100.0%
Gross Profit	25.9	24.9	25.8	24.1
Selling, general and administrative expenses	15.6	15.7	15.2	15.0
Earnings from continuing operations before income taxes	10.5	9.4	10.4	8.9
Income tax provision	3.9	3.2	3.6	3.1
Earnings from continuing operations	6.6	6.2	6.8	5.8

Revenues for the quarter ended April 30, 1997 were up 12 percent to \$48,439,000 from \$43,127,000 in the second quarter of last year. Revenues for the six months ended April 30, 1997 were up 10 percent to \$91,566,000 from \$82,988,000 in the first six months of last year.

Gross profit, as a percentage of revenues, was 25.9 percent and 25.8 percent for the quarters ended April 30, 1997 and 1996. The gross profit percentage for the six months ended April 30, 1997 and 1996 was 24.9 percent and 24.1 percent, respectively. The higher percentages in 1997 were due to changes in product mix shipped during 1997 and efficiencies due to the increased volume of activity.

Selling, general and administrative expenses as a percentage of revenues were 15.6 percent and 15.2 percent for the quarters ended April 30, 1997 and 1996. These percentages for the six months ended April 30, 1997 and 1996 were 15.7 percent and 15.0 percent. The increase in percentages reflects higher selling and commission expenses.

Income tax provision The effective tax rate was 35.9 percent and 35.2 percent for the quarters ended April 30, 1997 and 1996, respectively. For the six months ended April 30, 1997 and 1996 the effective tax rate was 34.7 percent and 35.4 percent respectively. The increase was primarily due to higher projected tax rates for 1997 due to an increased level of taxable income.

Earnings from continuing operations were \$3,273,000 or \$.30 per share for the second quarter of fiscal 1996, an increase of 12 percent from \$2,911,000 or \$.27 per share for the same period last year. For the six months ended April 30, 1997, net earnings were \$5,642,000 or \$.52 per share, compared with \$4,773,000 or \$.44 per share for the first six months of fiscal 1996, an increase of 18 percent.

Backlog

The order backlog at April 30, 1997 was \$141.7 million compared to \$106.5 million at October 31, 1996.

## LIQUIDITY AND CAPITAL RESOURCES

During 1990, the Company concluded a private placement of \$15,000,000 in term notes, of which \$3,750,000 was outstanding as of April 30, 1997. These notes are unsecured with a fixed interest rate of 10.4 percent. The notes mature with the final payment of \$3,750,000 due in June 1997.

In October 1995, the Company entered into a \$15,000,000 revolving line of credit agreement with a major domestic bank. As of April 30, 1997, the Company had no borrowing outstanding and letters of credits outstanding of \$1,665,000 under this line.

The Company's ability to satisfy its cash requirements is evaluated by analyzing key measures of liquidity applicable to the Company. The following table is a summary of the measures which are significant to management:

	April 30, 1997	October 31, 1996	April 30, 1996
Working Capital	\$46,956,000	\$46,505,000	\$39,927,000
Current Ratio	2.3 to 1	2.4 to 1	2.4 to 1
Debt to Capitalization	.1 to 1	.1 to 1	.1 to 1

Management believes that the Company continues to maintain a strong liquidity position. The increase in working capital at April 30, 1997, as compared to October 31, 1996 is due mainly to an increase in cash and accounts receivable partially offset by an increase in accounts payable.

Cash and cash equivalents increased approximately \$2,911,000 during the six months ended April 30, 1997. The increase in accounts payable and earnings from operations during the six months ended April 30, 1997 provided the majority of the cash. The primary use of cash, during this period, was for capital expenditures related to the plant expansion at three operating facilities and increases in the ending balance of accounts receivables and costs and estimated earnings in excess of billings accounts.

The Company's fiscal 1997 asset management program will continue to focus on the collection of receivables and reduction in inventories. The Company plans to satisfy its fiscal 1997 capital requirements and operating needs primarily with funds available in cash and cash equivalents of \$11,846,000, funds generated from operating activities and funds available under its existing revolving credit line.

The previous discussion should be read in conjunction with the consolidated financial statements.

Any forward looking statements in the preceding paragraphs of this Form 10Q are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Investors are cautioned that such forward looking statements involve risks and uncertainty in that actual results may differ materially from those projected in the forward looking statements. These risks and uncertainties include, without limitation, difficulties which could arise in obtaining materials or components in sufficient quantities as needed for the Company's manufacturing and assembly operations, unforeseen political or economic problems in countries to which the Company exports its products in relation to the Company's principal competitors, any significant decrease in the Company's backlog of orders, any material employee relations problems, or any material litigation or claims made against the Company, as well as general market conditions, competition and pricing.

## Part II

## OTHER INFORMATION

## ITEM 1. Legal Proceeding

On August 5, 1993, the Company was served with a lawsuit by National Westminster Bank plc ("NatWest") alleging the Company had defaulted on a Construction Guaranty provided to NatWest in 1992 in connection with a project at MacDill Air Force Base. NatWest is seeking damages in excess of \$20,000,000. The Company has denied the substantive allegations of the complaint and has filed counterclaims for damages against NatWest alleging fraud, bad faith and failure to preserve and protect its collateral and seeking a declaratory judgement that the Company is not in default of the Construction Guaranty.

On June 4, 1997, the Company obtained from the Court a copy of a memorandum and order denying its motion to dismiss the complaint for lack of subject matter jurisdiction and, alternatively, to stay its prosecution pending disposition by the Armed Services Board of Contract Appeals ("ASBCA") of an appeal by NatWest's borrower, Empire Energy Management Systems, Inc., from the allegedly wrongful default termination of a contract between Empire and the United States Air Force. In reaching its decision on the stay motion, the Court found in substance that a Termination for Convenience by the ASBCA in deciding the appeal would not release Powell under the Construction Guaranty, which release is one of the Company's alleged defenses.

On May 2, 1997, the Court declined NatWest's request for a trial date. As of May 14, 1997, the Clerk of the Court entered NatWest's default for failure to reply to the Company's counterclaims, and on June 5, 1997, NatWest moved to set the default aside.

The ultimate disposition of the NatWest litigation is not presently determinable. Accordingly, although an unfavorable outcome to the NatWest litigation could have a material effect on the Company's financial position and results of operations, the Company believes it would be unreasonable to conclude that an unfavorable outcome is probable.

## ITEM 2. Changes in Securities

The Articles of Incorporation were amended effective May 2, 1997 to increase the number of authorized shares of Common Stock from 15,000,000 to 30,000,000. There is no current effect of such amendment on the holders of the outstanding shares of Common Stock as the Company does not have a present intention to issue additional shares of its Common Stock. A future issuance of such additionally authorized shares could have a dilutive effect on holders of shares of Common Stock.

## ITEM 3. Defaults Upon Senior Securities

Not applicable

## ITEM 4. Submission of Matters to a Vote of Security Holders

At the annual meeting of the shareholders of the Corporation held on March 14, 1997, a proposed amendment to the Articles of Incorporation of the Corporation to increase the authorized shares of Common Stock was submitted to a vote of the shareholders. The number of affirmative votes was 9,453,098 and the number of negative votes was 279,287.

## ITEM 5. Other Information

None

## ITEM 6. Exhibits and Reports on Form 8-K

## a. Exhibits

3.3 Certificate of Amendment of the Articles of Incorporation of Powell Industries, Inc. to increase the number of shares of Common Stock authorized to 30,000,000 shares.

## 27.0 Financial Data Schedule

## b. Reports on Form 8K

None



## SIGNATURES

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

POWELL INDUSTRIES, INC.  
Registrant

June 10, 1996

-----  
Date

-----  
Thomas W. Powell  
President and Chief Executive Officer  
(Principal Executive Officer)

June 10, 1996

-----  
Date

-----  
J.F. Ahart  
Vice President,  
Secretary-Treasurer  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

## INDEX TO EXHIBITS

EXHIBIT NUMBER -----	DESCRIPTIONS -----
3.3	Certificate of Amendment of the Articles of Incorporation of Powell Industries, Inc. to increase the number of shares of Common Stock authorized to 30,000,000 shares.
27.0	Financial Data Schedule

EXHIBIT  
3.3

CERTIFICATE OF AMENDMENT OF  
THE ARTICLES OF INCORPORATION OF  
POWELL INDUSTRIES, INC.

CERTIFICATE OF AMENDMENT OF  
THE ARTICLES OF INCORPORATION OF  
POWELL INDUSTRIES, INC.

The undersigned, Thomas W. Powell and J. F. Ahart, the President and Secretary, respectively, of Powell Industries, Inc., a corporation organized and existing under and pursuant to the laws of the State of Nevada (the "Corporation"), hereby certify:

FIRST: That Article Fifth of the Articles of Incorporation of the Corporation is amended to read as follows:

FIFTH: The Corporation is authorized to issue a total of 35,000,000 shares, of which 30,000,000 shall be a class designated "Common Stock" and 5,000,000 shall be a class designated "Preferred Stock." The shares of each class shall have a par value of one cent (\$.01) per share. Holders of Common Stock are granted voting rights equal to one vote per share.

The Preferred Stock authorized by these Articles of Incorporation may be issued from time to time in one or more series. The Board of Directors is hereby authorized to prescribe or alter the number of series of Preferred Stock, and the voting powers, designations, preferences, limitations, restrictions, and relative rights of each series of Preferred Stock.

Subject to all of the rights of the Preferred Stock or any series thereof, the holders of the Common Stock shall be entitled to receive, when, as, and if declared by the Board of Directors, out of funds legally available therefor, dividends payable in cash, stock, or otherwise. Upon any liquidation of the Corporation, and after the holders of the Preferred Stock of each series shall have been paid in full amounts to which they respectively shall be entitled or a sum sufficient for such payment in full has been set aside, the remaining net assets of the Corporation shall be distributed pro rata to the holders of the Common Stock, to the exclusion of the holders of the Preferred Stock.

No holder of shares of the Corporation shall be entitled to subscribe for, purchase or receive any new or additional shares of any class, whether now or hereafter authorized, or any other securities convertible into, or carrying options or warrants to purchase shares of any class, but all such securities may be issued to such persons and on such terms as the Board of Directors may deem advisable.



SECOND: That the Board of Directors of the Corporation, by resolutions duly adopted at a meeting held on January 10, 1997, declared the advisability of such amendment and submitted it to the stockholders for approval.

THIRD: That the holders of a majority of the Common Stock of the Corporation, the only outstanding class of stock of the Corporation, which holders are entitled to exercise a majority of the voting power of the outstanding stock entitled to vote thereon, voted for such amendment at the annual meeting of the stockholders of the Corporation held on March 14, 1997.

DATED as of the \_\_\_\_ day of April, 1997.

POWELL INDUSTRIES, INC.

By: -----  
Thomas W. Powell, President

By: -----  
J. F. Ahart, Secretary

THE STATE OF TEXAS                    )  
  )  
COUNTY OF HARRIS                    )

This instrument was acknowledged before me on the \_\_\_\_\_ day of April, 1997, by Thomas W. Powell, President of Powell Industries, Inc., on behalf of said corporation.

-----  
Notary Public, State of Texas  
Name: \_\_\_\_\_  
My Commission Expires: \_\_\_\_\_

THE STATE OF TEXAS                    )  
  )  
COUNTY OF HARRIS                    )

This instrument was acknowledged before me on the \_\_\_\_\_ day of April, 1997, by J. F. Ahart, Secretary of Powell Industries, Inc., on behalf of said corporation.

-----  
Notary Public, State of Texas  
Name: \_\_\_\_\_  
My Commission Expires: \_\_\_\_\_

The Schedule contains summary financial information extracted from the Company's unaudited pro forma condensed consolidated financial statements for the quarter ended April 30, 1997 and is qualified in its entirety by reference to such financial statements.

1,000

3-MOS	OCT-31-1997	APR-30-1997
		11,846
		0
	39,530	726
		13,168
	84,944	47,051
	28,085	
	109,791	
	37,988	0
	0	0
		106
		68,946
109,791		48,439
	48,439	35,897
		35,897
	35,897	
	7,535	
	0	
	98	
	5,105	
		1,832
	3,273	0
		0
		0
		3,273
		.30
		0