

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

FOR THE FISCAL YEAR ENDED OCTOBER 31, 2001

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 (State or other jurisdiction of incorporation or organization)	88-0106100 (I.R.S. Employer Identification No.)
8550 MOSLEY DRIVE, HOUSTON, TEXAS (Address of principal executive offices)	77075-1180 (Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE:
(713)944-6900

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF ACT:

COMMON STOCK, PAR VALUE \$.01 PER SHARE

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 No

Indicate by "X" if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately \$200,921,549 as of January 10, 2002. The number of shares of the Company's Common Stock outstanding on that date was 10,464,664 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2002, annual meeting of stockholders to be filed not later than 120 days after October 31, 2001 are incorporated by reference into Part III.

PART I

ITEM 1. BUSINESS

Powell Industries, Inc. ("Powell" or the "Company") was incorporated under the laws of the State of Nevada in December 1968. The Company is the successor to a corporation founded by William E. Powell in 1947, which merged into the Company in 1977.

The Company sells, designs, develops, manufactures, packages and services systems and equipment for the distribution, control and management of electrical energy and process control systems. The Company's offices are located in Houston, Texas with plants located in Houston, Greenville and Jacinto Port, Texas; Elyria and North Canton, Ohio; Franklin Park, Illinois; Pleasanton and Watsonville, California; and Duluth, Georgia. The products manufactured by the Company are made pursuant to specifications required for a particular order.

PRODUCTS AND SYSTEMS

Powell designs, develops, manufactures, sells and services electrical power distribution and control equipment and systems through its subsidiaries: Powell Electrical Manufacturing Company; Powell-ESCO Company; Unibus, Inc.; Delta-Unibus Corp.; Transdyn Controls, Inc.; and Powell Power Electronics Company, Inc. (a subsidiary of Powell Electrical Manufacturing Company). As applicable to the context, the "Company" is also sometimes used herein to refer to Powell and its subsidiaries.

The principal products are switchgear and related equipment, bus duct and process control systems. Primarily refineries, petrochemical plants, utilities, paper mills, offshore platforms, commuter railways, vehicular transportation and numerous other industrial, commercial and governmental facilities utilize these products and services. A brief description of each of the major products follows:

Switchgear and other related equipment: Switchgear are defined as free-standing metal enclosures containing a selection of electrical components that protect, monitor and control the flow of electricity from its source to motors, transformers and other electrically powered equipment as well as customized portable buildings to house switchgear and related equipment (PCR(R)). Major electrical components include circuit breakers, protective relays, meters, control switches, fuses, motor control centers and both current and potential transformers.

Bus Duct: Bus duct consists of insulated power conductors housed in a metal enclosure. Individual pieces of bus duct are arranged in whatever physical configuration may be required to distribute electrical power to or from a generator, transformer, switching device or other electrical apparatus. The Company can provide the nonsegregated phase, segregated phase and isolated phase styles of bus duct with numerous amperage and voltage ratings.

Process Control Systems: The process control systems supplied by the Company consist principally of instrumentation, computer control, communications, and data management systems. Demand for process control systems has been for modernization and expansion projects as well as new facilities that mainly serve the transportation, environmental, industrial and utilities industries.

See Note L of the Notes to Consolidated Financial Statements for certain financial information regarding these product segments.

SUPPLIERS

All of the Company's products are manufactured using components and materials that are readily available from numerous domestic suppliers.

METHODS OF DISTRIBUTION AND CUSTOMERS

The Company's products are sold through manufacturers' representatives and its internal sales force. The Company is not dependent on any single customer for sales and the loss of any specific customer would not

have a material adverse effect upon the Company. No single customer or export country accounted for more than 10% of consolidated revenues in the fiscal years ended 2001, 2000 or 1999. Export revenues were \$21,431,000, \$44,421,000 and \$70,373,000 in fiscal years 2001, 2000 and 1999, respectively. See Note H of the Notes to Consolidated Financial Statements showing the geographic areas in which these revenues were recorded.

COMPETITION

The Company is engaged in a highly competitive business which is characterized by a small number of much larger companies that dominate the bulk of the market and a large number of smaller companies that compete for a limited share of such market. In the opinion of management, the competitive position of the Company is dependent on the ability of the Company to provide quality products to a customer's specifications, on a timely basis, at a competitive price, utilizing state-of-the-art materials, design and production methods. Some of the Company's principal competitors are larger and have greater capital and management resources.

EMPLOYEES

At October 31, 2001, the Company employed 1,612 employees on a full-time basis. Management considers its employee relations to be good.

BACKLOG

The Company's backlog of orders was \$208,938,000 and \$155,850,000 at October 31, 2001 and 2000, respectively, and the percentage of its 2001 year end backlog that it expects to ship in fiscal year 2002 is 89%. Orders included in the backlog are represented by purchase orders and contracts which the Company believes to be firm. The terms on which the Company accepts orders include a penalty for cancellation. Historically, no material amount of orders included in backlog has been canceled. No material portion of the Company's business is seasonal in nature.

RESEARCH AND DEVELOPMENT

During the fiscal years ended October 31, 2001, 2000 and 1999, the Company spent approximately \$3,142,000, \$2,920,000 and \$3,031,000 respectively, on research and development programs.

ITEM 2. PROPERTIES

The following table sets forth information about the Company's principal facilities at October 31, 2001.

SQUARE FOOTAGE	LOCATION	ACRES	OF FACILITIES	OCCUPANCY

Owned: Franklin Park,				
IL.....	2.0	64,000	Delta-Unibus Corp. (Delta)	North Lake,
IL.....	10.0	103,500*	Delta-Unibus Corp. (Delta)	Greenville, TX.....
19.0	109,000	Powell-ESCO Company	(ESCO)	Houston,
TX.....	26.2	421,000	Powell Electrical Manufacturing	Co. (PEMCO) Jacinto Port,
TX.....	42.0	9,600	PEMCO-Offshore Division	North Canton,
OH.....	8.0	72,000	PEMCO-North Canton Division	Elyria,
OH.....	8.6	64,000	Unibus, Inc. (Unibus)	Leased: Pleasanton, CA.....
39,100	Transdyn Controls, Inc.	and Power Electronics Company,	Inc. (PPECO) Watsonville,	CA.....
9,600	PPECO Duluth, GA.....	29,700	Transdyn Controls, Inc. --	-----
Total.....	115.8	921,500		

* Currently under construction, expected completion April 2002.

ITEM 3. LEGAL PROCEEDINGS

The Company is a party to legal and other disputes arising in the ordinary course of business. Management does not believe that the ultimate outcome of these disputes will materially affect the financial position or results of operations of the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters which were submitted to a vote of security holders through proxies, or otherwise, during the fourth quarter of the fiscal year ended October 31, 2001.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

As of October 31, 2001, there were approximately 689 holders of record of Powell Industries, Inc. common stock, which is traded on the over-the-counter market and listed on the NASDAQ National Market System under the symbol POWL.

Quarterly stock prices and trading volumes for the last two fiscal years are as follows:

AVERAGE DAILY HIGH LOW LAST VOLUME					

2000 First					
Quarter.....					
\$ 8.38 \$ 4.63 \$ 6.88	37,863	Second			
Quarter.....					
10.50 6.88 8.91	19,527	Third			
Quarter.....					
10.19 7.25 8.38	13,883	Fourth			
Quarter.....					
13.31 7.88 10.94	13,400	2001 First			
Quarter.....					
\$14.13 \$ 9.50 \$13.31	19,417	Second			
Quarter.....					
17.85 13.31 17.85	75,427	Third			
Quarter.....					
32.66 17.85 20.85	106,859	Fourth			
Quarter.....					
28.50 17.06 21.19	58,103				

The Company has paid no dividends on its common stock during the last three years and anticipates that it will not do so in the foreseeable future.

ITEM 6. SELECTED FINANCIAL DATA

The following data for fiscal years 2001, 2000, and 1999 has been derived from consolidated financial statements audited by Arthur Andersen LLP, which appear elsewhere in this report. The following data for fiscal years 1998 and 1997 has been derived from consolidated financial statements audited by Arthur Andersen LLP, which do not appear in this report. The information set forth below is not necessarily indicative of the results of future operations and should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this Annual Report on Form 10-K.

	YEARS ENDED OCTOBER 31, 2001	2000	1999	1998	1997

Statements of operations data:					
Revenues.....	\$271,243,000	\$223,019,000			
	\$212,531,000	\$212,733,000			
\$191,651,000 Earnings from continuing operations.....	13,542,000	7,061,000	7,127,000		
11,465,000 12,629,000 Loss from discontinued operations (net of income taxes).....	(4,800,000)				

	----- Net				
earnings.....	\$ 13,542,000	\$ 7,061,000	\$ 7,127,000	\$ 6,665,000	\$ 12,629,000
	=====	=====	=====	=====	=====
	=====	=====	=====	=====	=====
===== Net earnings per common share: Continuing operations					
Basic:.....	\$ 1.30	\$.68	\$.67	\$ 1.08	1.19
Diluted:.....	1.28	.67	.66	1.07	1.17
Discontinued operations					
Basic:.....	--	--	--	(.45)	--
Diluted:.....	--	--	--	(.45)	--
Net earnings per common share:					
Basic:.....	1.30	.68	.67	.63	1.19
Diluted:.....	1.28	.67	.66	.62	1.17
Weighted average number of common shares outstanding.....	10,381,000	10,451,000	10,665,000	10,644,000	10,622,000
Weighted average number of common and common equivalent shares outstanding.....	10,600,000	10,530,000	10,777,000	10,743,000	10,808,000
Balance Sheet					
Data: Working capital.....	\$ 88,981,000	\$ 63,508,000	\$ 59,782,000	\$ 58,826,000	\$ 51,769,000
Total assets.....	186,361,000	137,926,000	127,531,000	127,131,000	122,867,000
Long-term debt.....	21,285,000	5,714,000	7,143,000	11,571,000	6,000,000
Stockholders' equity.....	94,087,000	90,772,000	83,336,000	109,369,000	76,307,000

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Any forward-looking statements made by or on behalf of the Company 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 uncertainty in that actual results may differ materially from those projected in the forward-looking statements. These risks and uncertainties include, without limitation, the following:

- Difficulties in scheduling which could arise from the inability to obtain materials or components in sufficient quantities as needed for the Company's manufacturing and assembly operations,
- Difficulties in scheduling which could arise from significant customer-directed shipment delay,
- Significant decreases in the Company's backlog,
- Availability to find and retain qualified employees,

- Unforeseen political or economic problems in countries to which the Company exports its products,
- Unforeseen material employee relations problems,
- Problems in the quality, design and production methods, contract negotiations or pricing of its products,
- Unfavorable material litigation or claims made against the Company,
- Changes in general market conditions, competition and pricing,
- International instability from terrorism or war,
- Availability of capital and debt service, and
- Larger competitors which have greater capital and management resources.

RESULTS OF OPERATIONS

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

YEARS ENDED OCTOBER 31, -----	2001	2000	
1999 -----			
Revenues.....	100.0%	100.0%	100.0% Gross
profit.....			21.0
18.2 18.9 Selling, general and administrative			
expenses.....	13.0	13.5	13.8 Interest (income)
expense, net.....			.1 -- .2 Net
earnings.....			
	5.0	3.2	3.4

REVENUES

The Company reported revenues of \$271,243,000, \$223,019,000 and \$212,531,000 in fiscal years 2001, 2000 and 1999, respectively. Revenues increased 22% in fiscal year 2001 as compared to fiscal year 2000. Revenues in the switchgear products segment were up 25% and bus duct segment increased 32% from fiscal 2000 due to growth in the domestic electrical power generation markets, which was partially offset by lower revenues from the process control segment which decreased 10% due to value added professional work which has less pass through charges. Revenues increased 5% in fiscal year 2000 when compared to fiscal year 1999 due to higher revenues from bus duct and switchgear segments which increased 15% and 7%, respectively due to growth in the domestic electrical power generation markets, partially offset by lower revenues from the process control segment, down 11% due to a shift to value added professional work which has less pass through charges.

Export revenues declined for the third straight year but are still an important component of the Company's operations, accounting for 8%, 20% and 33% of consolidated revenues in fiscal years 2001, 2000 and 1999, respectively. A schedule is provided in Note H of the Notes to Consolidated Financial Statements showing the geographic areas in which these sales were made. This schedule shows the reduction in international revenues in 2001 was primarily related to declines in sales activity in the Far East and North, Central and South America (excluding the US). The schedule also shows lower international revenues in 2000 primarily related to declines in sales activity in Middle Eastern and African countries. Management anticipates that consolidated revenues will increase in fiscal 2002 and that export revenues will contribute approximately 10% to 20% of consolidated revenues.

The following trend table sets forth, as a percentage of total revenues, for each business segment.

YEAR ENDED OCTOBER 31, -----	2001	2000	
1999 -----	Revenues:		
Switchgear.....	74%	73%	71% Bus
Duct.....			16%
Systems.....	14%	13%	Process Control
			10% 13% 16% ----

Total.....	100%	100%	100%

GROSS PROFIT

Gross profit, as a percentage of revenues, was 21.0%, 18.2%, and 18.9% in fiscal years 2001, 2000 and 1999, respectively. The increase in 2001 from 2000 was due to increased volumes and favorable prices for our switchgear and bus duct segment products. The decrease in 2000 from 1999 was due mainly to an inventory adjustment at one of the switchgear operations and additional costs on a major project at our process control segment. The Company continues to implement lean manufacturing initiatives to reduce costs and respond to the competitive markets it serves.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses as a percentage of revenues were 13.0%, 13.5%, and 13.8% for fiscal years 2001, 2000 and 1999, respectively. The decrease in fiscal years 2001 and 2000, as a percentage of revenues, was due to controlling of expenses as revenues increased in 2001.

INTEREST (INCOME) EXPENSE, NET

The following schedule shows the amounts of interest expense and income:

	2001	2000	1999	-----	-----	-----	Interest
expense.....							\$
	673	\$ 639	\$ 774	Interest			
income.....							
	(314)	(683)	(413)	-----	-----	-----	Net
interest.....							
	\$ 359	\$ (44)	\$ 361	=====	=====	=====	

Sources of interest expense were related to a revolving credit facility and bank notes in fiscal year 2001 with interest rates ranging between 4% to 8%. In 2000 and 1999 sources of interest expense were related to bank notes bearing interest at approximately 6%. Interest expense was consistent with prior years.

Sources of interest income were related to a note receivable and to short-term investments of available funds at various rates between 1% and 7%. Interest income decreased due to less available funds for overnight investment.

INCOME TAX PROVISION

The effective income tax rate on earnings from before income taxes was 37%, 35%, and 32% for fiscal years 2001, 2000 and 1999, respectively. The effective income tax rate is consistent with the statutory rate for 2001 considering the effect of state income taxes, but lower than the statutory rate, inclusive of the state rate, in 2000 and 1999 due primarily to foreign sales corporation credits.

NET EARNINGS

Net earnings were \$13,542,000 or \$1.28 per diluted share in fiscal year 2001 compared to \$7,061,000 or \$.67 per diluted share and \$7,127,000 or \$.66 per diluted share in fiscal years 2000 and 1999, respectively. The difference in 2000 compared to 1999 was due mainly to an inventory adjustment at one of the switchgear

operations and additional costs on a major project at our process control segment. The increase in 2001 as compared to 2000 is related to growth in volume and increased gross profit.

LIQUIDITY AND CAPITAL RESOURCES

In September 1998, the Company amended an existing credit agreement for a revolving line of credit with a major domestic bank which provided for a new \$10,000,000 term loan and a revolving line of credit of \$20,000,000. In December 1999, the credit agreement was amended to reduce the line of credit to \$15,000,000. In October 2001, the credit agreement was amended and restated to increase the revolving line of credit to \$25,000,000 and to extend the maturity date to February 28, 2003. The term loan has a maturity of five years with nineteen equal quarterly payments of \$357,143 and a final payment of the remaining principal balance on September 30, 2003. The stated rate for the loan was London Interbank offered rate (LIBOR) plus .5%. The effective interest rate, after including an interest rate swap negotiated with the trust company of the same domestic bank, is 5.20 percent per annum plus a 0.75 to 1.25 percent fee based on financial covenants. The revolving line of credit provides for the Company to elect an interest rate on amounts borrowed of (1) the bank's prime rate, which was 5.5% at October 31, 2001, less .5 percent (on the first \$5,000,000) and the bank's prime rate on additional borrowings, or (2) the LIBOR rate was 2.23% at October 31, 2001, plus an additional percentage of .75% to 1.25% based on the Company's performance. Also, a fee of .20 to .25 percent is charged on the unused balance of the line. The agreement contains customary affirmative and negative covenants and requirements to maintain a minimum level of tangible net worth and profitability. As of October 31, 2001, the Company had borrowings outstanding under this revolving line of credit of \$9,000,000 with an effective interest rate of 5.2% per annum.

A Company subsidiary ("Borrower") borrowed \$8 million on October 25, 2001, through a loan agreement funded with proceeds from certain tax-exempt industrial development revenue bonds ("Bonds"). The Bonds were issued by the Illinois Development Finance Authority and are to be used strictly for the completion of North Lake, Illinois production facility. A reimbursement agreement between the Borrower and a major U.S. Bank, required an issuance by the bank of an irrevocable direct-pay letter of credit to the Bonds trustee that guarantees payment of the bonds principal and interest when due. The letter of credit terminates on October 25, 2004, and is subject to both early termination and extension provisions customary to such agreements. The Bonds mature in 2021 but the Reimbursement Agreement requires Borrower to provide for redemption of one twentieth of the par amount of the bonds on October 25, 2002, and each subsequent anniversary. A sinking fund equal to one twentieth of the total Bonds outstanding will be funded by the Company each year for 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 2.30% per annum on October 31, 2001.

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 liquidity measures which management believes to be significant.

2001	2000	1999	-----	-----
			-	Working
capital.....				
\$88,981,000	\$63,508,000	\$59,782,000		
				Current
ratio.....				
2.66 to 1	2.75 to 1	3.13 to 1		Debt to
				total
capitalization.....			.2	
			to 1	.1 to 1

Management believes that the Company continues to maintain a strong liquidity position. The increase in working capital in fiscal 2001 compared to 2000 was \$25,473,000. However, during 2001 there were large increases in accounts receivable and in costs and estimated earnings in excess of billings partially offset by an increase in billing in excess of costs and estimated earnings. These increases resulted in a large decrease in cash and cash equivalents. The increase in working capital at October 31, 2000, as compared to October 31, 1999 is due mainly to large increases in accounts receivable and costs and estimated earnings in excess of billings partially offset by an increase in billing in accounts payable.

The net cash used in operating activities was \$2,057,000 for fiscal 2001 due to the build up of accounts receivable and costs in excess of billings because of sales volume increases in the fourth quarter of 2001 partially offset by increases in billings and excess of costs in estimated earnings. The net cash provided by operating activities was \$522,000 in fiscal 2000. The decrease in cash provided from operations in fiscal year 2000 compared to fiscal 1999 was due to the increases in accounts receivable, costs and estimated earnings in excess of billings, and purchases of property, plant and equipment partially offset by an increase in accounts payable.

Capital expenditures totaled \$10,291,000 during fiscal year 2001 compared to \$2,648,000 during fiscal year 2000. The major expenditures in 2001 were for the expansion of plants in the switchgear and bus duct segments. During fiscal year 2000 the majority of the capital expenditures were machinery and equipment. During the fiscal year 1999 the majority of the capital expenditures were for the purchase of a facility in North Canton, Ohio and for machinery and equipment. Management expects the Company's capital expenditures program to be approximately \$23,000,000 in fiscal year 2002, primarily for additional capacity at its North Lake, Illinois and Channelview, Texas facilities and replacement of machinery and equipment.

The Company announced in December 1999 that authorization had been given by the Board of Directors to repurchase up to \$5,000,000 of its outstanding common stock, subject to market conditions. Pursuant to this plan, the Company repurchased 530,100 shares of its common stock at an aggregate cost of approximately \$4,887,000 through October 31, 2001, at which time the program was ended. Repurchased shares added to treasury stock are available for general corporate purposes including issuance under the Company's employee stock option plan.

The Company's fiscal year 2002 asset management program will continue to focus on the reduction of accounts receivable days outstanding and reduction in inventories. Management believes that the cash and cash equivalents of \$6,520,000 at October 31, 2001, along with funds generated from operating activities and funds available through borrowings from the revolving line of credit will be sufficient to meet the capital requirements and operating needs of the Company for at least the next twelve months.

EFFECTS OF INFLATION AND RECESSION

During the last three years, the Company has not experienced any significant effects of inflation on its operations. Management continues to evaluate the potential impact inflation could have on future growth and minimizes the impact by including escalation clauses in long-term contracts. Recent marketing and financial reports indicate that the current economic conditions should remain in 2002 at approximately the same level as 2001 and the Company does not anticipate significant increases in inflation in the immediate future. The Company has not been affected by the current recession in the United States and based upon current backlog levels does not anticipate that it will be affected.

NEW ACCOUNTING STANDARDS

In June 1998 the Financial Accounting Standards Board (FASB) issued SFAS No. 133 -- "Accounting for Derivative Instruments and Hedging Activities". In June 1999, the FASB issued SFAS 137, which amended the effective adoption date of SFAS 133. This statement establishes accounting and reporting standards for derivative instruments, including derivative instruments embedded in other contracts, and for hedging activities. The Company adopted SFAS No. 133, as amended, on November 1, 2000. As of October 31, 2001, the Company has recorded a liability of \$222,000 representing the fair value of its interest rate swap agreement which is used by the Company in the management of interest rate exposure. The Company also realized this amount, net of income taxes, as a component of comprehensive income.

In December 1999, the Securities and Exchange Commission staff issued Staff Accounting Bulletin No. 101 (SAB 101). SAB 101 reflects the basic principles of revenue recognition in existing accounting principles generally accepted in the United States. SAB 101 does not supersede any existing authoritative literature. The Company adopted SAB 101 during 2001, and there was no material effect.

On June 30, 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") Nos. 141 "Business Combinations" and 142 "Goodwill and Other Intangible Assets". SFAS Nos. 141 and 142 are effective for fiscal years beginning after December 15, 2001. The Company plans to adopt these statements effective November 1, 2002. SFAS No. 141 requires that all business combinations completed after June 30, 2001, be accounted for using the purchase method. The Company does not believe that the effect on its Financial Statements of the adoption of SFAS No. 141 will be material. SFAS No. 142 requires that goodwill no longer be amortized but be subject to an annual assessment for impairment based on a fair value test. In addition, acquired intangible assets are required to be separately recognized if the benefit to the asset is based on contractual or legal rights. The Company is evaluating the impact of the standard's requirement for goodwill impairment analysis. At October 31, 2001, net goodwill was \$1,062,000 and the annual amortization of such goodwill was \$146,000, which had an earnings per diluted share impact of \$0.01.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." SFAS No. 144 establishes a single accounting model for long-lived assets to be disposed of by sale and requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. The Company is in the process of assessing the impact that the adoption of this standard will have on its financial position and results of operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company's financial instruments include cash and equivalents, accounts receivable, accounts payable, debt obligations and interest rate swaps. The book value of cash and cash equivalents, accounts receivable and accounts payable are considered to be representative of fair value because of the short maturity of these instruments. The Company believes that the carrying value of its borrowings under the credit agreement approximate their fair value as they bear interest at rates indexed to LIBOR or bank's prime rate. The Company's accounts receivable are not concentrated in one customer or one industry and are not viewed as an unusual credit risk. The Company had recorded an allowance for doubtful accounts of \$551,000 at October 31, 2001 and \$505,000 at October 31, 2000, respectively, which management believes is adequate.

The interest rate swap agreement, which is used by the Company in the management of interest rate exposure is accounted for on the accrual basis. Income and expense resulting from this agreement is recorded in the same category as interest expense accrued on the related term note. Amounts to be paid or received under the interest rate swap agreement are recognized as adjustments to interest expense in the periods in which they occur.

At October 31, 2001, the Company had \$5,714,000 in borrowings subject to the interest rate swap at a rate of 5.20% through September 30, 2003. The 5.20% rate is currently approximately 2.97% above market and should represent approximately \$170,000 of increased interest expense for fiscal year 2002 assuming the current market interest rates do not change. The approximate fair value of the swap agreement at October 31, 2001 is (\$222,000). The fair value is the estimated amount the Company would pay to terminate the contract. The agreements require that the Company pay the counterparty at the above fixed swap rate and require the counterparty to pay the Company interest at the 90 day London Interbank Offered Rate (LIBOR) rate. The closing 90 day LIBOR rate on October 31, 2001 was 2.23%.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

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

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

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

ARTHUR ANDERSEN LLP

Houston, Texas
November 29, 2001

POWELL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

OCTOBER 31, -----	2001	2000	-----
-----	(IN THOUSANDS, EXCEPT SHARE AND PER		
SHARE DATA) ASSETS	Current Assets:		
Cash and cash			
equivalents.....	\$ 6,520	\$	
2,114 Accounts receivable, less allowance for doubtful			
accounts of \$551 and \$505, respectively.....			
76,592 54,205 Costs and estimated earnings in excess			
of billings.....	36,164	24,292	
Inventories.....			
	21,425	17,523	Income taxes
receivable.....	1,043	1,012	
Prepaid expenses and other current			
assets.....	835	827	----- Total
Current Assets.....	142,579		
99,973 Property, plant and equipment,			
net.....	37,409	31,383	Deferred
income taxes.....			
	1,064	1,419	Other
assets.....			
	5,309	5,151	----- Total
Assets.....	\$186,361		
\$137,926 =====			LIABILITIES AND
STOCKHOLDERS' EQUITY	Current Liabilities:		
Current			
maturities of long-term debt.....	\$		
1,429 \$ 1,429 Accounts and income taxes			
payable.....	18,857	16,373	Accrued
salaries, bonuses and commissions.....	9,670		
6,736 Billings in excess of costs and estimated			
earnings.....	14,858	5,315	Accrued product
warranty.....	1,860	1,316	
			Other accrued
expenses.....	6,924	5,296	
-----			Total Current
Liabilities.....	53,598	36,465	
Long-term debt, net of current			
maturities.....	21,285	5,714	Deferred
compensation expense.....			
	1,404	1,241	Other
liabilities.....			
	705	419	----- Total
Liabilities.....	76,992		
43,839 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; 10,964,000 and			
10,821,000 shares issued, respectively.....			
	109	108	Additional paid-in
capital.....	8,680	6,830	
			Retained
earnings.....	107,967		
94,425 Treasury stock, 530,100 shares and 505,400			
shares respectively, at			
cost.....	(4,887)	(4,669)	
Accumulated other comprehensive income: fair value of			
interest rate swap.....			
(140) -- Deferred compensation-			
ESOP.....	(2,360)	(2,607)	----
-----			Total Stockholders'
Equity.....	109,369	94,087	-----
-----			Total Liabilities and Stockholders'
Equity.....	\$186,361	\$137,926	=====

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

POWELL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

YEARS ENDED OCTOBER 31, -----					
---- 2001 2000 1999 -----					(IN
					THOUSANDS, EXCEPT PER SHARE DATA)
Revenues.....					
	\$271,243	\$223,019	\$212,531	Cost of goods	
sold.....				214,446	
	182,340	172,353			Gross
profit.....					
	56,797	40,679	40,178	Selling, general & administrative	
expenses.....				35,007	29,841
				29,354	
					Earnings from operations before interest
and income taxes...	21,790	10,838	10,824	Interest expense	
(income), net.....				359	(44)
					361
					Earnings before income tax
provision.....				21,431	10,882
					10,463
					Income tax
provision.....					7,889
	3,821	3,336			Net
earnings.....					
\$	13,542	\$ 7,061	\$ 7,127	===== ===== =====	Earnings
					per common share: Net Earnings:
Basic.....				\$ 1.30	\$
				.68	\$.67
Diluted.....				1.28	.67
				.66	Weighted average number of common shares
outstanding.....	10,381	10,451	10,665	Weighted average	
				number of common and common equivalent shares	
outstanding.....				10,600	
				10,530	10,777

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

POWELL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

COMMON STOCK ADDITIONAL COMPREHENSIVE
 ----- PAID-IN RETAINED
 INCOME SHARES AMOUNT CAPITAL EARNINGS

----- (IN THOUSANDS) Balance,
 October 31, 1998.....
 10,659 \$107 \$5,919 \$ 80,237 Net
 earnings.....
 \$ 7,127 7,127 Amortization of deferred
 compensation-
 ESOP..... Exercise of
 stock options..... 16 --
 124 -----

- Comprehensive
 Income..... \$
 7,127 ===== Balance, October 31,
 1999..... 10,675 107
 6,043 87,364 Net
 earnings.....
 7,061 7,061 Amortization of deferred
 compensation-

ESOP..... Exercise of
 stock options..... 146 1
 692 Income tax benefit from stock
 options
 exercised.....
 95 Purchases of Treasury
 Stock..... -----

- ----- Comprehensive
 Income..... \$
 7,061 ===== Balance, October 31,
 2000..... 10,821 108
 6,830 94,425 Net
 earnings.....
 13,542 13,542 Amortization of deferred
 compensation-

ESOP..... Change in
 value of interest rate swap, net of
 income taxes (\$82)..... (140)
 Exercise of stock
 options..... 143 1 1,400
 Income tax benefit from stock options
 exercised.....
 450 Purchases of Treasury
 Stock..... -----

- ----- Comprehensive
 Income.....
 \$13,402 ===== Balance, October 31,
 2001..... 10,964 \$109
 \$8,680 \$107,967 =====
 =====

ACCUMULATED OTHER DEFERRED TREASURY
 COMPREHENSIVE COMPENSATION STOCK
 INCOME ESOP TOTAL -----

----- (IN
 THOUSANDS) Balance, October 31,
 1998..... \$ -- \$ --
 \$(2,927) \$ 83,336 Net
 earnings.....
 7,127 Amortization of deferred
 compensation-

ESOP..... 185 185
 Exercise of stock
 options..... 124 ----- --
 ----- Comprehensive
 Income.....
 Balance, October 31,
 1999..... -- -- (2,742)
 90,772 Net
 earnings.....

7,061 Amortization of deferred
 compensation-
 ESOP..... 135 135
 Exercise of stock
 options..... 693 Income tax

benefit from stock options			
exercised.....			
95 Purchases of Treasury			
Stock.....	(4,669)	(4,669)	--

Comprehensive			
Income.....			
Balance, October 31,			
2000.....	(4,669)	--	
(2,607) 94,087 Net			
earnings.....			
13,542 Amortization of deferred			
compensation-			
ESOP.....	247	247	
Change in value of interest rate swap,			
net of income taxes			
(\$82).....	(140)	(140)	
Exercise of stock			
options.....	1,401	Income	
tax benefit from stock options			
exercised.....			
450 Purchases of Treasury			
Stock.....	(218)	(218)	-----
- - - - -			
Comprehensive			
Income.....			
Balance, October 31,			
2001.....	\$(4,887)		
\$(140) \$(2,360) \$109,369	=====	=====	=====
	=====	=====	

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

POWELL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED OCTOBER 31, -----	-----	-----	-----	(IN
---- 2001	2000	1999	-----	THOUSANDS)
Operating Activities: Net earnings.....				
\$ 13,542	\$ 7,061	\$ 7,127	Adjustments to reconcile net earnings to net cash provided by (used in) operating activities: Depreciation and amortization.....	4,381 4,669
	4,420	Loss on disposition of assets.....	85 -- --	Deferred income tax provision (benefit).....
	1,029	1,167 (802) Postretirement benefits liability.....	64 (16) (410)	Changes in operating assets and liabilities: Accounts receivable, net.....
	(22,387)	(11,202) 1,252	Costs and estimated earnings in excess of billings.....	(11,872) (8,101) 8,592
	Inventories.....	(3,902) (2,350) 1,111	Prepaid expenses and other current assets.....	(8) 969 (354) Other assets.....
	(177)	(364)	Accounts payable and income taxes payable or receivable.....	2,903 5,546 (1,238)
	Accrued liabilities.....	4,514	1,598 (1,315)	Billings in excess of costs and estimated earnings.....
	9,543	1,110	360	Deferred compensation expense.....
	410	250	126	-----
	-----	-----	-----	Net cash provided by (used in) operating activities.....
	(2,057)	522	18,505	-----
Investing Activities: Purchases of property, plant and equipment.....				
	(10,291)	(2,648)	(5,156)	-----
	(10,291)	(2,648)	(5,156)	-----
Financing Activities: Borrowings of short-term debt.....				
	31,950	-- --	Repayments of short-term debt.....	(31,950) -- --
Borrowings of long-term debt.....				
	17,000	--	17,500	-----
Payments of long-term debt.....				
	(1,429)	(2,430)	(20,928)	Payments to reacquire common stock.....
	(218)	(4,669)	--	Exercise of stock options.....
	1,401	693	124	-----
	-----	-----	-----	Net cash provided by (used in) financing activities.....
	16,754	(6,406)	(3,304)	-----
Net increase (decrease) in cash and cash equivalents.....				
	4,406	(8,532)	10,045	Cash and cash equivalents at beginning of year.....
	2,114	10,646	601	-----
	-----	-----	-----	Cash and cash equivalents at end of year.....
	\$ 6,520	\$ 2,114	\$ 10,646	=====
Supplemental disclosures of cash flow information: Cash paid for interest.....				
	\$ 673	\$ 638	\$ 813	=====
Cash paid for income taxes.....				
	\$ 6,225	\$ 3,200	\$ 2,450	=====

The accompanying notes are an integral part of these consolidated financial

POWELL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. BUSINESS AND ORGANIZATION

Powell Industries, Inc. ("Powell" or the "Company") was incorporated under the laws of the state of Nevada in December 1968. The Company is the successor to a corporation founded by William E. Powell in 1947, which merged into the Company in 1977.

Powell Industries, Inc. designs, manufactures and packages systems and equipment for the control, distribution and management of electrical energy and other dynamic processes. Headquartered in Houston, Powell operates five subsidiaries and provides products and services to large industrial customers such as oil and gas producers, refineries, petrochemical plants, pulp and paper producers, mining operations, commuter railways and vehicular transportation facilities, as well as public and private utilities.

In the course of its operations, the Company is subject to certain risk factors, including but not limited to exposure to downturns in the economy, risks related to management of internal growth and execution of strategy, management of external growth, availability of qualified employees, competition, risks associated with contracts, significant fluctuations in quarterly results, collectibility and receivables, dependence on key personnel and risks associated with the availability of capital and with debt service.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

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

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates are used in the Company's revenue recognition under percentage of completion, allowance for doubtful accounts and accrued liabilities.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments purchased with an original maturity of less than three months to be cash equivalents. On October 31, 2001, \$5,838,000 of the cash balance was restricted cash pursuant to the terms of the bonds (see note F). This cash will be released to the Company upon substantiation of approved expenditures for building and improvements on the related project. The project is expected to be completed within the next 12 months.

ACCOUNTS RECEIVABLE AND MARKET RISK

The Company's receivables are generally not collateralized. Management performs ongoing credit analyses of the accounts of its customers and provides allowances as deemed necessary. Accounts receivable at October 31, 2001 and 2000 include \$7,914,000 and \$5,948,000, respectively, due from customers in accordance with applicable retainage provisions of engineering and construction contracts, which will become billable upon completion of such contracts. Approximately \$192,000 of the retained amount at October 31, 2001 is expected to be billed subsequent to October 31, 2002.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

INVENTORIES

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

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost and is 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 betterments 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 statements of operations.

IMPAIRMENT OF LONG-LIVED ASSETS

In accordance with Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," the Company evaluates the recoverability of property, plant and equipment and other assets, if facts and circumstances indicate that any of those assets might be impaired. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if an impairment of such property has occurred. The effect of any impairment would be to expense the difference between the fair value of such assets and its carrying value. No impairment charges were recorded in fiscal years 2001, 2000 or 1999.

INTANGIBLE ASSETS

Included in other assets are net intangible assets totaling \$1,477,000 and \$1,678,000 at October 31, 2001 and 2000, respectively. Intangible assets primarily include goodwill and patents which are amortized using the straight-line method over periods ranging from five to twenty years. The accumulated amortization of intangible assets totaled \$1,460,000 and \$1,966,000 at October 31, 2001 and 2000, respectively. Management continually evaluates whether events or circumstances have occurred that indicate the remaining estimated useful life of intangible assets may warrant revision or that remaining balances may not be recoverable.

INCOME TAXES

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

REVENUE RECOGNITION

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

WARRANTIES

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

RESEARCH AND DEVELOPMENT EXPENSE

Research and development costs are charged to expense as incurred. Such amounts were \$3,142,000, \$2,920,000, and \$3,031,000 in fiscal years 2001, 2000 and 1999, respectively.

RECLASSIFICATION

Certain reclassifications of prior year amounts have been made in order to conform with the classifications used in the current year presentation.

NEW ACCOUNTING STANDARDS

In June 1998 the Financial Accounting Standards Board (FASB) issued SFAS No. 133 -- "Accounting for Derivative Instruments and Hedging Activities". In June 1999, the FASB issued SFAS 137, which amended the effective adoption date of SFAS 133. This statement establishes accounting and reporting standards for derivative instruments, including derivative instruments embedded in other contracts, and for hedging activities. The Company adopted SFAS No. 133, as amended, on November 1, 2000. As of October 31, 2001, the Company has recorded a liability of \$222,000 representing the fair value of its interest rate swap agreement which is used by the Company in the management of interest rate exposure. The Company also realized this amount, net of income taxes, as a component of comprehensive income.

In December 1999, the Securities and Exchange Commission staff issued Staff Accounting Bulletin No. 101 (SAB101). SAB101 reflects the basic principles of revenue recognition in existing accounting principles generally accepted in the United States. SAB101 does not supersede any existing authoritative literature. The Company adopted SAB101 during 2001, and there was no material effect.

On June 30, 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") Nos. 141 "Business Combinations" and 142 "Goodwill and Other Intangible Assets". SFAS Nos. 141 and 142 are effective for fiscal years beginning after December 15, 2001. The Company plans to adopt these statements effective November 1, 2002. SFAS No. 141 requires that all business combinations completed after June 30, 2001, be accounted for using the purchase method. The Company does not believe that the effect on its Financial Statements of the adoption of SFAS No. 141 will be material. SFAS No. 142 requires that goodwill no longer be amortized but be subject to an annual assessment for impairment based on a fair value test. In addition, acquired intangible assets are required to be separately recognized if the benefit to the asset is based on contractual or legal rights. The Company is evaluating the impact of the standard's requirement for goodwill impairment analysis. At October 31, 2001, net goodwill was \$1,062,000 and the annual amortization of such goodwill was \$146,000, which had an earnings per diluted share impact of \$0.01.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." SFAS No. 144 establishes a single accounting model for long-lived assets to be disposed of by sale and requires that those long-lived assets be measured at the lower of carrying amount of fair value less cost to sell, whether reported in continuing operations or in discontinued operations. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. The Company is in the process of assessing the impact that the adoption of this standard will have on its financial position and results of operations.

POWELL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

C. EARNINGS PER SHARE

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

YEARS ENDED OCTOBER 31, -----	2001	2000	1999	-----
Numerator: Numerator for basic and diluted earnings per share -- earnings from continuing operations available to common stockholders.....	\$13,542	\$ 7,061	\$ 7,127	=====
Denominator: Denominator for basic earnings per share -- weighted-average shares.....	10,381	10,451	10,665	Effect of dilutive securities -- Employee stock options.....
	79	112		-----
Denominator for diluted earnings per share-adjusted weighted-average shares with assumed conversions...	10,600	10,530		-----
Basic earnings per share.....	\$ 1.30	\$.68	\$.67	=====
Diluted earnings per share.....	\$ 1.28	\$.67	\$.66	=====

For the years ended October 31, 2001, 2000 and 1999 exercisable stock options of none, 207,000 and 415,000 respectively, were excluded from the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the Company's common stock.

D. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS

Activity in the Company's allowance for doubtful accounts receivable consists of the following (in thousands):

OCTOBER 31, -----	2001	2000	-----
Balance at beginning of period.....	\$505	\$ 852	Additions to costs and expenses.....
	62	112	Deductions for uncollectible accounts written off, net of recoveries.....
	(16)	(459)	-----
Balance at end of period.....	\$551	\$ 505	=====

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

OCTOBER 31, -----	2001	2000	-----
Raw materials, parts and subassemblies.....	\$15,186	\$11,162	
Work-in-process.....	6,239	6,361	-----
Total inventories.....	\$21,425	\$17,523	=====

POWELL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

OCTOBER 31, -----	2001	2000	-----
----- Costs and estimated			
earnings.....	\$ 156,822		
\$120,641 Progress			
billings.....			
(120,658) (96,349) -----	Total costs		
and estimated earnings in excess of			
billings.....			
\$ 36,164 \$ 24,292 =====	=====	=====	

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

Progress billings.....	\$111,963	\$ 91,766
Costs and estimated earnings.....	(97,105)	(86,451)
	-----	-----
Total billings in excess of costs and estimated earnings.....	\$ 14,858	\$ 5,315
	=====	=====

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

OCTOBER 31, -----	RANGE OF	2001	2000
ASSET LIVES -----			
Land.....			
\$ 5,232 \$ 3,193 -- Buildings and			
improvements.....	30,952		
30,640 3-39 Years Machinery and			
equipment.....	31,559		
29,001 3-15 Years Furniture and			
fixtures.....	3,829 3,690		
3-10 Years Construction in			
progress.....	4,985 1,141 --		
----- 76,557 67,665 Less-accumulated			
depreciation.....	(39,148)		
(36,282) -----	Total property, plant		
and equipment, net.....	\$ 37,409 \$ 31,383		
=====	=====		

E. EMPLOYEE BENEFIT PLANS

The Company has a defined employee contribution 401(k) plan for substantially all of its employees. The Company matches 50% of employee contributions up to an employee contribution of six percent of their salary. The Company recognized expenses of \$1,208,000, \$1,098,000, and \$1,040,000 in fiscal years 2001, 2000 and 1999, respectively, under this plan.

Two long service employees are participants in a deferred compensation plan providing payments in accordance with a predetermined plan upon retirement or death. The Company recognizes the cost of this plan over the projected years of service of the participant. The Company has insured the lives of these key employees to assist in the funding of the deferred compensation liability.

The Company has 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 agreement or by action of the Company. The ESOP initially purchased 793,525 shares of the Company's common stock from a major stockholder. At October 31, 2001 and 2000 there were 674,569 and 679,637 shares in the trust with 308,926 and 259,772 shares allocated to participants, respectively. The funding for this plan was provided through a loan from the Company of \$4,500,000. 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. The Company recorded deferred compensation as a contra-equity account for the amount loaned to the ESOP in the accompanying consolidated balance sheets. The Company is required to make annual contributions to the ESOP to enable it to repay its loan to the Company. The deferred

POWELL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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 the Company elects to make any additional contributions. The compensation expense for fiscal years 2001, 2000 and 1999 was \$247,000, \$135,000, and \$185,000, 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.

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

In 1994, the Company modified its postretirement benefits to provide retiree healthcare benefits to only current retirees and active employees who were eligible to retire by December 31, 1999. Participants eligible for such benefits were required to pay between 20 percent and 100 percent of the Company's 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 the Company's postretirement benefits cost and accumulated benefits obligation.

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

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

OCTOBER 31,	-----	2001	2000	1999	---
--	-----	-----	-----	-----	-----
		Components of net periodic			
		postretirement benefits expense (income): Service			
cost.....					\$ 17
		\$ 16	\$ 1		Interest
cost.....					34 27
		25 Prior service cost			
(benefit).....			16	(40)	(318)
		Net (gain)/loss			
recognized.....			(5)	(14)	
(77)	-----	-----	-----	-----	Net periodic postretirement
		benefits expense			
(income).....				
		\$ 62	\$ (11)	\$ (369)	=====

POWELL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

OCTOBER 31,	-----	2001	2000	1999	-----
	-----				-----
		Funded Status:			
Retirees.....					
	\$ 73 \$ 51 \$ 166	Fully eligible active			
participants.....		167	163	234	Other
actual participants.....					254
257 --	-----	Accumulated postretirement			
		494	471	400	Less
		benefits obligation.....			
		unrecognized balances: Prior service			
cost.....		145	161	(53)	
		Net actuarial			
(gain)/loss.....		(134)	(109)		
	18	-----	-----	-----	Net amount
recognized.....					\$ 483 \$
419 \$ 435	=====	=====	=====		Changes in accumulated
		postretirement benefits obligation: Balance at			
beginning of year.....		\$ 471	\$		
		400	\$ 569		Service
cost.....			17	16	
		1 Interest			
cost.....			34	27	
		25 Loss due to plan			
change.....		--	174	--	
		Actuarial			
(gain)/loss.....		(30)			
	(141) (155)	Benefits			
paid.....		2	(5)		
(40)	-----	Balance at end of			
year.....		\$ 494	\$ 471	\$	
		400	=====	=====	Fair value of plan
assets.....		\$ --	\$ --	\$ --	
	=====	=====	=====		

	2001	2000	1999	-----	-----	-----	Weighted
average assumptions as of October 31, 2001:							
							Discount
rate.....							
	7%	7%	6%	Expected return on plan			
assets.....				N/A	N/A	N/A	
				Rate of compensation			
increase.....				N/A	N/A		
				N/A			

The assumed health care cost trend measuring the accumulated postretirement benefits obligation was 6% in both fiscal years 2001 and 2000. The trend is expected to remain at 6% for fiscal year 2001 and later. If the health care trend rate assumptions were increased by 1% as of October 31, 2001, there would be no significant effect of this change on the accumulated postretirement benefits obligation or net postretirement benefit cost for 2001.

F. DEBT

In September 1998, the Company amended a revolving line of credit agreement with a major domestic bank which provided for a new \$10,000,000 term loan and a revolving line of credit of \$20,000,000. In December 1999 the Company amended the agreement to reduce the line of credit to \$15,000,000. In October 2001, the revolving line of credit was amended to increase the line to \$25,000,000 and to extend the maturity date to February 2003. The term loan has a maturity of five years with nineteen equal quarterly payments of \$357,143 and a final payment of the remaining principal balance on September 30, 2003. Per the agreement, the rate is the London Interbank Offered Rate (LIBOR) plus .5%. The effective interest rate, after including the results of an interest rate swap negotiated with the trust company of the same domestic bank, is 5.20 percent per annum plus a .75 to 1.25 percent fee based on financial covenants. The revolving line of credit provides for the Company to elect an interest rate on amounts borrowed of (1) the bank's prime rate, which

POWELL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

was 5.5% at October 31, 2001, less .5 percent (on the first \$5,000,000) and the bank's prime rate on additional borrowings, or (2) the bank's LIBOR rate which was 2.23% at October 31, 2001, plus an additional percentage of .75% to 1.25% based on the Company's performance. Also, a fee of .20 to .25 percent is charged on the unused balance of the line. The agreement contains customary affirmative and negative covenants and requirements to maintain a minimum level of tangible net worth and profitability. As of October 31, 2001, there were \$9,000,000 in borrowings under this line of credit. The revolving line of credit agreement, as amended, matures on February 28, 2003.

The interest rate swap agreement, which is used by the Company in the management of interest rate exposure, is accounted for on the accrual basis. Income and expense resulting from this agreement is recorded in the same category as interest expense accrued on the related term note. Amounts to be paid or received under the interest rate swap agreement are recognized as an adjustment to interest expense in the periods in which they occur. The original notional amount of the swap agreement was \$10,000,000 and follows the same reduction schedule as the term loan. The agreement requires that the Company pay the counterparty at the above fixed swap rate and requires the counterparty to pay the Company interest at the 90 day LIBOR rate. The closing 90 day LIBOR rate on October 31, 2001, was 2.23%. The Company considers the risk of non-performance by its swap partner to be minimal.

A Company subsidiary ("Borrower") borrowed \$8 million on October 25, 2001, through a loan agreement funded with proceeds from certain tax-exempt industrial development revenue bonds ("Bonds"). The Bonds were issued by the Illinois Development Finance Authority and are to be used strictly for the completion of North Lake, Illinois production facility. A reimbursement agreement between the Borrower and a major U.S. Bank, required an issuance by the bank of an irrevocable direct-pay letter of credit to the Bonds trustee that guarantees payment of the bonds principal and interest when due. The letter of credit terminates on October 25, 2004, and is subject to both early termination and extension provisions customary to such agreements. The Bonds mature in 2021 but the Reimbursement Agreement requires Borrower to provide for redemption of one twentieth of the par amount of the bonds on October 25, 2002, and each subsequent anniversary. A sinking fund equal to one twentieth of the total Bonds outstanding will be funded by the Company each year for 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 2.30% per annum on October 31, 2001.

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

OCTOBER 31, -----	2001	2000	-----
	--	Five year term	
note.....			\$ 5,714
	\$ 7,143	Revolving line of	
credit.....			9,000 --
		Industrial Development Revenue	
Bonds.....		8,000	-- -----
		- Total	
debt.....			
	22,714	7,143	Less-current
maturities.....			
(1,429)	(1,429)	-----	----- Total long-term
debt.....			\$21,285
	\$ 5,714	=====	=====

POWELL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The interest expense recorded during the year was \$673,000, \$639,000, and \$774,000 in 2001, 2000 and 1999, respectively. The annual maturities of long-term debt for the years 2002 through 2006 are as follows: (See footnote L for the discussion of the fair market value of the debt instruments.)

YEAR ENDING	LONG-TERM	OCTOBER 31	DEBT MATURITIES	-	-----

2002.....		1,429			
2003.....		13,285			
2004.....		--			
2005.....		--			
2006.....		--			
Thereafter.....					
	8,000		-----	Total long-term debt	
maturities.....					\$22,714 =====

G. INCOME TAXES

The net deferred income tax asset is comprised of the following (in thousands): October 31,

OCTOBER 31,	-----	2001	2000	-----
-----	Current deferred income taxes: Gross			
assets.....		\$ 2,177	\$ 1,669	Gross
liabilities.....		(3,010)	(1,910)	-----
	deferred income tax liability.....			Net current
(833)	(241)	-----	-----	Noncurrent deferred
	income taxes: Gross			
assets.....		1,231	1,486	Gross
liabilities.....		(167)	(67)	-----
	deferred income tax asset.....			1,064
1,419	-----	-----	-----	Net deferred income tax
asset.....				\$ 231
				\$
		1,178	=====	=====

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,	-----	2001	2000	-----
	Allowance for doubtful			
accounts.....		\$ 192	\$ 172	Reserve
	for accrued employee benefits.....			789
	474 Warranty			
reserves.....		567	453	
	Uncompleted long-term			
contracts.....		(3,010)	(1,910)	
	Depreciation and			
amortization.....		165	302	
	Deferred			
compensation.....		495	442	
	Postretirement benefits			
liability.....		294	123	Accrued legal
expenses.....		338	444	
	Uniform capitalization and			
inventory.....		315	508	
Other.....				
86	170	-----	-----	Net deferred income tax
asset.....				\$ 231
				\$ 1,178
				=====
				=====

POWELL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

YEARS ENDED OCTOBER 31,	-----	2001
2000 1999	-----	Current:
Federal.....		
	\$6,478 \$2,445 \$3,896	
State.....		
	382 209 242	Deferred:
Federal.....		
	1,029 1,167 (802)	----- Total income
tax provision.....	\$7,889 \$3,821	
	\$3,336 =====	

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,	-----	2001	2000
1999	-----	Statutory	
rate.....		35%	34%
	34% Foreign sales corporation		
credits.....	-- (1) (3)	State income	
taxes, net of federal benefit.....	1 2 2		
Other.....			
	1 -- (1) -- --	Effective	
rate.....		37%	35% 32% == ==
	==		

H. SIGNIFICANT SALES DATA

No single customer or export country accounted for more than 10 percent of consolidated revenues in fiscal years 2001, 2000 and 1999.

Export sales are as follows (in thousands):

YEARS ENDED OCTOBER 31,	-----
2001 2000 1999	-----
(including former Soviet Union).....	\$
	411 \$ 734 \$ 1,928
East.....	
	4,437 17,200 15,867
Africa.....	6,152
	7,832 31,364
(excluding U.S.).....	10,431 18,655 21,214
	----- Total export
sales.....	\$21,431
	\$44,421 \$70,373 =====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

I. COMMITMENTS AND CONTINGENCIES

LEASES

The Company leases certain offices, facilities and equipment under operating leases expiring at various dates through 2008. At October 31, 2001, the minimum annual rental commitments under leases having terms in excess of one year are as follows (in thousands):

YEAR ENDING	OPERATING	OCTOBER 31	LEASES	-	-----	-----
2002.....						
			1,547			
2003.....			851			
2004.....			629			
2005.....			437			
2006.....			306			
Thereafter.....			306	-----	Total lease	
commitments.....						\$4,076
				=====		

Lease expense for all operating leases, excluding leases with terms of less than one year, was \$1,601,000, \$1,325,000 and \$1,328,000 for fiscal years 2001, 2000 and 1999, respectively.

LETTERS OF CREDIT AND BONDS

The Company is contingently liable for secured and unsecured letters of credit of \$11,076,000 as of October 31, 2001. The Company also had performance bonds totaling approximately \$126,240,000 respectively, that were outstanding at October 31, 2001. Performance bonds are used by the Company to guarantee contract performance to customers.

INSURANCE

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

LITIGATION

The Company is a party to disputes arising in the ordinary course of business. Management does not believe that the ultimate outcome of these disputes will materially affect the financial position or future results of operations of the Company.

J. STOCK OPTIONS AND GRANTS

The Company provides an employee stock option plan in which 1,500,000 shares of the Company's common stock would be made available through an incentive program for certain employees of the Company. In March 2001, the stockholders approved an amendment to further increase the maximum shares available under the plan from 1,500,000 to 2,100,000 shares of common stock. 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 2001, 2000 and 1999. Stock options granted to the employees are non-qualified and are granted at a price equal to the fair market value of the common stock at the date of grant. Generally, options granted have terms of seven years from the date of grant and will vest in increments of 20 percent per year over a five year period

POWELL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

on the yearly anniversary of the grant date. The plan provides for additional stock to be awarded equal to 20 percent of all options which are exercised and then held for a period of five years.

The Board of Directors at its meeting on June 25, 2000, adopted a 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. Each eligible Director who is continuing to serve as a Director, shall receive a grant of an option to purchase 2,000 shares of the Company's common stock. The total number of shares of the Company's common stock available under this plan is 24,000. Stock options granted to the Directors are non-qualified and are granted at a price equal to the fair market value of the common stock at the date of grant. Generally, options granted have expiration terms of seven years from the date of grant and will vest in full one year from the date of the grant date.

There were 503,734 shares available under the plans to be granted as of October 31, 2001. Stock option activity (number of shares) for the Company during fiscal years 2001, 2000 and 1999 was as follows:

2001	2000	1999	-----	-----
-	-	-	-----	-----
- ----- Outstanding,				
beginning of				
year.....				
654,730	778,635	527,560		
Granted: Stock options \$8.50				
per share..... --				
--	301,850	Stock options		
\$8.44 per				
share..... --				
12,000	--	Stock options		
\$17.85 per				
share..... 358,900				
--	--	Exercised: Stock		
options \$6.25 per				
share.....				
(66,730)	(19,960)	(3,300)		
Stock options \$6.75 per				
share..... --				
(95,295)	(5,375)	Stock		
options \$15.81 per				
share.....				
(49,740)	--	--	Stock options	
\$8.50 per				
share.....				
(26,090)	(1,280)	--	Stock	
options \$8.44 per				
share.....				
(2,000)	--	--	Forfeited:	
Stock options \$6.25 per				
share..... -- --				
(14,700)	Stock options	\$6.75		
per share..... --				
--	(9,000)	Stock options		
\$15.81 per				
share.....				
(13,300)	(10,000)	(18,400)		
Stock options \$8.50 per				
share.....				
(21,470)	(9,370)	--	-----	-
----- Outstanding,				
ranging from \$6.25 to \$17.85				
per share, at the end of				
year.....				
834,300	654,730	778,635		
=====	=====	=====		

The following table summarizes information about stock options outstanding as of October 31, 2001:

OUTSTANDING
EXERCISABLE

POWELL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The weighted average fair value of options granted during fiscal 2001 was \$9.13 per option.

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

2001	2000	1999	-----	-----	-----	Net income:
						As
reported.....						
	\$13,542	\$7,061	\$7,127	Pro		
forma.....						
13,066	6,585	6,807	Basic earnings per share: As			
reported.....						
	\$ 1.30	\$.68	\$.67	Pro		
forma.....						
1.26	.63	.64	Diluted earnings per share: As			
reported.....						
	\$ 1.28	\$.67	\$.66	Pro		
forma.....						
	1.23	.63	.63			

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

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

2001	2000	1999	-----	-----	-----
options.....					
	7 years	7 years	7 years	Risk-free	
				interest	
rate.....					
	5.30%	6.38%	5.99%	Expected dividend	
yield.....					
	0.00%	0.00%	0.00%	Expected stock price	
volatility.....					
	39.53%	36.23%	37.62%		

K. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments include cash and cash equivalents, accounts receivable, accounts payable, debt obligations and interest rate swaps. The book value of cash and cash equivalents, accounts receivable and accounts payable are considered to be representative of fair value because of the short maturity of these instruments. The Company believes that the carrying value of its borrowings under the credit agreement approximate their fair value as they bear interest at rates indexed to the LIBOR or the bank's prime rate, which is equivalent to market.

At October 31, 2001, the Company had \$5,714,000 in borrowings subject to the interest rate swap at a rate of 5.20% through September 30, 2003. The 5.20% rate is currently approximately 2.97% above market and should represent approximately \$170,000 of increased interest expense for fiscal year 2001 assuming the current market interest rates do not change. The approximate fair value of the swap agreement at October 31, 2001 is (\$222,000). The fair value is the estimated amount the Company would pay to terminate the contract. The agreements require that the Company pay the counterparty at the above fixed swap rate and require the counterparty to pay the Company interest at the 90 day LIBOR rate. The closing 90 day LIBOR rate on October 31, 2001 was 2.23%.

POWELL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

L. BUSINESS SEGMENTS

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

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

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

YEAR ENDED OCTOBER 31, -----					
----- 2001 2000 1999 -----					
	- Revenues:				
Switchgear.....	\$202,219	\$161,494	\$151,475	Bus	
Duct.....	42,613	32,213	28,016	Process Control	
Systems.....	26,411	29,312			
	33,040				
Total.....	\$271,243	\$223,019	\$212,531	=====	=====
	===== Earnings from Operations Before Income				
	Tax Provision:				
Switchgear.....	\$ 14,519	\$ 6,039	\$ 3,961	Bus	
Duct.....	6,208	6,056	5,178	Process Control	
Systems.....	705	(1,213)			
	1,324				
Total.....	\$ 21,431	\$ 10,882	\$ 10,463	=====	=====
	===== Assets:				
Switchgear.....	\$134,872	\$100,071	\$ 84,813	Bus	
Duct.....	21,576	15,608	14,764	Process Control	
Systems.....	17,579	14,331			
	10,997				
Corporate.....	12,334	7,916	16,957		
Total.....	\$186,361	\$137,926	\$127,531	=====	=====
	===== Depreciation and Amortization:				
Switchgear.....	\$ 3,661	\$ 3,724	\$ 3,435	Bus	
Duct.....	405	611	642	Process Control	
Systems.....	315	334	343	--	
Total.....	\$ 4,381	\$ 4,669	\$ 4,420	=====	=====
	===== Capital Expenditures:				
Switchgear.....	\$ 6,294	\$ 2,074	\$ 4,670	Bus	
Duct.....	3,687	449	294	Process Control	
Systems.....	310	125	192	--	
Total.....	\$ 10,291	\$ 2,648	\$ 5,156	=====	=====
	=====				

POWELL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

YEAR ENDED OCTOBER 31, -----	-----	-----	-----	-----
----- 2001 2000 1999 -----	-----	-----	-----	-----
- Interest Expense (Income):				
Switchgear.....	\$ 386	\$ 862	\$ 1,528	Bus
Duct.....	(1,181)	(782)		Process 70
Control.....				30 135
		96		
Corporate.....	(127)	140	(481)	-----
Total.....	\$ 359	\$ (44)	\$ 361	=====

M. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The table below sets forth the unaudited consolidated operating results by fiscal quarter for the years ended October 31, 2001 and 2000 (in thousands, except per share data):

FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	QUARTER	QUARTER
-----	-----	-----	-----	-----	-----
----- 2001--					
Revenues.....	\$55,151	\$68,719	\$70,780	\$76,593	Gross
profit.....	11,214	14,226	15,752	15,605	Net
earnings.....	1,884	3,121	4,226	4,311	Net earnings per
					common and common equivalent share:
Basic.....	.18	.30	.41	.41	
Diluted.....	.18	.30	.40	.40	2000 --
Revenues.....	\$49,490	\$56,409	\$54,476	\$62,644	Gross
profit.....	9,041	9,504	10,577	11,557	Net
earnings.....	1,304	1,429	1,978	2,350	Net earnings per
					common and common equivalent share:
Basic.....	.12	.14	.19	.22	
Diluted.....	.12	.14	.19	.22	

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.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

PART III

ITEMS 10, 11, 12 AND 13. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT; EXECUTIVE COMPENSATION; SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT; AND CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by these items is omitted because the Company will file, within 120 days after the end of the fiscal year ended October 31, 2001, a definitive proxy statement pursuant to Regulation 14A, which information is herein incorporated by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENTS SCHEDULES, AND REPORTS ON FORM 8-K

(a) The following documents are filed as part of this report:

1. Financial Statements. Reference is made to the Index to Consolidated Financial Statements at Item 8 of this report.

2. All schedules are omitted because they are not applicable or the required information is shown in the financial statements or the notes to the financial statements.

3. Exhibits

- 3.1 -- Articles of Incorporation and Certificates of Amendment of Powell Industries, Inc. dated July 20, 1987 and March 13, 1992 (filed as Exhibit 3 to the Company's Form 10-K for the fiscal year ended October 31, 1982, Form 10-Q for the quarter ended July 31, 1987, and Form 10-Q for quarter ended April 30, 1992, respectively, and incorporated herein by reference).
- 3.2 -- By-laws of Powell Industries, Inc. (filed as Exhibit 3.2 to the Company's Form 10-Q for the quarter ended April 30, 1995 and incorporated herein by reference).
- *10.1 -- Powell Industries, Inc., Incentive Compensation Plan for 2001.
- 10.2 -- Description of Supplemental Executive Benefit Plan (filed as Exhibit 10 to the Company's Form 10-K for the fiscal year ended October 31, 1984, and incorporated herein by reference).
- 10.3 -- 1992 Powell Industries, Inc. Stock Option Plan (filed as Exhibit 4.2 to the Company's registration statement on Form S-8 dated July 26, 1994 (File No. 33-81998) and incorporated herein by reference).
- 10.4 -- Amendment to 1992 Powell Industries, Inc. Stock Option Plan (filed as Exhibit 10.8 to the Company's Form 10-Q for the quarter ended April 30, 1996 and incorporated herein by reference).
- 10.5 -- Amendment to 1992 Powell Industries, Inc. Stock Option Plan (the cover of the 1992 Powell Industries, Inc. Stock Option Plan has been noted to reflect the increase in the number of shares authorized for issuance under the Plan from 1,500,000 to 2,100,000, which increase was approved by the stockholders of the Company at the 2001 Annual Meeting of Stockholders).
- 10.6 -- The Powell Industries, Inc. Directors' Fees Program (filed as Exhibit 10.7 to the Company's Form 10-K for the fiscal year ended October 31, 1992, and incorporated herein by reference).
- 10.7 -- The Powell Industries, Inc. Executive Severance Protection Plan (filed as Exhibit 10.7 to the Company's Form 10-Q for the quarter ended April 30, 1996, and incorporated herein by reference).
- 10.8 -- The Powell Industries, Inc. 2000 Non-Employee Directors Stock Option Plan (filed as Exhibit 10.12 to the Company's Form 10-K/A for the fiscal year ended October 31, 2000 and incorporate herein by reference).

- *10.9 -- Amended and Restated Loan Agreement dated October 25, 2001,
between Powell Industries, Inc. and Bank of America Texas
N.A.
- *21.1 -- Subsidiaries of the Company.
- *23.1 -- Consent of Independent Public Accountants.

- - - - -

* Filed herewith

(b) Reports on Form 8-K.

None

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, there unto duly authorized.

POWELL INDUSTRIES, INC.

By /s/ THOMAS W. POWELL

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

By /s/ DON R. MADISON

Don R. Madison
Vice President and Chief Financial
Officer
(Principal Financial and Accounting
Officer)

Pursuant to the requirements of the Securities Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the date indicated:

SIGNATURE

TITLE

DATE ---

- /s/

THOMAS

W.

POWELL

Chairman

of the

Board

January

28, 2001

Thomas

W.

Powell

/s/

JOSEPH

L.

BECHERER

Director

January

28, 2001

Joseph

L.

Becherer

/s/

EUGENE

L.

BUTLER

Director

January

28, 2001

Eugene
L.
Butler
/s/
JAMES F.
CLARK
Director
January
28, 2001

James F.
Clark
/s/
BONNIE
L.
POWELL
Director
January
28, 2001

Bonnie
L.
Powell
/s/
STEPHEN
W.
SEALE,
JR.
Director
January
28, 2001

Stephen
W.
Seale,
Jr. /s/
LAWRENCE
R.
TANNER
Director
January
28, 2001

Lawrence
R.
Tanner

SIGNATURE

TITLE

DATE ---

- /s/

ROBERT

C.

TRANCHON

Director

January

28, 2001

Robert

C.

Tranchon

/s/

RONALD

J. WOLNY

Director

January

28, 2001

Ronald

J. Wolny

EXHIBIT INDEX

NUMBER	EXHIBIT TITLE
----- 3.1	-----
-- Articles	of
	Incorporation
	and
	Certificates
	of Amendment
	of Powell
	Industries,
	Inc. dated
	July 20, 1987
	and March 13,
	1992 (filed
	as Exhibit 3
	to the
	Company's
	Form 10-K for
	the fiscal
	year ended
	October 31,
	1982, Form
	10-Q for the
	quarter ended
	July 31,
	1987, and
	Form 10-Q for
	quarter ended
	April 30,
	1992,
	respectively,
	and
	incorporated
	herein by
	reference).
3.2 -- By-	laws of
	Powell
	Industries,
	Inc. (filed
	as Exhibit
	3.2 to the
	Company's
	Form 10-Q for
	the quarter
	ended April
	30, 1995 and
	incorporated
	herein by
	reference).
*10.1 --	Powell
	Industries,
	Inc.,
	Incentive
	Compensation
	Plan for
2001. 10.2 --	Description
	of
	Supplemental
	Executive
	Benefit Plan
	(filed as
	Exhibit 10 to
	the Company's
	Form 10-K for
	the fiscal
	year ended
	October 31,
	1984, and
	incorporated
	herein by
	reference).

10.3 -- 1992
Powell
Industries,
Inc. Stock
Option Plan
(filed as
Exhibit 4.2
to the
Company's
registration
statement on
Form S-8
dated July
26, 1994

(File No. 33-
81998) and
incorporated
herein by
reference).

10.4 --
Amendment to
1992 Powell
Industries,
Inc. Stock
Option Plan
(filed as
Exhibit 10.8
to the
Company's
Form 10-Q for
the quarter
ended April
30, 1996 and
incorporated
herein by
reference).

10.5 --
Amendment to
1992 Powell
Industries,
Inc. Stock
Option Plan
(the cover of
the 1992
Powell
Industries,
Inc. Stock
Option Plan
has been
noted to
reflect the
increase in
the number of
shares
authorized
for issuance
under the
Plan from
1,500,000 to
2,100,000,
which
increase was
approved by
the
stockholders
of the
Company at
the 2001
Annual
Meeting of
Stockholders).

10.6 -- The
Powell
Industries,
Inc.
Directors'
Fees Program
(filed as
Exhibit 10.7
to the
Company's

Form 10-K for the fiscal year ended October 31, 1992, and incorporated herein by reference).

10.7 -- The Powell Industries, Inc. Executive Severance Protection Plan (filed as Exhibit 10.7 to the Company's

Form 10-Q for the quarter ended April 30, 1996, and incorporated herein by reference).

10.8 -- The Powell Industries, Inc. 2000 Non-Employee Directors Stock Option Plan (filed as Exhibit 10.12 to the Company's Form 10-K/A

for the fiscal year ended October 31, 2000 and incorporate herein by reference).

*10.9 -- Amended and Restated Loan Agreement dated October 25, 2001, between Powell Industries, Inc. and Bank of America Texas N.A.

*21.1 -- Subsidiaries of the Company.

*23.1 -- Consent of Independent Public Accountants.

- - - - -

* Filed herewith

POWELL INDUSTRIES, INC.
INCENTIVE COMPENSATION PLAN FOR 2001 ("PLAN")

1. PLAN PURPOSE

This Plan is one element of the executive compensation program at Powell Industries, Inc. ("Company") and its subsidiaries. The Plan provides key corporate and subsidiary employees the opportunity to earn annual cash incentive compensation amounts based on (a) the performance of the Company or the subsidiary for which they have direct responsibility as a result of their employment and (b) that employee's potential individual contribution to the performance of those entities. Thus the Plan provides a variable annual incentive that links pay to performance.

2. GENERAL DESCRIPTION

Key corporate and subsidiary executives and managers will be designated annually to be Participants in the Plan. A maximum potential incentive compensation amount ("Maximum IC Amount") will be set annually for each such Participant based on that Participant's potential individual contribution to the performance of the Company or subsidiary. This Maximum IC Amount may range from ten per cent (10%) to one hundred per cent (100%) of a Participant's base salary on the first day of the fiscal year of the Company ("Plan Year").

Each Participant may earn between zero and one hundred percent of this Maximum IC Amount ("Earned IC Amount") depending on how the Company or subsidiary that employs the Participant performs during the Plan Year against pre-established performance targets. Plan performance measures for 2001 are described in paragraph 4 below.

Performance targets vary by entity and will be established annually for the Company and each subsidiary based on that entity's historical performance, mission and business strategy, and projected profit and growth capability. Prevailing general business conditions will also be considered in establishing the performance targets.

The Compensation Committee of the Company's Board of Directors in conjunction with the Company's Chief Executive Officer ("CEO") will administer the Plan.

3. ELIGIBILITY

Participants will be designated annually. Participation in one year does not guarantee participation the following year.

Subsidiary presidents will recommend Participants and a Maximum IC Amount for each Participant to the CEO for approval. Each subsidiary president may also recommend to the CEO an incentive "pool" for employees of the subsidiary who are not Plan Participants.

The CEO will recommend corporate Participants and their Maximum IC Amount for approval by the Compensation Committee, and the CEO may authorize use of an incentive "pool" for employees of Powell Industries, Inc. who are not Plan Participants.

4. PERFORMANCE MEASURES AND TARGETS

Earned IC Amounts will be determined by the performance of each subsidiary and the Company overall ("Corporate") on the following weighted performance measures.

PERFORMANCE MEASURES FOR SUBSIDIARY PARTICIPANTS

- o 67% Weighting: each subsidiaries' Return On Net Assets (earnings before interest and taxes divided by the average net of total assets less current liabilities)
- o 33% Weighting: each subsidiaries' Growth in Earnings Before Interest & Taxes (EBIT\$) Over Prior Year EBIT\$

PERFORMANCE MEASURES FOR CORPORATE PARTICIPANTS

- o 50% Weighting: the Company's Growth in Earnings Per Share Over Prior Year

- o 50% Weighting: the Company's Return On Equity (earnings after interest and taxes divided by average shareholder equity)

INCENTIVE COMPENSATION PLAN FOR 2001 ("PLAN")

The CEO will establish at the beginning of the Plan Year for each subsidiary and the Company a minimum and maximum target range for each performance measure. Each subsidiary will have unique targets. The Compensation Committee will review performance measures and targets for subsidiaries and will review and approve performance measures and targets for the Company. The CEO will approve measures and targets for each subsidiary. Targets will be communicated to Plan Participants.

5. COMPUTATION OF AWARDS

IC Plan Calculation Forms will be prepared annually for each subsidiary and the Company listing Participants, their base salary at start of Plan Year, and their Maximum IC Amount. Each entity's actual performance for Plan Year compared to the pre-established target range will determine the Earned IC Amounts for that entity's Participants.

If the minimum of the pre-established target range is not exceeded, there will be no Earned IC Amounts for that entity's Participants under that performance measure. Performance above the minimum up to the maximum of the target range results in Earned IC Amounts equal to the Maximum IC Amounts (adjusted by the weightings set forth in paragraph 4 herein) multiplied by the percentage portion of the target range that is achieved for the Plan Year. If the maximum of the range is exceeded, Earned IC Amounts for that measure may not exceed the Maximum IC Amounts.

The CEO may authorize use by a subsidiary of separate or additional performance measures and targets for that subsidiary or for certain of its Participants provided such use is, in the best business judgment of the CEO, compatible and consistent with the Plan's purpose and provisions. If additional performance measures are used in combination with any measure set forth in paragraph 4 above, the minimum range of at least one measure listed in Paragraph 4 must be exceeded for any Earned IC Amount to be derived from the additional performance measures.

In addition to the Earned IC Amount a Participant may earn under this Plan, the Compensation Committee may, in its sole discretion, make an additional discretionary award to a Participant to recognize significant individual contributions. This discretionary award may not be more than thirty percent of the Participant's Maximum IC Amount.

The Compensation Committee, in conjunction with the CEO, may for the purpose of this Plan adjust the financial results of a subsidiary or the Company to eliminate extraordinary charges or credits to earnings provided such charges or credits are in the reasonable business judgment of the Compensation Committee caused by events materially beyond the control of the Participants employed by that entity.

Individuals may be named by the CEO as a Participant in the Plan after the beginning of the Plan Year. Their Maximum IC Amount will be a percentage of their base salary when they become Participants prorated to reflect that portion of the Plan Year for which they were a Participant.

6. PAYMENT OF AWARDS

Earned IC Amounts will be determined after the audited financial statements of the Company for the Plan Year are complete and then paid in cash as soon as practical. A Participant must be an employee in good standing on the last day of the Plan Year to receive their Earned IC Amount, except that Participants who die, retire, or become disabled in the Plan Year will receive a prorated amount based on the portion of the Plan Year for which they were a Participant. Prior to payment of the Earned IC Amounts for all Participants, the Compensation Committee will review and certify all such amounts. Amounts due Participants under the Plan are an unfunded, general obligation of the Company.

7. ADMINISTRATION OF PLAN

The Compensation Committee, in conjunction with the CEO, administers the Plan. The Committee reserves the right to amend or terminate the Plan at any time. If the Plan is amended or terminated and as a consequence the Earned IC Amount of any Participant which would have

otherwise been earned is eliminated, a part year Earned IC Amount shall be determined for each so affected Participant and such amount should be paid in cash to such Participants within thirty (30) calendar days of amendment or termination. Such part year Earned IC Amount shall be determined by using the unaudited year to date financial statements of the Company to estimate (including making provision for annualizing part year results) what each such Participant's full year Earned IC Amount would have been absent the amendment or termination, and this full year amount shall be prorated to a part year Earned IC Amount based on the number of full elapsed months of the Plan Year prior to amendment or termination divided by twelve.

END

Page 2

AMENDED AND RESTATED LOAN AGREEMENT

BETWEEN

POWELL INDUSTRIES, INC.

as Borrower

AND

BANK OF AMERICA, N.A.

as Lender

Dated as of October 25, 2001

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AMENDED AND RESTATED LOAN AGREEMENT

THIS AMENDED AND RESTATED LOAN AGREEMENT (this "AGREEMENT") is made and entered into as of this 25th day of October, 2001, by and between POWELL INDUSTRIES, INC., a Nevada corporation ("BORROWER"), and BANK OF AMERICA, N.A., a national banking association ("LENDER").

WITNESSETH:

In consideration of the mutual covenants and agreements herein contained, Lender and Borrower agree as follows:

SECTION 1
DEFINITIONS

1.1 Definitions. In addition to the defined terms set forth elsewhere herein, the following terms shall have the meanings set forth below:

"ACCOUNT DEBTOR" shall mean the party who is obligated on or under any Account.

"ACCOUNTS", "CHATTEL PAPER", "EQUIPMENT", "FIXTURES", "GENERAL INTANGIBLES", "INSTRUMENTS", and "INVENTORY" shall have the same respective meanings as are assigned these terms under the Uniform Commercial Code, as adopted in Texas.

"ADJUSTED LIBOR RATE" shall mean the lesser of (a) the LIBOR Rate, plus the Applicable Margin, or (b) the Maximum Rate.

"ADJUSTED PRIME RATE" shall mean the lesser of (a) the Effective Prime Rate in effect on such day, plus the Applicable Margin, or (b) the Maximum Rate.

"AFFILIATE" means, as to any Person, any other Person that, directly or indirectly, through one or more intermediaries controls, is controlled by, or is under common control with, such Person or any Subsidiary of such Person. The term "CONTROL" (including the terms "CONTROLLED BY" or "UNDER COMMON CONTROL WITH") means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through ownership, by contract, or otherwise.

"APPLICABLE MARGIN" shall mean, with respect to interest rates for each Note, determined as of the last day of each fiscal quarter then most recently ended (except as hereafter provided), at such times as the relevant Funded Debt to EBITDA Ratio is in one of the following ranges, the percentage per annum set forth opposite such Funded Debt to EBITDA Ratio:

APPLICABLE
 APPLICABLE
 APPLICABLE
 MARGIN
 MARGIN
 FUNDED
 DEBT
 MARGIN
 LIBOR
 PRIME RATE
 COMMITMENT
 TO EBITDA
 TRANCHES
 TRANCHE
 FEE -----

 less than
 1.25X .75%
 0% .20%
 greater
 than or
 equal to
 1.25 x but
 less than
 1.75X
 1.00% 0%
 .25%
 greater
 than or
 equal to
 1.75X
 1.25% 0%
 .25%

The Applicable Margin will be determined from Borrower's most recent quarterly Compliance Certificate received by Lender as required by Section 6.1(d)(iv). The Applicable Margin will be in effect from the first day of the month following receipt of that Compliance Certificate until but not including the first day of the month following receipt of the next Compliance Certificate. Until the first day of the month following receipt by Lender of the Compliance Certificate for the fiscal quarter ending on October 31, 2001, the Applicable Margin will be based upon the applicable percentage per annum in the above table when the Funded Debt to EBITDA Ratio is less than 1.25 to 1.0. If any Compliance Certificate is not delivered on time as required by this Agreement, the Applicable Margin from the date such Compliance Certificate was due until Lender receives it will be the highest level set forth above.

"AUTHORIZED OFFICER" shall mean, as to any Person, any officer of such Person who is duly authorized by the board of directors, or its equivalent, of such Person to execute the Loan Documents or any other documents or certificates to be executed by such Person hereunder in connection with this Agreement (and the transactions described herein).

"AUTOBORROW AGREEMENT" shall mean the Autoborrow Service Agreement of even date herewith between Borrower and Lender, as may be modified, supplemented, restated, replaced, and amended.

"AUTOBORROW SUBLIMIT" shall mean the amount of credit to Borrower provided in accordance with the terms of the Autoborrow Agreement (which is acknowledged and agreed to be \$2,000,000.00).

"BONDS" shall mean the \$8,000,000.00 Illinois Development Finance Authority Industrial Development Revenue Bonds (Delta-Unibus, Inc. Project) Series 2001.

"BORROWER" and "LENDER" shall mean the parties identified above.

"BUSINESS DAY" shall mean a day, other than Saturday or Sunday, when Lender is open for conducting all of its normal commercial banking and other business activities.

"CAPITALIZED LEASE OBLIGATION" shall mean any indebtedness represented by obligations under a lease that is required to be capitalized for financial reporting purposes in accordance with GAAP, and the amount of such indebtedness shall be the capitalized amount of such obligations determined in accordance with GAAP.

"COMPLIANCE CERTIFICATE" shall mean that certain certificate in the form of Exhibit "A" attached hereto and made a part hereof for all purposes.

"DEBT" of any Person means at any date, without duplication of amounts, (a) all indebtedness, obligations and liabilities of such Person for borrowed money, (b) all indebtedness, obligations and liabilities of such Person evidenced by bonds, debentures, notes, bankers acceptances or other similar instruments, whether recourse or non-recourse and whether secured or unsecured, (c) all obligations of such Person issued or assumed as the deferred purchase of property or services (other than unsecured accounts payable, accrued expenses, deferred compensation, and other pension, benefit and welfare expenses arising in the ordinary course of business), (d) all Capitalized Lease Obligations of such Person, (e) all obligations, after netting, of such Person in respect of Swap Contracts or other agreements, devices or arrangements designed to protect against fluctuations in commodity prices or currency exchange rates, (f) all amounts available for drawing under all letters of credit issued for the account of such Person and all amounts drawn under all such letters of credit for which such Person has an outstanding reimbursement obligation, (g) all mandatory obligations of such Person to redeem or repurchase its outstanding capital stock at any time prior to the date six (6) months after the Termination Date, (h) all synthetic leases and other off balance sheet obligations of such Person, (i) obligations of other Persons, whether or not assumed, secured by Liens upon property or payable out of the proceeds or production from Property owned or acquired by such Person, but only to the extent of such Property's fair market value, and (j) any liabilities of others of the type described in the preceding clauses (a) through (i) in respect of which such Person has incurred, assumed or acquired a liability by means of a Guaranty. For purposes of this Agreement, the Debt of any Person shall include the Debt of any

partnership or joint venture to which such Person is a party, to the extent such Debt is recourse to such Person.

"DEFAULT" shall mean any of the events specified in Section 8 of this Agreement, whether or not any requirement for the giving of notice or lapse of time or other condition precedent has been satisfied.

"DISTRIBUTION" shall mean and include (a) the payment of any dividends or other distributions on capital stock of the corporation (except distributions in such stock) and (b) the redemption or acquisition of its securities unless made contemporaneously from the net proceeds of the sale of securities.

"EBITDA" shall have the meaning assigned to that term in Section 6.1(a)(ii).

"EFFECTIVE PRIME RATE" shall mean (a) for that portion of the principal balance of any Note that does not exceed \$5,000,000.00, the Prime Rate, minus one-half percent (1/2%) per annum, and (b) for that portion of the principal balance of any Note equal to or in excess of \$5,000,000.00, the Prime Rate.

"ENVIRONMENTAL COMPLAINT" shall mean any written or oral complaint, order, directive, claim, citation, notice of environmental report or investigation, or other notice by any Governmental Authority or any other Person with respect to (a) air emissions, (b) spills, releases, or discharges to soils, any improvements located thereon, surface water, groundwater, or the sewer, septic, waste treatment, storage, or disposal systems servicing any Property of Borrower, (c) solid or liquid waste disposal, (d) the use, generation, storage, transportation, or disposal of any Hazardous Substance, or (e) other environmental, health, or safety matters affecting any Property of Borrower or the business conducted thereon.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended, from time to time, and the rules and regulations promulgated thereunder and the interpretations thereof.

"EVENT OF DEFAULT" shall mean any of the events specified in Section 8 of this Agreement, provided that any applicable requirements specifically provided for in Section 8 for notice, lapse of time, or otherwise have been satisfied.

"FINANCIAL STATEMENTS" shall mean the financial statements of Borrower and Guarantors, which have been delivered to Lender as a condition precedent to Lender's obligations under and pursuant to this Agreement.

"FUNDED DEBT TO EBITDA RATIO" shall mean a ratio, calculated on a consolidated basis, of all outstanding liabilities for borrowed money and

other interest-bearing liabilities, including current and long-term debt (which shall include, without limitation, the Bonds), less the non-current portion of Subordinated Liabilities, to EBITDA. The Funded Debt to EBITDA ratio shall be calculated quarterly as of the end of each fiscal quarter on a rolling four quarter basis.

"GAAP" shall mean generally accepted accounting principles established by the Financial Accounting Standards Board or the American Institute of Certified Public Accountants and in effect in the United States from time to time, applied on a basis consistent with that of the preceding fiscal year of Borrower, reflecting only such changes in accounting principles or practice with which the independent public accountants of Borrower concur.

"GOVERNMENTAL AUTHORITY" shall mean any nation, country, commonwealth, territory, government, state, county, parish, municipality, agency, or other political subdivision and any entity exercising executive, legislative, judicial, regulatory, or administrative functions of or pertaining to government, including, without limitation, any state agencies and Persons responsible in whole or in part for environmental matters in the states in which Borrower is located or otherwise conducting its business activities and the United States Environmental Protection Agency.

"GUARANTORS" shall mean, collectively, all Subsidiaries of Borrower, whether now existing or hereafter created and/or acquired.

"GUARANTY" means, for any Person, without duplication, any liability, contingent or otherwise, of such Person guaranteeing or otherwise becoming liable for any obligation of any other Person (the "PRIMARY OBLIGOR") in any manner, whether directly or indirectly, and including, without limitation, any liability of such Person, direct or indirect, (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such obligation or to purchase (or to advance or supply funds for the purchase of) any security for the payment of such obligation, (b) to purchase or lease property, securities or services for the purpose of assuring the owner of such obligation of the payment of such obligation, (c) to maintain working capital, equity capital or other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such obligation, or (d) otherwise to assure the owner of such obligation against loss in respect thereof; provided, that the term "GUARANTY" does not include endorsements for collection or deposit in the ordinary course of the endorser's business.

"HAZARDOUS SUBSTANCES" shall mean flammables, explosives, radon, radioactive materials, hazardous wastes, asbestos, urea formaldehyde foam insulation, or any material containing asbestos, polychlorinated biphenyls (PCBs), toxic substances or related materials, petroleum,

petroleum products, methane, associated oil or natural gas exploration, production, and development wastes, or any "hazardous substances," "hazardous materials," "hazardous wastes," "toxic substances," or related materials, as defined in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, the Superfund Amendments and Reauthorization Act, as amended, the Hazardous Materials Transportation Act, as amended, the Resource Conservation and Recovery Act, as amended, the Toxic Substances Control Act, as amended, or any other law or regulation now or hereafter enacted or promulgated by any Governmental Authority.

"INTELLECTUAL PROPERTY" shall mean patents, patent applications, trademarks, tradenames, copyrights, technology, know-how, and processes.

"INVESTMENT" shall mean a payment or obligation made or incurred by a Person in the form of cash, loans, guaranties, open accounts, transfers of property, and other extensions of credit.

"LETTER OF CREDIT" shall mean a standby or commercial letter of credit issued by Lender for the account of Borrower either prior to date hereof pursuant to the Prior Loan Agreement or otherwise, or pursuant to Section 3.2.

"LETTER OF CREDIT EXPOSURE" shall mean, at any time, the aggregate amount available for drawing under all outstanding Letters of Credit at such time (but shall not include exposure related to the letter of credit issued under the Letter of Credit Reimbursement Agreement).

"LETTER OF CREDIT FEES" shall mean the fees payable under Section 3.7.

"LETTER OF CREDIT REIMBURSEMENT AGREEMENT" shall mean the Letter of Credit Reimbursement Agreement of even date herewith between Lender and Delta-Unibus Corp., and relating to Lender's agreement to provide credit support for the Bonds, as it may be modified, amended, supplemented, and restated from time to time.

"LIEN" shall mean any interest in Property securing an obligation owed to, or a claim by, a Person other than the owner of the Property, whether such interest is based on the common law, statute or contract, and including, but not limited to, the security interest, security title or lien arising from a security agreement, mortgage, deed of trust, deed to secure debt, encumbrance, pledge, conditional sale or trust receipt or a lease, consignment or bailment for security purposes. The term "LIEN" shall include reservations, exceptions, encroachments, easements, right-of-way, covenants, conditions, restrictions, leases and other title exceptions

and encumbrances affecting Property. For the purpose of this Agreement, Borrower shall be deemed to be the owner of any Property which it either has acquired or holds subject to a conditional sale agreement or other arrangement pursuant to which title to the Property has been retained by or vested in some other Person for security purposes.

"LOAN DOCUMENTS" shall mean this Agreement, the Notes, the Autoborrow Agreement, the agreements entered into with respect to Subordinated Liabilities, the Subsidiary Guaranty, and such other instruments, documents, and agreements evidencing, securing, or pertaining to the loans evidenced by the Notes, which have heretofore been or hereafter are from time to time executed and delivered to Lender by Borrower, or any other Person pursuant to this Agreement.

"MATERIAL ADVERSE CHANGE" shall mean any act, circumstance, or event (including, without limitation, any announcement of action) which (a) causes an Event of Default, (b) otherwise could reasonably be expected to be material and adverse to the financial condition or operations of Borrower, or (c) in any manner could reasonably be expected to materially and adversely affect the validity or enforceability of any Loan Document.

"MAXIMUM RATE" shall mean, on any day, the maximum nonusurious rate of interest permitted for that day by whichever of applicable federal or Texas law permits the higher interest rate, stated as a rate per annum. On each day, if any, that the Texas Finance Code, as supplemented by art. 1D.003 of the Texas Credit Title, as it may from time to time be amended (the "TEXAS CREDIT CODE"), establishes the Maximum Rate, the Maximum Rate shall be the "WEEKLY RATE CEILING", referred to Section 303.002 of the Texas Finance Code, after application of Sections 303.009 of the Texas Finance Code, for that day. Provided, however, that to the extent permitted by applicable law, Lender reserves the right to change, from time to time by further notice and disclosure to Borrower, the ceiling on which the Maximum Rate is based under the Texas Finance Code; and, provided further, that the "highest non-usurious rate of interest permitted by applicable law" for purposes of this Agreement shall not be limited to the applicable rate ceiling under the Texas Finance Code if federal laws or other state laws now or hereafter in effect and applicable to this Agreement (and the interest contracted for, charged and collected thereunder) shall permit a higher rate of interest.

"NOTES" shall mean the Revolving Note, the Term Note A, and any other note heretofore or hereafter executed and delivered by Borrower to Lender, together with all renewals, increases, replacements, extensions, modifications, and rearrangements of any of the foregoing, as may be entered into from time to time by Borrower and Lender.

"OBLIGATIONS" shall mean all indebtedness, obligations, and liabilities of Borrower to Lender of every nature and description, now or hereafter existing or arising, whether such indebtedness is direct or indirect, primary or secondary, fixed or contingent or arises out of or is evidenced by a promissory note, deed of trust, security agreement, open account, overdraft, endorsement, surety agreement, guaranty, or otherwise, including, without limitation, all such obligations, liabilities, and indebtedness of Borrower to Lender (or any affiliate of Lender) under or in connection with the Loan Documents and any Swap Contract. Obligations shall include all renewals, extensions and rearrangements of any of the above described obligations and indebtedness.

"OSHA" shall mean the Occupational Safety and Health Act and all rules and regulations from time to time promulgated thereunder and all amendments thereof and thereto.

"PAST DUE RATE" shall mean the lesser of (a) the Adjusted Prime Rate, plus 2% per annum or (b) the Maximum Rate.

"PERMITTED DEBT" of Borrower shall mean:

- (a) the Debt included in the Obligations;
- (b) any interest swap or hedging agreements entered into with Lender or with any other institution (to the extent approved by Lender);
- (c) Subordinated Liabilities;
- (d) Debt arising from endorsing negotiable instruments for collection in the ordinary course of business;
- (e) unsecured trade payables that are for goods furnished or services rendered in the ordinary course of business and that are payable in accordance with customary trade terms;
- (f) Debt related to the Bonds; and
- (g) additional Debt up to an aggregate amount of \$5,000,000.00 at any one time outstanding (which Debt may not be senior to the Obligations).

"PERMITTED INVESTMENTS" shall mean:

- (a) securities with maturities of one year or less from the date of acquisition issued or fully guaranteed or insured by the United States Government or any agency thereof;

- (b) certificates of deposit and Eurodollar time deposits with maturities of one year or less from the date of acquisition and overnight bank deposits of any commercial bank (i) having capital and surplus in excess of \$500,000,000.00 or (ii) which has a short-term commercial paper rating which satisfies the requirements set forth in clause (d) of this definition;
- (c) repurchase obligations of any commercial bank satisfying the requirements of clause (b) or this definition, having a term of not more than 30 days with respect to securities issued, fully guaranteed or insured by the United States Government or any agency thereof;
- (d) commercial paper rated P-1 by Moody's Investors Service, Inc. or A-1 by Standard & Poor's Ratings Group on the date of acquisition;
- (e) securities with maturities of one year or less from the date of acquisition which are issued, insured, or fully guaranteed by any state, commonwealth or territory of the United States or by any political subdivision or taxing authority of such state, commonwealth or territory;
- (f) securities with maturities of one year or less from the date of acquisition backed by standby letters of credit issued by any commercial bank satisfying the requirements of clause (b) of this definition;
- (g) shares of money market mutual or similar funds which invest primarily in assets satisfying the requirements of clauses (a) through (f) of this definition;
- (h) time deposits and certificates of deposit in Lender and other investments, securities and products offered by Lender (including Eurodollar deposits);
- (i) expense accounts for, and other advances to, directors, officers, and employees in the ordinary course of business;
- (j) demand deposit accounts maintained in the ordinary course of business;

- (k) current trade and customer accounts receivable that are for goods furnished or services rendered in the ordinary course of business and that are payable in accordance with customary trade terms; and
- (l) acquisitions of stock and assets of third Persons up to an aggregate amount not to exceed \$10,000,000.00.

"PERMITTED LIENS" shall mean, as applied to the Property of any specified Person:

- (a) Liens created pursuant to any Loan Document;
- (b) Liens for taxes and other impositions imposed by a Governmental Authority if the same are not at the time due and delinquent or are being contested in good faith and by appropriate proceedings, and if the specified Person has set aside on its books such reserves as may be required by GAAP;
- (c) Liens of carriers, warehousemen, mechanics, laborers, materialmen, and landlords and other similar Liens arising by operation of law for sums not yet due or being contested in good faith and by appropriate proceedings, if the specified Person has set aside on its books such reserves as may be required by GAAP, or which have been subordinated in a manner satisfactory to Lender;
- (d) Liens incurred in the ordinary course of the specified Person's business in connection with workmen's compensation, unemployment insurance and other social security legislation (other than pursuant to ERISA or Section 412(n) of the Code) or to secure liabilities to insurance carriers under insurance or self-insurance arrangements and other obligations of a like nature, so long as, in each case with respect to this clause (d), such Liens do not secure obligations constituting Debt;
- (e) rights reserved to or vested in any Governmental Authority by the terms of any right, power, franchise, grant, license or permit, or by any provision of law, to terminate such right, power, franchise, grant, license or permit or to purchase, condemn, expropriate or recapture or to designate a purchaser of any of the Property of the specified Person;

(f) Liens upon Property, including any attachment of Property or other legal process, prior to adjudication of a dispute on the merits, if the same are being contested in good faith and by appropriate proceedings and if the specified Person has set aside on its books such reserves as may be required by GAAP;

(g) good faith pledges or deposits made to secure performance of bids, tenders, contracts (other than for the repayment of borrowed money) or leases (other than for Capitalized Lease Obligations), or to secure statutory obligations, surety or appeal bonds, or indemnity, performance or other similar bonds in the ordinary course of business; and

(h) any interest or title of a lessor in assets being leased to Borrower (other than for Capitalized Lease Obligations).

"PERSON" shall mean any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization, government or any agency or political subdivision thereof, or any other form of entity.

"PLAN" shall mean an employee benefit plan of Borrower subject to ERISA.

"PRIOR LOAN AGREEMENT" shall mean the Business Loan Agreement dated August 21, 1997, between Borrower and Lender, as modified, supplemented, and amended from time to time.

"PROPERTY" shall mean any interest in any kind of property or asset, whether real, personal or mixed, tangible or intangible.

"RELEASE OF HAZARDOUS SUBSTANCES" shall mean any emission, spill, release, leak, disposal, or discharge, except in accordance with a valid permit, license, certificate, or approval of the relevant Governmental Authority, of any Hazardous Substance into or upon (a) the air, (b) soils or any improvements located thereon, (c) surface water or groundwater, or (d) the sewer or septic system, or the waste treatment, storage, or disposal system servicing any Property of Borrower.

"REPORTABLE EVENT" shall mean a reportable event as defined by ERISA.

"REQUIREMENT OF LAW" shall mean, as to any Person, the certificate or articles of incorporation and by-laws or other organizational or governing documents of such Person, and any applicable law, treaty, ordinance,

order, judgment, rule, decree, regulation, or determination of an arbitrator, court, or other Governmental Authority, including, without limitation, rules, decrees, judgments, regulations, orders, and requirements for permits, licenses, registrations, approvals, or authorizations (and any authoritative interpretation of any of the foregoing), in each case as such now exist or may be hereafter amended and are applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

"REVOLVING NOTE" shall mean that certain promissory note of Borrower dated of even date herewith, in the maximum amount of \$25,000,000.00, payable to the order of Lender, in substantially the form of Exhibit "B", and any and all renewals, extensions, modifications, replacements, substitutions, increases, and rearrangements thereof.

"SUBORDINATED LIABILITIES" shall have the meaning assigned to that term in Section 6.1(a)(i).

"SUBSIDIARY" shall mean, as to any Person, a corporation of which shares of stock having ordinary voting power (other than stock having such power only by reason of the happening of a contingency) to elect a majority of the board of directors or other managers of such corporation are at the time owned, or the management of which is otherwise controlled, directly or indirectly through one or more intermediaries, or both, by such Person.

"SUBSIDIARY GUARANTY" shall mean the Subsidiary Guaranty dated of even date herewith, executed by each Subsidiary of Borrower, guaranteeing, among other things, the payment and performance of the Notes as provided therein.

"SWAP CONTRACT" shall mean any document, instrument, or agreement between Borrower and Lender or any affiliate of Lender, now existing or entered into in the future, relating to an interest rate swap transaction, forward rate transaction, interest rate cap, floor or collar transaction, any similar transaction, any option to enter into any of the foregoing, and any combination of the foregoing, which agreement may be oral or in writing, including, without limitation, any master agreement relating to or governing any or all of the foregoing and any related schedule or confirmation, each as amended from time to time.

"TERMINATION DATE" shall mean the earlier to occur of (a) February 28, 2003, or (b) an Event of Default.

"TERM NOTE A" shall mean the Promissory Note dated of even date herewith, in the face amount of \$5,714,285.68, executed by Borrower to the order of Lender, in substantially the form of Exhibit "C", and all modifications, extensions, increases, renewals, restatements, and rearrangements thereof.

1.2 Accounting Terms. All accounting terms used in Section 5.1 and elsewhere in this Agreement and the other Loan Documents which are not specifically defined herein shall be construed in accordance with GAAP consistent with such principles. In the event that changes in GAAP shall be mandated by the Financial Accounting Standards Board and/or the American Institute of Certified Public Accountants or any similar accounting body of comparable standing, or shall be recommended by Borrower's certified public accountants, to the extent that such changes would modify such accounting terms or the interpretation or computation thereof as contemplated by this Agreement at the time of execution hereof, then in such event, such changes shall be followed in defining such accounting terms only after Lender and Borrower amend this Agreement to reflect the original intent of such terms in light of such changes, and such terms shall continue to be applied and interpreted without such change until such agreement.

1.3 Other Terms. All other terms contained in this Agreement shall have, when the context so indicates, the meanings provided for in the Uniform Commercial Code, as adopted in Texas, to the extent the same are used or defined therein.

1.4 References. References in this Agreement to Section or Exhibit numbers shall be to Sections and Exhibits of this Agreement, unless expressly stated to the contrary. References in this Agreement to "hereby," "herein," "hereinabove," "hereinafter," "hereinbelow," "hereof," and "hereunder" shall be to this Agreement in its entirety and not only to the particular Section or Exhibit in which such reference appears.

1.5 Sections. This Agreement, for convenience only, has been divided into Sections; and it is understood that the rights and other legal relations of the parties hereto shall be determined from this instrument as an entirety and without regard to the aforesaid division into Sections and without regard to headings prefixed to such Sections.

1.6 Number and Gender. Whenever the context requires, reference herein made to the single number shall be understood to include the plural; and likewise, the plural shall be understood to include the singular. Definitions of terms defined in the singular or plural shall be equally applicable to the plural or singular, as the case may be, unless otherwise indicated. Words denoting sex shall be construed to include the masculine, feminine and neuter, when such construction is appropriate; and specific enumeration shall not exclude the general but shall be construed as cumulative.

1.7 Incorporation of Exhibits. The Exhibits attached to this Agreement are incorporated herein and shall be considered a part of this Agreement for all purposes.

1.8 Certain Other Matters of Construction. All references to statutes and related regulations shall include any amendments of same and any successor statutes and regulations. All references to any instruments or agreements, including, without limitation, references to any of the Loan Documents, shall include any and all modifications or amendments thereto and any and all extensions or renewals thereof. Current, for purposes of this Agreement, shall mean within 30 days from the applicable date. The use of the word "and" in a sequence shall mean "and/or." Knowledge, for purposes of this Agreement shall mean actual and constructive knowledge.

1.9 Calculation of Financial Covenants. All financial covenants will be calculated for purposes of this Agreement in dollars. For purposes of determining compliance therewith, all financial covenants shall be calculated on a consolidated basis for Borrower and its Subsidiaries (after deducting intercompany transactions).

SECTION 2 CONDITIONS

2.1 Conditions to Initial Advance by Lender. Subject to the terms and provisions of Section 2.2 hereof, the obligations of Lender to enter into this Agreement and to make its initial advance under this Agreement are subject to the full, complete, and timely satisfaction of each of the following conditions precedent as of the date hereof:

(a) Lender shall have received each of the following and found them each to be satisfactory:

(i) each of the Loan Documents, in properly executed form;

(ii) if and to the extent required by Lender, the organizational documents of Borrower and Guarantors, together with any and all modifications thereof as of the date hereof;

(iii) all Certificates of Authority, Certificates of Good Standing, Certificates of Existence, resolutions (with secretary's certificate), Secretary's Certificates of Incumbency, and all other documents required by Lender to evidence Borrower and Guarantors and their representatives are empowered and duly authorized to enter into the agreements evidenced by the Loan Documents;

(iv) all financial statements and other information related thereto required by Lender in connection with Borrower's application for the loans described in this Agreement; and

(v) results of a search of the UCC records of the Texas Secretary of State and such other States as are required by

Lender, from a source acceptable to Lender, reflecting no liens or security interests against any Property of Borrower or Guarantors other than Permitted Liens;

(b) No Material Adverse Change shall have occurred;

(c) The representations and warranties contained in Section 5 shall, except as affected by the transactions contemplated by this Agreement, be true and unbreached;

(d) No Default or no Event of Default shall have occurred and be continuing;

(e) All other applicable requirements of this Agreement and the other Loan Documents shall have been fully and completely satisfied;

(f) All legal matters incident to the consummation of the transactions contemplated under this Agreement shall be satisfactory to Gardere Wynne Sewell LLP, special counsel for Lender; and

(g) As security for the payment of the Notes and the performance of the Obligations, Lender shall have received, in addition to the items set forth elsewhere in this Section, all other instruments reasonably required by Lender to give Lender a first and prior perfected lien and security interest in and to the collateral covered by the Loan Documents.

2.2 Conditions Precedent to Future Advances. The obligation of Lender under this Agreement to make any advances under the Revolving Note after the date of this Agreement, in accordance with the terms and provisions of Section 3 of this Agreement, are subject to the full and complete satisfaction of each of the following conditions precedent as of the date of such advance or payment:

(a) The representations and warranties set forth in Section 5 of this Agreement shall be true and correct as of the date of the making of such advance or payment with the effect as though the representation or warranty had been made on this date;

(b) No Default or Event of Default shall have occurred and be continuing, or will result from, the making of such advance; and

(c) All conditions set forth in Section 2.1 shall be then fully and completely satisfied (including, without limitation, any condition precedent waived, in whole or in part, by Lender in connection with the initial advance or any subsequent advance), and all terms and provisions of Section 3 of this Agreement shall then be fully and completely satisfied.

SECTION 3
THE COMMITMENT

3.1 Revolving Loan.

(a) Subject to the full, complete, and timely satisfaction of each of the terms and conditions of Sections 2.1, 2.2, and 3.4 of this Agreement and as elsewhere set forth herein, and relying on the representations and warranties of Borrower hereinafter set forth, Lender agrees to make available to Borrower a revolving line of credit pursuant to which Borrower may borrow, repay, and reborrow under the terms of this Agreement on or after the date hereof and prior to the Termination Date, amounts not exceeding at any one time outstanding an aggregate principal amount equal to \$25,000,000.00, minus the Letter of Credit Exposure which revolving loan shall be evidenced by the issuance, execution, and delivery of the Revolving Note.

(b) Letter of Credit. Subject to and upon the terms, covenants, and conditions of this Agreement, Lender shall issue Letters of Credit for the account of Borrower or any of its Subsidiaries from time to time for any of the purposes of which Borrower, can obtain an advance under the Revolving Note, provided, that (i) each Letter of Credit shall be issued on a Business Day, (ii) after the issuance of any Letter of Credit, the Letter of Credit Exposure, plus the outstanding balance of Revolving Note, plus an amount equal to the Autoborrow Sublimit minus outstanding extensions of credit under the Autoborrow Agreement, must be less than or equal to \$25,000,000.00, and (iii) when issued, (x) if the face amount of such Letter of Credit is greater than \$1,000,000.00, such Letter of Credit must have an expiration date of no later than the Termination Date, and (y) if the face amount of such Letter of Credit is \$1,000,000.00 or less, such Letter of Credit may have an expiration date up to 364 days after the Termination Date.

3.2 Method of Issuing Letters of Credit.

(a) Issuance of Letters of Credit. Borrower shall be entitled to have a Letter of Credit issued by Lender for its or any Guarantor's account upon delivery of a written request therefor by an Authorized Officer of Borrower to Lender prior to 12:00 noon (Houston time) at least three Business Days prior to the proposed issuance date selected by each Borrower in such request, together with a completed and executed letter of credit application and agreement on the customary form of Lender then in effect (the "LOC APPLICATION"). In the event of a conflict between the provisions of the LOC Application and this Agreement, the provisions of this Agreement shall govern. The requested terms of such Letter of Credit shall be reasonably acceptable to Lender. Upon satisfaction of the applicable conditions precedent set forth in subsection (b) below and subject to the other terms and conditions of this Agreement, Lender shall use reasonable efforts to issue such Letter of Credit within three Business Days after receipt by Lender of the LOC Application therefor. Borrower agrees and acknowledges that it is primarily liable for all reimbursement obligations related to any Letter of Credit issued to the account of a Guarantor.

(b) Conditions of Letters of Credit. The obligation of Lender to issue any Letter of Credit is subject to the satisfaction by Borrower of the following conditions and requirements:

(i) timely receipt by Lender of a fully completed LOC Application and such other information relating to the requested Letter of Credit as Lender may reasonably request;

(ii) timely receipt of a written request as provided for in Section 3.2(a);

(iii) all other conditions precedent listed in Section 2.2 shall be fully satisfied; and

(iv) timely receipt by Lender of the Letter of Credit Fee payable pursuant to Section 3.8.

(c) Payment of Letter of Credit Drawings. The payment by Lender of a draft drawn under any Letter of Credit shall constitute for all purposes of this Agreement the making by Lender of an advance under the Revolving Note in the amount of such payment, which shall be due and payable by Borrower upon payment of the advance.

(d) Obligations. The obligations of Borrower under this Agreement and the other Loan Documents (including without limitation the obligation of Borrower to reimburse the Lender for draws under any Letter of Credit) shall be absolute, unconditional, and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement and the other Loan Documents under all circumstances whatsoever, including without limitation the following circumstances:

(i) Any lack of validity or enforceability of any Letter of Credit or any other Loan Document;

(ii) Any amendment or waiver of or any consent to departure from any Loan Document;

(iii) The existence of any claim, set-off, counterclaim, defense or other rights which Borrower or any other Person may have at any time against any beneficiary of any Letter of Credit, the Lender, or any other Person, whether in connection with this Agreement or any other Loan Document or any unrelated transaction;

(iv) Any statement, draft, or other document presented under any Letter of Credit proving to be forged, fraudulent, invalid, or insufficient in any respect or any statement therein being untrue or inaccurate in any respect whatsoever;

(v) Payment by the Lender under any Letter of Credit against presentation of a draft or other document which does not comply with the terms of such Letter of Credit; or

(vi) Any other circumstance or happening whatsoever, whether or not similar to any of the foregoing.

Borrower assumes all risks of the acts or omissions of any beneficiary of any Letter of Credit with respect to its use of such Letter of Credit. Neither the Lender nor any of its officers or directors shall have any responsibility or liability to Borrower or any other Person for: (1) the failure of any draft to bear any reference or adequate reference to any Letter of Credit, or the failure of any documents to accompany any draft at negotiation, or the failure of any Person to surrender or to take up any Letter of Credit or to send documents apart from drafts as required by the terms of any Letter of Credit, or the failure of any Person to note the amount of any instrument on any Letter of Credit, each of which requirements, if contained in any Letter of Credit itself, it is agreed may be waived by the Lender, (2) errors, omissions, interruptions, or delays in transmission or delivery of any messages, (3) the validity, sufficiency, or genuineness of any draft or other document, or any endorsement(s) thereon, even if any such draft, document or endorsement should in fact prove to be in any and all respects invalid, insufficient, fraudulent, or forged or any statement therein is untrue or inaccurate in any respect, (4) the payment by the Lender to the beneficiary of any Letter of Credit against presentation of any draft or other document that does not comply with the terms of the Letter of Credit, or (5) any other circumstance whatsoever in making or failing to make any payment under a Letter of Credit. The Borrower shall have a claim against the Lender,

and the Lender shall be liable to the Borrower, to the extent of any direct, but not consequential, damages suffered by the Borrower which the Borrower proves in a final non-appealable judgment were caused by (x) the Lender's willful misconduct or gross negligence in determining whether documents presented under any Letter of Credit complied with the terms thereof or (y) the Lender's willful failure to pay under any Letter of Credit after presentation to it of documents strictly complying with the terms and conditions of such Letter of Credit. The Lender may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary. If any Event of Default shall occur and be continuing, the Borrower shall, if requested by the Lender, immediately deposit with and pledge to the Lender cash or cash equivalent investments (acceptable as to type and value by Lender in its sole discretion) in an amount equal to the outstanding face amount of all outstanding Letter(s) of Credit as security for the Obligations.

3.3 Purpose. All funds borrowed pursuant to this Agreement for the loan evidenced by the Revolving Note shall be used for working capital and general corporate purposes. The proceeds of Term Note A have been used as provided for in the Prior Loan Agreement.

3.4 Borrowing Procedure for Revolving Note. Subject to the terms and provisions of this Agreement and the terms of the Notes, except for extensions of credit to be made under the terms of the Autoborrow Agreement, Borrower shall give Lender notice, in a form acceptable to Lender, of each request for an advance under the Revolving Note. Each such notice shall be received by Lender not later than 2:00 p.m., Houston, Texas time, on the date of the requested advance. Further, each such notice shall specify: (a) the aggregate principal amount of such proposed advance (which, notwithstanding anything herein or any other Loan Document to the contrary, shall not be in any single instance less than an aggregate amount of \$100,000.00); and (b) the proposed date of the advance (which shall be on a Business Day). Lender, at its option, may accept telephonic requests for advances, provided that such acceptance shall not constitute a waiver of the Lender's right to delivery of a written notice in connection with subsequent advances and further provided that all such telephonic requests are immediately confirmed by Borrower in writing, whether by facsimile or otherwise. Not later than 5:00 p.m., Houston, Texas time, on the date specified for each advance hereunder, subject to the terms and conditions of this Agreement (including, without limitation, that no Event of Default has occurred and is then existing and that no representation or warranty set forth in this Agreement is then false or untrue), Lender will make such advances available to Borrower by depositing the same, in immediately available funds, in an account of Borrower (designated by the Borrower) maintained with Lender at the principal office of Lender in Houston, Texas, or by such other means as is acceptable to Lender and Borrower. Notwithstanding the foregoing, Borrower shall be entitled to obtain advances under the Revolving Note up to the Autoborrow Sublimit in the manner provided for in the Autoborrow Agreement (it being agreed and acknowledged that an amount equal to the Autoborrow Sublimit has been reserved by Lender for advances to be made available to Borrower under the Revolving Note

pursuant to the Autoborrow Agreement and Borrower shall not be entitled to make requests for advances of that portion of the Revolving Note in any other manner).

3.5 Payments. All payments made by Borrower under this Agreement or the Notes or the other Loan Documents, shall be in immediately available funds, not later than 2:00 p.m., Houston time, on the date that such payment is required to be made, to Lender at 700 Louisiana, 7th Floor, Houston, Texas 77002, or such other address provided by Lender. Any payment received after 2:00 p.m., Houston time, shall be deemed to have been received on the next Business Day. If the date for any payment due under the Loan Documents falls on a day which is not a Business Day, such payment date shall be deemed to have fallen on the next following Business Day.

3.6 Payments of Subordinated Liabilities. Scheduled payments (but no prepayments) may be made on Subordinated Liabilities prior to the occurrence of a Default or an Event of Default, unless the payment would cause a Default or an Event of Default to occur as a result of the payment or the payment is not otherwise permitted under the terms of an Agreement relating to such Subordinated Liabilities. Borrower shall not modify the time for any amount of scheduled payments or Subordinated Liabilities without the written consent of Lender.

3.7 Assignment of Accounts. As security for the payment and/or performance of the Obligations, Borrower hereby transfers, assigns, and pledges to Lender and/or grants to Lender a security interest in all funds of Borrower now or hereafter or from time to time on deposit with Lender, with such interest of Lender to be retransferred, reassigned, and/or released by Lender, as the case may be, at the expense of Borrower upon payment in full and/or complete performance by Borrower of all Obligations. All remedies as secured party or assignee of such funds shall be exercisable by Lender upon the occurrence and during the continuance of any Event of Default, regardless of whether the exercise of any such remedy would result in any penalty or loss of interest or profit with respect to any withdrawal of funds deposited in a time deposit account prior to the maturity thereof. Furthermore, Borrower hereby grants to Lender the right, exercisable at such time as any Obligation shall mature, whether by acceleration of maturity or otherwise, of offset or banker's lien against all funds of Borrower now or hereafter or from time to time on deposit with Lender, regardless of whether the exercise of any such remedy would result in any penalty or loss of interest or profit with respect to any withdrawal of funds deposited in a time deposit account prior to the maturity thereof. Unless an Event of Default shall have occurred and shall be continuing, Borrower shall have the unfettered right to use any of such funds as Borrower deems appropriate in the operation of Borrower's business.

3.8 Fees.

(a) Unused Commitment Fee. Borrower agrees to pay a fee on any difference between the maximum principal amount available under the Revolving Note (being the face amount of the Revolving Note) and the amount of credit it actually uses, determined by the average of the daily amount of credit

outstanding during the specified period. The fee will be calculated based on the Applicable Margin for Unused Commitment Fees in effect from time to time. This fee is due in arrears on December 31, 2001, and on the last day of each successive third calendar month thereafter until and including the Termination Date.

(b) Letter of Credit Fees. Notwithstanding anything herein to the contrary, on the date any Letter of Credit is issued, as consideration therefor, Borrower shall pay to Lender a fee equal to (i) 5/8% per annum for each Letter of Credit with an expiration date less than 365 days, and (ii) 3/4% per annum for each Letter of Credit with an expiration date of 365 days or more.

3.9 Overdrafts. At Lender's sole option in each instance, Lender may do one of the following:

(a) Lender may make advances under a Note to prevent or cover an overdraft on any account of Borrower with Lender. Each such advance will accrue interest from the date of the advance or the date on which the account is overdrawn, whichever occurs first, at the Applicable Prime Rate described in that Note. Lender may make such advances even if the advances may cause any credit limit on that Note to be exceeded.

(b) Lender may reduce the amount of credit otherwise available under that Note or any other Note by the amount of any overdraft on any account of Borrower with Lender.

This Section shall not be deemed to authorize Borrower to create overdrafts on any of Borrower's accounts with Lender.

3.10 Prepayment. Prepayments may be made in whole or in part at any time on any principal amounts for which the interest rate is based on the Prime Rate (as defined in the Notes) or any other fluctuating interest rate or index which may change daily. All prepayments of principal shall be applied in the inverse order of maturity, or in such other order as Lender shall determine in its sole discretion. No prepayment of any other principal amounts (including, without limitation, principal amounts of which interest is accruing at the Adjusted LIBOR Rate as set forth in Section 4) shall be permitted without the prior written consent of Lender. Notwithstanding such prohibition, if there is a prepayment of any such principal, whether by consent of Lender, or because of acceleration or otherwise, the prepayment shall be accompanied by the amount of accrued interest on the amount prepaid, and a prepayment fee. The prepayment fee shall be in an amount sufficient to compensate Lender for any loss, cost or expense incurred by it as a result of the prepayment, including any loss of anticipated profits and any loss or expense arising from the liquidation or reemployment of funds obtained by it to maintain the credit or from fees payable to terminate the deposits from which such funds were obtained. Borrower shall also pay any customary administrative fees charged by Lender in connection with the foregoing. For purposes of this Section,

Lender shall be deemed to have funded the credit by a matching deposit or other borrowing in the applicable interbank market, whether or not the credit was in fact so funded. The foregoing is subject to the further terms and provisions of Section 3.1(c).

3.11 Newly Formed or Acquired Subsidiaries. Subject to the terms and conditions of this Agreement, if after the acquisition or formation of any new Subsidiary of Borrower (whether direct or indirect), the newly formed or acquired Subsidiary is to remain an independent Subsidiary, in such event, the Borrower shall and shall cause such Subsidiary to promptly, but in any event within 30 days after the acquisition or formation of such new Subsidiary, execute and deliver to Lender a Joinder Agreement in substantially the form of Exhibit "D". In connection therewith and within 30 days after the formation or acquisition of such new Subsidiary, Borrower shall provide the organizational and authorization documents for that Subsidiary and if requested by Lender, opinion letters reasonably satisfactory to the Lender reflecting the corporate status of such new Subsidiary of the Borrower and the enforceability of such agreements.

3.12 Waiver. Borrower and Lender recognize and acknowledge that Borrower has failed to comply with Section 7.8 of the Prior Loan Agreement (Dividends) for the period ending on October 31, 2000. At the request of Borrower, upon and subject to the full and complete satisfaction of each condition precedent listed in Section 2.1 of this Agreement, the Lender waives such Default. This waiver shall not constitute a waiver of (i) any Event of Default under this Agreement or the Prior Loan Agreement, whether now existing or occurring after the date hereof, or (ii) of any right of the Lender to require strict compliance with this Agreement.

SECTION 4 TERMS OF FACILITIES

4.1 Optional Interest Rates.

(a) Interest Rates. For each Note, Borrower will be able to select, subject to the terms and conditions set forth below, that the interest rate which will be applicable to a particular dollar increment of amounts outstanding, or to be disbursed, under a Note, during interest periods agreed to by Lender and Borrower, will be either the Adjusted LIBOR Rate or the Adjusted Prime Rate. Any principal amount bearing interest at an optional rate is referred to as a "PORTION". Further, at the option of Lender, any amounts not paid on a Note when due, whether not maturing or otherwise shall accrue interest at the Past Due Rate. Notwithstanding the foregoing or anything else herein to the contrary, the portion of the outstanding balance of the Revolving Note advanced in accordance with the Autoborrow Agreement shall accrue interest at the Adjusted Prime Rate.

(b) Prime Rate. The Prime Rate is the rate of interest publicly announced from time to time by the Lender as its Prime Rate (the "PRIME RATE

INDEX"). The Prime Rate is set by the Lender based on various factors, including the Lender's costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans. The Lender may price loans to its customers at, above, or below the Prime Rate. Any change in the Prime Rate shall take effect at the opening of business on the day specified in the public announcement of a change in the Prime Rate. The Prime Rate Index is not necessarily the lowest rate charged by Lender on its loans and is set by Lender in its sole discretion. If the Prime Rate Index becomes unavailable during the term of this loan, Lender may designate a substitute index after notifying Borrower. Lender will tell Borrower the current Prime Rate Index rate upon Borrower's request.

(c) LIBOR Rate. The election of LIBOR Rate shall be subject to the following terms and requirements:

(i) The interest period during which the LIBOR Rate will be either one, two, or three months, as selected by Borrower. The first day of the interest period must be a day other than a Saturday, or a Sunday on which Lender is open for business in New York and London and dealing in offshore dollars (a "LIBOR BANKING DAY"). The last day of the interest period and the actual number of days during the interest period will be determined by Lender using the practices of the London inter-bank market.

(ii) Each LIBOR Rate Portion will be for an amount not less than Five Hundred Thousand Dollars (\$500,000).

(iii) The "LIBOR RATE" means the interest rate determined by the following formula, rounded upward to the nearest 1/100 of one percent. (All amounts in the calculation will be determined by Lender as of the first day of the interest period.)

$$\text{LIBOR Rate} = \frac{\text{London Inter-Bank Offered Rate}}{(1.00 - \text{Reserve Percentage})}$$

Where,

(2) "LONDON INTER-BANK OFFERED RATE" means the average per annum interest rate at which U.S. dollar deposits would be offered for the applicable interest period by major banks in the London inter-bank market, as shown on the Telerate Page 3750 (or any successor page) at approximately 11:00 a.m. London time two (2) London Banking Days before the commencement of the interest period. If such rate does not appear on the Telerate Page 3750 (or any successor page), the rate for that interest period will be determined by such

alternate method as reasonably selected by Lender. A "LONDON BANKING DAY" is a day on which Lender's London Banking Center is open for business and dealing in offshore dollars.

- (3) "RESERVE PERCENTAGE" means the total of the maximum reserve percentages for determining the reserves to be maintained by member banks of the Federal Reserve System for Eurocurrency Liabilities, as defined in Federal Reserve Board Regulation D, rounded upward to the nearest 1/100 of one percent. The percentage will be expressed as a decimal, and will include, but not be limited to, marginal, emergency, supplemental, special, and other reserve percentages.

(iv) Borrower shall irrevocably request a LIBOR Rate Portion no later than 12:00 noon Houston, Texas time on the LIBOR Banking Day preceding the day on which the London Inter-Bank Offered Rate will be set, as specified above (the failure to timely make such a request in connection with an Advance or expiration of a LIBOR Rate interest period for a Portion will mean Borrower has elected that interest accrue with respect to that Advance or Portion of the Adjusted Prime Rate). For example, if there are no intervening holidays or weekend days in any of the relevant locations, the request must be made at least three days before the LIBOR Rate takes effect.

(v) Lender will have no obligation to accept an election for a LIBOR Rate Portion if any of the following described events has occurred and is continuing:

(2) Dollar deposits in the principal amount, and for periods equal to the interest period, of a LIBOR Rate Portion are not available in the London inter-bank market; or

(3) the LIBOR Rate does not accurately reflect the cost of a LIBOR Rate Portion.

(d) Rate Terms. Each interest rate is a rate per year on the basis of actual days elapsed in a year consisting of 360 days. No Portion will be converted to a different interest rate during the applicable interest period. If any principal amount bearing interest at the Adjusted LIBOR Rate is repaid during an interest period (other than a scheduled principal payment), such repayment will be considered a prepayment subject to Section 3.10. Upon the occurrence of an Event of Default, Lender may terminate the availability of the Adjusted LIBOR Rate for interest periods commencing after the Event of Default occurs. No

interest period for a particular Note may extend beyond the maturity date of the Note. Borrower may have no more than 3 different Portions for any particular Note in effect at any one time. At the end of any interest period, the interest rate for that Portion will revert to the rate based on the Prime Rate, unless Borrower has designated another optional interest rate for that Portion.

(e) Renewal of Existing Loans. The Revolving Note and Term Note A shall and do modify, renew, and extend Facility No. 1 (Revolving Facility) and Facility No. 2 (Term Facility) provided for in the Prior Loan Agreement.

4.2 Payments of Principal and Interest.

(a) The Notes shall be due and payable as follows:

(i) Revolving Note:

- (1) Commencing on the 31st day of December, 2001, and continuing on the last day of each successive third calendar month thereafter, through, but not including the Termination Date, interest only as it accrues, shall be due and payable on the Revolving Note (except for interest accruing at the Adjusted LIBOR Rate shall be due and payable at the end of the applicable interest period unless the interest is for six months, then at the end of three months and at the end of that interest period until the Termination Date, when all amounts, outstanding principal and unpaid and accrued interest shall be fully and finally due and payable);
- (2) Prior to the Termination Date, advances under the Revolving Note made pursuant to the Autoborrow Agreement shall be due and payable as provided for in the Autoborrow Agreement; and
- (3) The entire unpaid principal sum of the Revolving Note and all interest accrued and unpaid thereon shall be fully and finally due and payable on the Termination Date.

(ii) Term Note A:

- (1) Commencing on the 31st day of December, 2001, and continuing on the last day of each successive third calendar month thereafter until but not including September 30, 2003, equal quarterly principal installments of principal in the amount of \$357,142.86, each, plus interest as it accrues, shall be due and payable; and

(2) The entire unpaid principal sum of Term Note A and all interest accrued and unpaid thereon shall be fully and finally due and payable on September 30, 2003.

(b) All payments made on any Note shall be credited first to past due accrued interest and then to principal; and interest shall thereupon cease upon the principal so credited.

(c) Borrower authorizes Lender to effect payment of sums due under the Notes by means of debiting Borrower's account number 2552900284. This authorization shall not affect the obligation of Borrower to pay such sums when due, without notice, if there are insufficient funds in such account to make such payment in full on the due date thereof, or if Lender fails to debit the account.

(d) To the extent permitted by law, a delinquency charge will be imposed in an amount not to exceed four percent (4%) of any payment on a Note or other Obligation that is more than fifteen (15) days late.

SECTION 5 REPRESENTATIONS AND WARRANTIES

5.1 Representations and Warranties of Borrower. Borrower represents and warrants to Lender (which representations and warranties are made in addition to the warranties and representations made in the Security Instruments and will survive the delivery of this Agreement) that:

(a) Incorporation. Borrower is a corporation duly organized, validly existing and in good standing under the laws of the State of Nevada, and has full power and authority to consummate the transactions contemplated in this Agreement. Borrower has the corporate power to own its properties and carry on its business as it is now being conducted, and is duly authorized to do business and is in good standing in the State of Nevada and in every other jurisdiction where qualification is necessary. Borrower is duly authorized and empowered to create, issue, execute, and deliver the Loan Documents, and all action on its part requisite for the due creation, issuance, and delivery of the Loan Documents has been duly and effectively taken. The Loan Documents do not violate any provision of Borrower's corporate charter or bylaws, or any contract, agreement, law or regulation to which Borrower is subject, and do not require the consent or approval of any Governmental Authority;

(b) No Resulting Defaults. Except as previously disclosed by Borrower to Lender in writing, neither Borrower nor any of its Subsidiaries is in default in the performance, observance, or fulfillment of any of the obligations, covenants, or conditions contained in any agreement or instrument to which it is a party, or in

default under or in violation of any law, order, regulation or demand of any Governmental Authority, which default or violation might have consequences which would materially and adversely affect the business or properties of Borrower or any such Subsidiary;

(c) Financial Statements. The Financial Statements are complete and correct, have been prepared in accordance with GAAP, and fully and accurately reflect the financial condition and results of the operations of Borrower and its Subsidiaries as of the date and for the period stated. No Material Adverse Change has occurred in the condition, financial or otherwise, of Borrower or any of its Subsidiaries since the date of the Financial Statements;

(d) Investments. Except for Permitted Investments, neither Borrower nor any of its Subsidiaries has made investments in, advances to, or guaranties of the obligations of any Person, except for Permitted Investments;

(e) Debt. Except for Permitted Debt, neither Borrower nor any of its Subsidiaries has any liabilities, direct or contingent. Except as previously disclosed to Lender in writing, there is no litigation, administrative proceeding, investigation, or other action of any nature pending or, to the knowledge of Borrower, threatened against Borrower or any of its Subsidiaries before any court or administrative agency which involves the possibility of any judgment or liability which is likely to materially and adversely affect the business or the assets of Borrower or the right of Borrower to carry on business as now conducted. To the best of Borrower's knowledge and belief, no unusual or unduly burdensome restriction, restraint or hazard exists by contract, law, governmental regulation or otherwise relative to the business or assets of Borrower or any of its Subsidiaries;

(f) Title to Assets. Borrower and each of its Subsidiaries have good and indefeasible title to its assets, free and clear of all security interests, liens, and encumbrances, except for Permitted Liens;

(g) Tax Filings. Borrower and each of its Subsidiaries have filed all tax returns required to be filed and has paid all taxes shown thereon to be due, including interest and penalties, or due pursuant to any assessment received by Borrower and each of its Subsidiaries, except such taxes, if any, under contest in good faith and for which adequate reserves have been provided. The charges, accruals and reserves on the books of Borrower and each of its Subsidiaries for any taxes or other governmental charges are, in the opinion of Borrower, adequate. Except as previously disclosed by Borrower to Lender in writing, Borrower and each of its Subsidiaries have paid all franchise and other taxes which are now due;

(h) ERISA Compliance. To the best of Borrower's knowledge and belief, no Reportable Event has occurred with respect to any Plan. Neither

Borrower nor any of its Subsidiaries have incurred any material accumulated unfunded deficiency within the meaning of ERISA, nor has Borrower nor any of its Subsidiaries incurred any material liability to the Pension Benefit Guaranties Corporation established under ERISA (or any successor thereto under ERISA) in connection with any Plan;

(i) Place of Business. The principal place of business and chief executive office of Borrower and the place where Borrower keeps its and its Subsidiaries' books and records is the address of Borrower set forth in Section 10.7 of this Agreement;

(j) Not Investment Company. Neither Borrower nor any of its Subsidiaries is an "investment company" within the meaning of the Investment Company Act of 1940, as amended;

(k) Margin Stock. Neither Borrower Nor any of its Subsidiaries is engaged principally, or as one of its important activities, in the business of extending or obtaining credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulations T, U, or X of the Board of Governors of the Federal Reserve System). No part of the proceeds of any extension of credit under this Agreement will be used to purchase or carry any such margin stock or to extend credit to others for the purpose of purchasing or carrying any such margin stock. No transaction contemplated by the Loan Documents is in violation of any regulations promulgated by the Board of Governors of the Federal Reserve System, including, without limitation, Regulations T, U, or X;

(l) Compliance With Laws. Except as otherwise disclosed by Borrower to Lender in writing, to the best of Borrower's knowledge and belief, Borrower, Guarantors, and their respective properties, business operations, and leaseholds are in compliance in all material respects with, the provisions of all Requirements of Law applicable to Borrower, Guarantors, their Properties or the conduct of their respective businesses. Except as previously disclosed by Borrower to Lender in writing, each of Borrower and Guarantors possesses, and are in good standing with respect thereto, all governmental consents, licenses, approvals, certificates, inspections, registrations, permits, and other authorizations necessary to enable them to carry on their respective businesses in all material respects as now conducted; all such governmental consents, licenses, approvals, certificates, inspections, registrations, permits, and other authorizations are in full force and effect; and Borrower has no reason to believe that it or the Guarantors will be unable to obtain the renewal of any such governmental consents, licenses, approvals, certificates, inspections, registrations, permits, and other authorizations;

(m) Representations Correct. No information, exhibit, or report prepared by or at the direction or with the supervision of Borrower and furnished to Lender in connection with the negotiation and preparation of this Agreement or

any Loan Document contains any material misstatements of fact or omits a material fact necessary to make the statements contained therein not misleading as of the date made or deemed made. There is no fact which Borrower has failed to disclose to Lender in writing which materially affects adversely or, so far as Borrower can now foresee, will materially affect adversely the business, prospects, profits, or condition (financial or otherwise) of Borrower or the ability of Borrower to perform this Agreement;

(n) No Subsidiaries. Except for the Person or a party to the Subsidiary Guaranty and Guarantors, as of the date hereof, Borrower has no Subsidiaries, and Borrower is not a partner or participant in any partnership or joint venture;

(o) Solvency. Borrower is now and, after giving effect to initial advances to be made hereunder, and Guarantors, after giving effect to the delivery of each of their Guaranties, at all times will be, solvent and will be adequately capitalized to pay their respective debts as they become due;

(p) Collective Bargaining. Neither Borrower nor any Subsidiary is a party to any collective bargaining agreement, and to the best of Borrower's knowledge and belief, there are no material grievances, disputes, or controversies of Borrower or any of its Subsidiaries with any union or any other organization of any of their employees, or threats of strikes, work stoppages, or any asserted pending demands for collective bargaining by any union or organization;

(q) Intellectual Property. Borrower and each of its Subsidiaries own or are licensed to use all Intellectual Property necessary to conduct all business material to its condition (financial or otherwise), business, or operations as such business is currently conducted. To the best of Borrower's knowledge and belief, no claim has been asserted or is pending by any Person with the respect to the use of any such Intellectual Property or challenging or questioning the validity or effectiveness of any such Intellectual Property; and Borrower knows of no valid basis for any such claim. To the best of Borrower's knowledge and belief, the use of such Intellectual Property by Borrower and each of its Subsidiaries do not infringe on the rights of any Person. Except as disclosed by Borrower to Lender in writing prior to the date hereof, no Intellectual Property or other property of Borrower or its Subsidiaries has been registered (or is otherwise patented, copyrighted, licensed, or trademarked), or is subject to any patent, copyright, license, or trademark, under and with respect to any federal laws or any other Requirement of Law;

(r) No Default. As of the date hereof, no event has occurred and no condition exists which would, upon the execution and delivery of this Agreement or Borrower's performance hereunder, constitute a Default or an Event of Default;

(s) Customer Relations. There exists no actual or threatened termination, cancellation, or limitation of, or any modification or change in, the business relationship between Borrower or any of its Subsidiaries with any customer or any group of customers whose purchases individually or in the aggregate are material to the business of Borrower or any such Subsidiary, or with any material supplier, and, to the knowledge of Borrower, there exists no present condition or state of facts or circumstances which would materially affect adversely Borrower or any of its Subsidiaries or prevent Borrower or any of its Subsidiaries from conducting such business after the consummation of the transaction contemplated by this Agreement in substantially the same manner in which it has heretofore been conducted;

(t) Hazardous Substances. Except in compliance with all applicable Requirements of Law, no Hazardous Substances have been generated, transported, and/or disposed of by Borrower or any of its Subsidiaries, at a site which was, at the time of such generation, transportation and/or disposal, or has since become, a Superfund Site. For purposes of this subsection, "Superfund Site" shall mean those sites listed on the Environmental Protection Agency National Priority List and eligible for remedial action or any comparable state registries or list in any state of the United States;

(u) Release of Hazardous Substances. Except in accordance with all Requirements of Law or the terms of a valid permit, license, certificate, or approval of the Governmental Authority, no Release of Hazardous Substances has been made by Borrower or any of its Subsidiaries, from, affecting, or related to any Property of Borrower or any of its Subsidiaries, any Property leased by Borrower or any of its Subsidiaries, or any property on which Borrower is conducting any of its respective business operations;

(v) Environmental Complaints. No Environmental Complaint has been received by Borrower or any of its Subsidiaries; and

(w) Reaffirmation. Each request for advance under the Notes by Borrower to Lender pursuant to this Agreement or any of the other Loan Documents constitutes (i) an automatic representation and warranty by Borrower to Lender that there does not then exist any Default or Event of Default and (ii) a reaffirmation as of the date of said request that all of the representations and warranties of Borrower contained in this Agreement and the other Loan Documents are true in all material respects except for any changes in the nature of Borrower's business or operations that would render the information contained in any exhibit attached hereto either inaccurate or incomplete, so long as Lender has consented to such changes in writing or such changes are expressly permitted by this Agreement.

SECTION 6
AFFIRMATIVE COVENANTS

6.1 Covenants of Borrower. In addition to the covenants and agreements of Borrower made elsewhere in this Agreement, Borrower covenants and agrees, unless Lender shall otherwise consent in writing, that Borrower shall, and shall cause each of its Subsidiaries to:

(a) Financial Covenants.

(i) Tangible Net Worth. Cause Borrower to have at all times, on a consolidated basis, and as shown on the financial statements required under Section 6.1(d) hereof, a Tangible Net Worth of at least the Minimum Required Tangible Net Worth. The "MINIMUM REQUIRED TANGIBLE NET WORTH" shall be \$92,500,000.00 until changed in accordance with this Section 6.1(a)(i). On, and as of, the last day of each fiscal year of Borrower in which Borrower's consolidated net income is positive (the "CURRENT YEAR"), beginning with the Fiscal Year ending on October 31, 2001, the Minimum Required Tangible Net Worth shall be equal to the sum of (x) the Minimum Required Tangible Net Worth that was in effect immediately before such last day, plus (y) an amount equal to one-half of Borrower's consolidated net income for the Current Year, plus (z) the amount of the net proceeds received by Borrower after October 25, 2001, from any sale or issuance of equity securities or any other additions to capital by Borrower; and, the Minimum Required Tangible Net Worth shall remain such sum unless and until the next change, if any, pursuant to this Section 6.1(a)(i). "TANGIBLE NET WORTH" means the value of Borrower's total assets (including leaseholds and leasehold improvements and reserves against assets but excluding goodwill, patents, trademarks, trade names, organization expense, unamortized debt discount and expense, capitalized or deferred research and development costs, deferred marketing expenses, and other like intangibles, and monies due from affiliates, officers, directors, employees, shareholders, members or managers of Borrower), less total liabilities, including but not limited to accrued and deferred income taxes, plus non-current portion of Subordinated Liabilities. "SUBORDINATED LIABILITIES" means liabilities subordinated to Borrower's obligations to Lender in a manner acceptable to Lender in its sole discretion.

(ii) Fixed Charge Coverage Ratio. Maintain on a consolidated basis a Fixed Charge Coverage Ratio of at least 1.25 to 1.0. "FIXED CHARGE COVERAGE RATIO" means, for any period, the ratio of an amount equal to EBITDA minus cash taxes paid to the

sum of the current portion of long term debt and the current portion of capitalized lease obligations, plus interest expense on all obligations, plus capital expenditures paid, plus cash Distributions paid. "EBITDA" means net income (before taxes), plus interest expense, plus depreciation, plus amortization, plus other non-cash charges which are approved by Lender in writing as such in Lender's sole discretion. This ratio will be calculated quarterly as of the end of each fiscal quarter on a rolling four quarter basis. The current portion of long-term liabilities will be measured as of the date 12 months prior to the current financial statement.

(b) Maintain Corporate Existence. Do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence, rights, and franchises; and at all times maintain, preserve and protect its assets used or useful in the conduct of its business, keep the same in good repair, working order and condition, and make, or cause to be made, all needful or proper repairs, replacements and improvements thereto so that Borrower's and each of Subsidiaries' business may be properly and advantageously conducted at all times;

(c) Comply with Laws. (i) Comply with all applicable statutes, government regulations, and other Requirements of Law; (ii) remain licensed with all applicable state and federal regulatory and other agencies; (iii) pay and discharge promptly all taxes, assessments and governmental charges or levies imposed on it, its income and profits, and any of its Property, or any part thereof, before the same shall be in default; and (iv) pay all lawful claims for labor, materials, supplies, or other claims, which, if unpaid, might become a valid lien or charge upon such property or any part thereof;

(d) Financial Information. Provide (or cause to be provided) the following financial information and statements in form and content acceptable to Lender, and such additional information as requested by Lender from time to time:

(i) Within 120 days of Borrower's fiscal year end, Borrower's annual financial statements. These financial statements must be audited (with an unqualified opinion) by a certified public accountant acceptable to Lender. The statements shall be prepared on a consolidating and a consolidated basis;

(ii) Within 45 days of the period's end (including the last period in each fiscal year), Borrower's quarterly financial statements, certified and dated by an authorized financial officer of Borrower. These financial statements may be Borrower prepared. The statements shall be prepared on a consolidated and consolidating basis;

(iii) Within the period(s) provided in (i) and (ii) above, a Compliance Certificate of Borrower signed by an authorized financial officer of Borrower setting forth (1) the information and computations (in sufficient detail) to establish that Borrower is in compliance with all financial covenants at the end of the period covered by the financial statements then being furnished and (2) whether there existed as of the date of such financial statements and whether there exists as of the date of the certificate, any default under this Agreement and, if any such default exists, specifying the nature thereof and the action Borrower is taking and proposes to take with respect thereto; and

(iv) Promptly, upon sending or receipt, copies of any information or correspondence sent to shareholders or filed with the Securities Exchange Commission.

(e) Inspection. Permit Lender, or any of its duly authorized representatives and/or agents, from time to time during normal and customary business hours, but with at least 24 hours prior notice, to enter, at Lender's expense (but at Borrower's expense after the occurrence of an Event of Default), upon any premises of Borrower or any of its Subsidiaries for the purpose (1) of examining the property, books, and records of Borrower or any of its Subsidiaries and making copies of any such books and records and (2) of conducting an audit or appraisal of Borrower or any of its Subsidiaries' Accounts, Equipment and Inventory;

(f) Further Assurance. Promptly cure any defects in the execution and delivery of the Loan Documents and immediately execute and deliver to Lender all such other and further instruments as may be reasonably required by Lender from time to time in order to satisfy or comply with the covenants and agreements of Borrower made in this Agreement;

(g) Reimbursement. Promptly reimburse Lender upon request for all reasonable amounts expended, advanced, or incurred by Lender as are reasonably necessary (i) to satisfy any obligation of Borrower under this Agreement, (ii) to protect the assets or business of Borrower, (iii) to collect the Notes, or any other amounts advanced under this Agreement or otherwise on behalf of Borrower, or (iv) to enforce the rights of Lender under the Loan Documents, which amounts will include, without limitation, all reasonable court costs, attorneys' fees, and fees of auditors, accountants, and investigators incurred by Lender in connection with any such matters, together with interest at the Maximum Rate on each such amount from 30 days after the date of notification to Borrower that the same was expended, advanced or incurred by Lender until the date it is repaid to Lender;

(h) Insurance. Continue to maintain insurance as required by Lender against such liabilities, casualties, risks, and contingencies in such types and amounts as is normal and customary for carrying on Borrower's business (including, without limitation, casualty, employee indemnity insurance, and business interruption insurance). As applicable, Lender shall be the named loss payee on all such insurance. On the date hereof, at the close of Borrower's fiscal year, and at any other time Lender may request, Borrower will furnish Lender a summary of such insurance and, if requested, will furnish Lender copies of the applicable policies. The proceeds of any such policies insuring physical loss or damage shall be used by Borrower and any of its Subsidiaries either to repair the damaged property, replace lost property, or prepay the outstanding balances of the Notes (such payment to be applied in reverse order of maturities);

(i) Foreign Qualification. Qualify as a foreign corporation in all other jurisdictions wherein the property now or hereafter owned by Borrower and any of its Subsidiaries or the business now or hereafter transacted by Borrower and any of its Subsidiaries makes such qualifications necessary;

(j) Plan. Furnish to Lender (i) as soon as possible, and in any event within 30 days after Borrower or a duly appointed administrator of a Plan knows or has reason to know that any Reportable Event with respect to any Plan has occurred, a statement of the chief financial officer of Borrower (or any applicable Subsidiary) setting forth details as to such Reportable Event and the action which Borrower (or any applicable Subsidiary) proposes to take with respect thereto, together with a copy of the notice of such Reportable Event given to the Pension Benefit Guaranty Corporation or a statement that said notice will be filed with the annual report to the United States Department of Labor with respect to such Plan, if such filing has been authorized, and (ii) promptly after receipt thereof, a copy of any notice Borrower may receive from the United States Department of Labor, the Internal Revenue Service or the Pension Benefit Guaranty Corporation with respect to any Reportable Event;

(k) Additional Notices. In addition to, and without in any way limiting, the other requirements in this Agreement provide certain notices to Lender, deliver to Lender, promptly upon any officer of Borrower having knowledge of the occurrence of any of the following events or circumstances, a written statement with respect thereto, signed by the chief financial officer of Borrower, or other authorized representative of Borrower designated from time to time pursuant to written designation by Borrower delivered to Lender, advising Lender of the occurrence of such event or circumstance and the steps, if any, being taken by Borrower or any Subsidiary or other Guarantor with respect thereto:

(i) any Default or Event of Default;

(ii) any litigation or proceeding involving Borrower or any Subsidiary or other Guarantor as a defendant or in which any

Property of Borrower or any Subsidiary or other Guarantor is subject, directly or indirectly, to a claim, and the amount in controversy is in excess of \$3,000,000.00;

(iii) any Reportable Event or imminently expected Reportable Event with respect to any Plan;

(iv) at least 60 days prior thereto, of Borrower's opening of any new office or place of business or Borrower's closing of any existing office or place of business;

(v) any labor dispute to which Borrower may become a party, any strikes or walkouts relating to any of its plants or other facilities, and the expiration of any labor contract to which any of them is a party or by which they are bound, in each case where the same could reasonably be expected to cause a Material Adverse Change;

(vi) any change in the number, nature, and holder of outstanding stock of Borrower or any Subsidiary; and

(vii) any other event or occasion which could reasonably be expected to cause a Material Adverse Change; and

(1) Records. Maintain any system for creating backup data on computer hardware, software or firmware, such as Accounts and customer lists, and deliver and pledge to Lender such tapes or discs with respect thereto as may be required by Lender.

SECTION 7 NEGATIVE COVENANTS

7.1 Negative Covenants of Borrower. So long as Borrower may borrow additional advances hereunder and in accordance with the terms and provisions of this Agreement and until payment in full of the Notes and performance of all other Obligations of Borrower hereunder, Borrower covenants and agrees, unless Lender shall otherwise consent in writing, that Borrower will not, either directly or indirectly and will not permit any of its Subsidiaries to, directly or indirectly:

(a) No Distributions. Declare or pay any Distributions, except that in any fiscal year of Borrower may purchase, redeem, or acquire any of its capital stock up to an aggregate amount equal to fifty percent (50%) of its net income for that fiscal year;

(b) No Loans and Advances. Make or permit to remain outstanding any loans or advances to or investments in any Person, including, without limitation to any Affiliate, except for Permitted Investments;

(c) No Mergers. Acquire (by virtue of a stock purchase) unless the acquisition is a Permitted Investment, consolidate with, or merge into, any other corporation or entity;

(d) No Mortgages. (i) Create, incur, assume, or permit to exist, or allow any joint venture or partnership of which Borrower or any of its Subsidiaries is a partner or venturer to create, incur, assume, or permit to exist any mortgage, pledge, security interest, lien, or encumbrance on any of their respective assets, including, without limitation, any accounts and accounts receivables (now owned or hereafter acquired), except for Permitted Liens;

(e) No Change in Ownership or Management. Permit any material change in the existing management group of Borrower, or permit any material change in the ownership of Borrower or any of its Subsidiaries;

(f) No Sales of Assets. Sell, lease, transfer, convey, or otherwise dispose (except in the ordinary course of business) of all or any material part of its assets;

(g) No Change in Business. Change the general character of business as conducted as of the date hereof or engage in any type of business not reasonably related to its business as presently and normally conducted;

(h) No Change in Accounting Procedures. Materially change accounting practices, methods, or standards or the reporting format for any information furnished Lender under the terms and provisions of this Agreement, which accounting practices shall conform with GAAP throughout the term of this Agreement;

(i) No Change in Purpose. Permit the proceeds of the Notes to be used for any purpose other than the purpose set forth in Section 3.3 of this Agreement;

(j) Affiliate Transaction. Enter into any transaction with an Affiliate, including, without limitation, the purchase, sale, or exchange of property of Borrower or any of its Subsidiaries or the rendering of any service, unless the transaction is in the ordinary course of and pursuant to the reasonable requirements of Borrower's business and upon fair and reasonable terms no less favorable to Borrower than would be obtained in a comparable arm's length transaction with a Person not an Affiliate;

(k) Adverse Transaction. Enter into any transaction which materially and adversely affects or may materially and adversely affect Borrower's ability to repay the Obligations;

(l) Assumed Names. Use any corporate name (other than its own) or any fictitious name, tradestyle, or "d/b/a" without the prior written consent of Lender;

(m) Margin Stock. Own, purchase, or acquire (or enter into any contract to purchase or acquire) any "margin security" as defined by any regulation of the Federal Reserve Board as now in effect or as the same may hereafter be in effect unless, prior to any such purchase or acquisition or entering into any such contract, Lender shall have received an opinion of counsel satisfactory to the effect that such purchase or acquisition will not cause this Agreement to violate Regulations T, U or X or any other regulation of the Federal Reserve Board then in effect;

(n) New Subsidiary. Form any new Subsidiary or acquire substantially all of the assets of a third party;

(o) Fiscal Year. Change its fiscal year without first notifying Lender; and

(p) Tax Filing. File or consent to the filing of any consolidated income tax return with any Person other than a Subsidiary.

SECTION 8 EVENTS OF DEFAULT

8.1 Events of Default. Each of the following shall constitute an Event of Default under this Agreement:

(a) Payment Default. The failure to pay when due any fee or payment under this Agreement, the Notes, any of the other Obligations, or any of the other Loan Documents;

(b) Non-Payment Default. A default or event of default by Borrower or any of its Subsidiaries or other Guarantors in the due observance or performance of any of their respective obligations under this Agreement and the other Loan Documents, which is not fully cured within 20 days after notice thereof is provided by Borrower to Lender; provided that the foregoing notice and opportunity to cure shall not be required for and with respect to a payment default which is governed by Section 8.1(a), the failure to timely and fully comply with Sections 6.1(a) or (d) or with Section 8.1, and for any other Event of Default specifically enumerated in this Section 7.1, the occurrence of any such events shall in and of itself constitute an Event of Default;

(c) Representations. Any representation or warranty made by Borrower or any of its Subsidiaries or other Guarantors, in any of the Loan Documents proves to have been untrue in any material respect or any representation, statement (including Financial Statements), certificate or data

furnished or made to the Lender as an inducement for Lender agreeing to enter in to this Agreement, or in accordance with the terms of this Agreement, proves to have been untrue in any material respect as of the date the facts therein set forth were stated or certified;

(d) Voluntary Filings. Borrower or any of its Subsidiaries or other Guarantors shall (i) apply for or consent to the appointment of a receiver, trustee or liquidator of it or all or a substantial part of its assets, (ii) file a voluntary petition commencing a bankruptcy or other insolvency proceeding, (iii) make a general assignment for the benefit of creditors, (iv) be unable, or admit in writing its inability, to pay its debts generally as they become due, or (v) file an answer admitting the material allegations of a petition filed against it in a bankruptcy or other insolvency proceeding;

(e) Involuntary Filings. An order, judgment, or decree shall be entered against Borrower or any of its Subsidiaries or other Guarantors, by any court of competent jurisdiction or by any other duly authorized authority, on the petition of a creditor or otherwise, granting relief in a bankruptcy or other insolvency proceeding or approving a petition seeking reorganization or an arrangement of its debts or appointing a receiver, trustee, conservator, custodian or liquidator of it or all or any substantial part of its assets and such order, judgment or decree shall not be dismissed or stayed within 90 days;

(f) Levy. The levy against any significant portion of the property of Borrower or any of its Subsidiaries or other Guarantors, or any execution, garnishment, attachment, sequestration, or other writ or similar proceeding which is not permanently dismissed or discharged within 90 days after the levy;

(g) Judgment. A final and non-appealable order, judgment or decree, which is uninsured in an amount in excess of \$100,000.00, shall be entered against Borrower or any of its Subsidiaries, and such order, judgment or decree shall not be paid, dismissed, or stayed within 90 days;

(h) ERISA. Any Person shall engage in any "prohibited transaction" (as defined in Section 406 of ERISA or Section 4975 of the Internal Revenue Code) involving any Plan; any "accumulated funding deficiency" (as defined in Section 302 of ERISA), whether or not waived, shall exist with respect to any Plan for which an excise tax is due or would be due in the absence of a waiver; a Reportable Event shall occur with respect to, or proceedings shall commence to have a trustee appointed, or a trustee shall be appointed, to administer or to terminate, any Single Employer Plan, which Reportable Event or commencement of proceedings or appointment of a trustee is, in the reasonable opinion of the Lender, likely to result in the termination of such Plan for purposes of Title IV of ERISA; any Single Employer Plan shall terminate for purposes of Title IV of ERISA; the Borrower or any of its Subsidiaries, or any Affiliate shall incur, or in the reasonable opinion of the Lender, be likely to incur any liability in connection

with a withdrawal from, or the insolvency or reorganization of, a multiemployer plan; or any other event or condition shall occur or exist with respect to a Plan and the result of such events or conditions referred to in this subsection (j) could subject the Borrower, or any Affiliate to any tax (other than an excise tax under Section 4980 of the Internal Revenue Code), penalty or other liabilities which taken in the aggregate would have an adverse effect on Borrower or any of its Subsidiaries and any such circumstance shall exist for in excess of 90 days;

(i) Cessation of Business. Cessation of a substantial part of the business of Borrower or any of its Subsidiaries for a period which significantly affects Borrower's or any of its Subsidiaries' capacity to continue its particular business, on a profitable basis; or Borrower or any of its Subsidiaries shall suffer the loss or revocation of any license or permit now held or hereafter acquired by Borrower or any of its Subsidiaries which is necessary to continue the lawful operation of this particular business; or Borrower or any of its Subsidiaries shall be enjoined, restrained, or in any way prevented by court, governmental, or administrative order from conducting all or any material part of its respective business affairs;

(j) Challenges. Borrower, any of its Subsidiaries or any other Guarantors, or any Affiliate shall challenge or contest in any action, suit, or proceeding the validity or enforceability of this Agreement or any of the other Loan Documents, the legality or enforceability of any of the Obligations;

(k) Conviction. Borrower, any of its Subsidiaries or any other Guarantors, or any Affiliate shall be criminally indicted or convicted under any law that could lead to a forfeiture of any material portion of the property of Borrower, any Affiliate, or any of the Borrower's Subsidiaries or any other Guarantors;

(l) Governmental Authority Compliance. Borrower or any of its Subsidiaries shall fail to comply in any material respect with any order, decree, ruling, or plan issued by the Environmental Protection Agency or any other Governmental Authority relating to the property of Borrower or any of its Subsidiaries or otherwise, and which order, decree, ruling, or plan is not reversed or Borrower's or any of its Subsidiaries' obligations with respect thereto are not otherwise discharged within 90 days after the entry thereof;

(m) Swap Default. An event occurs which gives the Lender (or any affiliate of Lender) the right or option to terminate any Swap Contracts;

(n) Letter of Credit Reimbursement Agreement. An event occurs which constitutes an Event of Default under and for purposes of the Letter of Credit Reimbursement Agreement; and

(o) Assets. Borrower or any of its Subsidiaries shall have (i) concealed, removed, or diverted, or permitted to be concealed, removed, or

diverted, any part of its property, with intent to hinder, delay or defraud its creditors or any of them; (ii) made or suffered a transfer of any of its property which may be fraudulent under any bankruptcy, fraudulent conveyance or similar law; or (iii) shall have suffered or permitted, while insolvent, any creditor to obtain a lien upon any of their respective property through legal proceedings or otherwise which is not vacated within 90 days from the date thereof.

SECTION 9 RIGHTS AND REMEDIES OF LENDER

9.1 Acceleration. Upon the occurrence and continuance of any Event of Default, Lender, at its option and without any notice of intent to accelerate, notice of acceleration, or other notice or demand, may declare the entire principal amounts of the Notes then outstanding and the interest accrued thereon immediately due and payable, and the said entire principal, interest and all other amounts owing thereunder shall thereupon become immediately due and payable without presentment, demand, protest, notice of protest or other notice of default or dishonor of any kind, all of which are hereby expressly waived by Borrower.

9.2 Additional Rights. Upon the occurrence and continuance of any Event of Default, Lender shall have, in addition to the rights and remedies given it in the Loan Documents, all of the rights and remedies allowed by applicable ordinances, statutes, rules, regulations, orders, injunctions, writs or decrees of any governmental or political subdivision or agency thereof, or any court or similar entity established by any such subdivision or agency.

9.3 Termination of Obligations. Upon the occurrence and continuance of any Default, any obligation of Lender under this Agreement shall immediately and automatically cease and terminate unless and until Lender shall reinstate the same in writing, which reinstatement shall be required if the Default or Event of Default is cured in a timely manner and in a manner satisfactory to Lender.

9.4 Swap Contracts. In addition to the rights and remedies set forth in this Agreement and the other Loan Documents, upon the occurrence of any Event of Default, Lender (or any applicable affiliate of Lender) may terminate any Swap Contract or exercise any rights prior and thereunder or in connection therewith.

SECTION 10 MISCELLANEOUS

10.1 Other Loans. Borrower and Lender acknowledge and agree that in the future, Borrower may apply for and Lender may agree to fund additional loans to Borrower. Borrower and Lender agree that all existing and hereafter created loans and other advances from Lender, or any of its predecessors or successors in interest, to Borrower, whether or not such loans are particularly described in this Agreement, as may be amended from time to time, shall constitute Obligations for purposes of this

Agreement and shall be subject to the terms, provisions, covenants, and agreements set forth in this Agreement.

10.2 No Duty or Special Relationship. Borrower acknowledges that Lender has no duty to Borrower with respect to the loan transactions set forth in this Agreement except as expressly provided for in this Agreement and the other Loan Documents, and acknowledge that no fiduciary, trust, or other special relationship exists between Lender and Borrower.

10.3 Other Remedies Not Required. Borrower may be required to pay the Notes in full without the assistance of any other party, or any collateral or security for the Notes. Lender shall not be required to mitigate damages, file suit, or take any action to foreclose, proceed against or exhaust any collateral or security in order to enforce payment of the Notes.

10.4 NO CONTROL BY LENDER. BORROWER AGREES AND ACKNOWLEDGES THAT ALL OF THE COVENANTS AND AGREEMENTS PROVIDED FOR AND MADE BY BORROWER IN THIS AGREEMENT AND IN THE OTHER LOAN DOCUMENTS ARE THE RESULT OF EXTENSIVE AND ARMS-LENGTH NEGOTIATIONS BETWEEN BORROWER AND LENDER. LENDER'S RIGHTS AND REMEDIES PROVIDED FOR IN THIS AGREEMENT AND IN THE OTHER LOAN DOCUMENTS ARE INTENDED TO PROVIDE LENDER WITH A RIGHT TO OVERSEE BORROWER'S ACTIVITIES AS THEY RELATE TO THE LOAN TRANSACTIONS PROVIDED FOR IN THIS AGREEMENT, WHICH RIGHT IS BASED ON LENDER'S VESTED INTEREST IN BORROWER'S ABILITY TO PAY THE NOTES AND PERFORM THE OTHER OBLIGATIONS. NONE OF THE COVENANTS OR OTHER PROVISIONS CONTAINED IN THIS AGREEMENT SHALL, OR SHALL BE DEEMED TO, GIVE LENDER THE RIGHT OR POWER TO EXERCISE CONTROL OVER, OR OTHERWISE IMPAIR, THE DAY-TO-DAY AFFAIRS, OPERATIONS, AND MANAGEMENT OF BORROWER; PROVIDED THAT IF LENDER BECOMES THE OWNER OF ANY STOCK OF ANY ENTITY, WHICH ENTITY OWNS AN INTEREST IN BORROWER, WHETHER THROUGH FORECLOSURE OR OTHERWISE, LENDER THEREAFTER SHALL BE ENTITLED TO EXERCISE SUCH LEGAL RIGHTS AS IT MAY HAVE BY BEING A SHAREHOLDER OF SUCH ENTITY.

10.5 No Partnership. Nothing herein is intended, nor shall it be deemed or construed as, to create a partnership, joint venture, or common interest in profits or income between Borrower and Lender, or to make Lender in any way responsible for the debts or losses of Borrower or with respect to the collateral described in the Security Instruments. Borrower and Lender disclaim any sharing of liabilities, losses, costs or expenses.

10.6 Representations and Warranties. All representations and warranties of Borrower herein, and all covenants and agreements made by Borrower herein made before the effective date of this Agreement, shall survive such date.

10.7 Notice. All notices, demands, requests, and communications permitted or required under this Agreement shall be in writing, may be personally served or sent by telex (confirmed by telephone), telecopier (confirmed by telephone), U.S. mail or any express mail service, and shall be effective upon receipt, such receipt being deemed to occur 48 hours after its deposit in the U.S. mail, postage prepaid or 24 hours after its transmission by telex, telecopier or express mail service, as the case may be, addressed to the individuals and addresses indicated below:

(a) If to Borrower:

Powell Industries, Inc.
8550 Mosley Drive
Houston, Texas 77075-1180

(b) If to Lender:

Bank of America, N.A.
P. O. Box 2518
Houston, Texas 77252-2518
Attention: Daniel J. Lintner, Vice President

Any party may, by proper written notice to the other party, change the individuals or addresses to which such notices shall thereafter be sent.

10.8 Prior Loan Agreement. This Agreement shall amend, modify, replace, and restate the Prior Loan Agreement, except that Borrower represents and warrants to Lender that all representations and warranties made by Borrower in such Prior Loan Agreement were true and correct as of the date thereof. Further, any and all references to the Prior Loan Agreement in any Note or other Loan Document are replaced for all purposes with a reference to this Agreement.

10.9 Waiver Fee. If Lender, at its discretion, agrees to waive or amend any terms of this Agreement, Borrower will, at Lender's option, pay Lender a fee for each waiver or amendment in an amount advised by Lender at the time Borrower requests the waiver or amendment. Nothing in this Section shall imply that Lender is obligated to agree to any waiver or amendment requested by Borrower. Lender may impose additional requirements as a condition to any waiver or amendment.

10.10 Fee for Late Financial Statements. If any of the financial information required by this Agreement is not provided to Lender within the time limits provided in this Agreement, Borrower will, at Lender's option, pay Lender a late fee in an amount set by Lender. The imposition and payment of a late fee shall not constitute a waiver of Lender's rights with respect to the default.

10.11 Lender as Principal Depository. Borrower shall maintain Lender as its principal depository bank, including for the maintenance of business, cash management, operating and administrative deposit accounts.

10.12 Binding Effect. All covenants and agreements of Borrower under this Agreement shall bind the respective successors and assigns of Borrower and shall inure to the benefit of Lender and its successors and assigns. The rights of Borrower under this Agreement are not assignable.

10.13 Limited Waiver of Confidentiality. Borrower authorizes Lender to use its tax identification and corporate charter and number on financing statements or other public filings made by Lender pursuant to this Agreement and in connection thereunder, or otherwise, and waives any confidentiality and other similar rights Borrower may have in connection therewith.

10.14 Inconsistencies and Conflicts. To the extent any irreconcilable conflicts or inconsistencies exist between the terms of this Agreement and any of the other Loan Documents, the terms of this Agreement shall govern and control.

10.15 Renewal of Indebtedness. All provisions of this Agreement relating to the Notes shall apply with equal force and effect to each and all promissory notes hereafter executed which in whole or in part represent a renewal, extension or rearrangement of any part of the indebtedness originally represented by the Notes, or either of them, provided that nothing herein shall constitute a commitment or offer by Lender to such a renewal, extension or rearrangement.

10.16 No Waiver. No course of dealing on the part of Lender, its officers or employees, nor any failure or delay by Lender with respect to exercising any of its rights, remedies, powers or privileges under the Loan Documents shall operate as a waiver thereof. No indulgence by Lender, or waiver of compliance with any of the terms, covenants, or provisions of the Loan Documents, shall be construed as a waiver of Lender's right to subsequently require strict performance by Borrower and any other Person of the Loan Documents. The rights and remedies of Lender under the Loan Documents shall be cumulative and the exercise or partial exercise of any such rights or remedies shall not preclude the exercise of any other rights or remedies.

10.17 APPLICABLE LAW. EXCEPT AS OTHERWISE PROVIDED IN THE LOAN DOCUMENTS, THE LOAN DOCUMENTS SHALL BE DEEMED TO BE CONTRACTS MADE UNDER, AND SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY, THE LAWS OF THE STATE OF TEXAS AND THE LAWS OF THE UNITED STATES OF AMERICA APPLICABLE TO TRANSACTIONS WITHIN THE STATE OF TEXAS.

10.18 Amendment. Neither this Agreement nor any provision hereof may be changed, waived, discharged or terminated orally, but only by an instrument in writing

signed by the party against whom enforcement of the change, waiver, discharge or termination is sought.

10.19 Future Advances. No advance under the Notes shall constitute a waiver of any of the conditions of Lender's obligation to make further advances nor, in the event Borrower is unable to satisfy any such condition, shall any such waiver have the effect of precluding Lender from thereafter declaring such inability to be a Default.

10.20 Severability. In the event any provision contained in any of the Loan Documents shall, for any reason, be held invalid, illegal or unenforceable in any respect, such provision shall be severed from the applicable Loan Document, and such invalidity, illegality or unenforceability shall not affect any other provision of the applicable Loan Document.

10.21 Lender's Discretion. All matters hereunder that require Lender's discretion, (including, without limitation, whether Borrower has satisfied any condition precedent), Lender shall use its sole and reasonable discretion, except as otherwise provided for herein. Further, Lender may in its sole discretion waive any of its rights with respect to a particular Event of Default.

10.22 Entire Agreement. This Agreement and the documents referred to herein embody the entire agreement with respect to the respective rights, obligations, and liabilities of the Parties and supersedes all prior agreements and understandings, if any, relating to the subject matter hereof. THIS AGREEMENT REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO ORAL AGREEMENTS BETWEEN THE PARTIES.

10.23 Counterparts. This Agreement may be executed in two or more counterparts, and it shall not be necessary that any one counterparts be executed by all of the parties hereto. Each fully or partially executed counterpart shall be deemed an original, but all such counterparts taken together shall constitute but one and the same instrument.

10.24 Privacy Statement. BORROWER ACKNOWLEDGES AND AGREES THAT IT HAS RECEIVED AND REVIEWED PRIOR TO THE EXECUTION OF THIS AGREEMENT A COPY OF LENDER'S PRIVACY POLICY DOCUMENT IN ACCORDANCE WITH THE GRAMM-LEACH-BILEY ACT AND ALL OTHER REQUIREMENTS OF LAW.

10.25 Controlling Agreement. Borrower and Lender intend to conform strictly to the applicable usury laws. All agreements between Lender and Borrower (or any other party liable with respect to any indebtedness under this Agreement and the other Loan Documents) are hereby limited by the provisions of this Section which shall override and control all such agreements, whether now existing or hereafter arising and whether

written or oral. In no way, nor in any event or contingency (including but not limited to prepayment, default, demand for payment, or acceleration of the maturity of any obligation), shall the interest contracted for, charged, or received under the Notes or otherwise exceed the Maximum Rate. If, from any possible construction of any document, interest would otherwise be payable to Lender in excess of the Maximum Rate, any such construction shall be subject to the provisions of this section and such document shall be automatically reformed and the interest payable to Lender shall be automatically reduced to the Maximum Rate, without the necessity of execution of any amendment or new document. If Lender shall ever receive anything of value which is characterized as interest under applicable law and which would apart from this provision be in excess of the Maximum Rate, an amount equal to the amount which would have been excessive interest shall at the option of Lender, be refunded to Borrower or applied to the reduction of the principal amount owing hereunder in the inverse order of its maturity and not to the payment of interest. The right to accelerate maturity of the Notes or any other indebtedness does not include the right to accelerate any interest which has not otherwise accrued on the date of such acceleration, and Lender does not intend to charge or receive any unearned interest in the event of acceleration. All interest paid or agreed to be paid to Lender shall, to the extent permitted by applicable law, be amortized, prorated, allocated and spread throughout the full stated term (including any renewal or extension) of such indebtedness so that the amount of interest on account of such indebtedness does not exceed the Maximum Rate.

10.26 Business Loans. Borrower warrants and represents to Lender, and to all other holders of any debt evidenced by the Notes, that the loan evidenced by the Notes are and shall be for business, commercial, investment or other similar purpose and not primarily for personal, family, household or agricultural use.

10.27 Arbitration and Waiver of Jury Trial.

(a) THIS SECTION CONCERNS THE RESOLUTION OF ANY CONTROVERSIES OR CLAIMS BETWEEN THE BORROWER AND THE LENDER, WHETHER ARISING IN CONTRACT, TORT OR BY STATUTE, INCLUDING BUT NOT LIMITED TO CONTROVERSIES OR CLAIMS THAT ARISE OUT OF OR RELATE TO: (I) THIS AGREEMENT (INCLUDING ANY RENEWALS, EXTENSIONS OR MODIFICATIONS); OR (II) ANY DOCUMENT RELATED TO THIS AGREEMENT (COLLECTIVELY A "CLAIM").

(b) AT THE REQUEST OF THE BORROWER OR LENDER, ANY CLAIM SHALL BE RESOLVED BY BINDING ARBITRATION IN ACCORDANCE WITH THE FEDERAL ARBITRATION ACT (TITLE 9, U. S. CODE) (THE "ACT"). THE ACT WILL APPLY EVEN THOUGH THIS AGREEMENT PROVIDES THAT IT IS GOVERNED BY THE LAW OF A SPECIFIED STATE.

(c) ARBITRATION PROCEEDINGS WILL BE DETERMINED IN ACCORDANCE WITH THE ACT, THE APPLICABLE RULES AND

PROCEDURES FOR THE ARBITRATION OF DISPUTES OF JAMS OR ANY SUCCESSOR THEREOF ("JAMS"), AND THE TERMS OF THIS PARAGRAPH. IN THE EVENT OF ANY INCONSISTENCY, THE TERMS OF THIS PARAGRAPH SHALL CONTROL.

(d) THE ARBITRATION SHALL BE ADMINISTERED BY JAMS AND CONDUCTED IN ANY U. S. STATE WHERE REAL OR TANGIBLE PERSONAL PROPERTY COLLATERAL FOR THIS CREDIT IS LOCATED OR IF THERE IS NO SUCH COLLATERAL, IN TEXAS. ALL CLAIMS SHALL BE DETERMINED BY ONE ARBITRATOR; HOWEVER, IF CLAIMS EXCEED \$5,000,000, UPON THE REQUEST OF ANY PARTY, THE CLAIMS SHALL BE DECIDED BY THREE ARBITRATORS. ALL ARBITRATION HEARINGS SHALL COMMENCE WITHIN 90 DAYS OF THE DEMAND FOR ARBITRATION AND CLOSE WITHIN 90 DAYS OF COMMENCEMENT AND THE AWARD OF THE ARBITRATOR(S) SHALL BE ISSUED WITHIN 30 DAYS OF THE CLOSE OF THE HEARING. HOWEVER, THE ARBITRATOR(S), UPON A SHOWING OF GOOD CAUSE, MAY EXTEND THE COMMENCEMENT OF THE HEARING FOR UP TO AN ADDITIONAL 60 DAYS. THE ARBITRATOR(S) SHALL PROVIDE A CONCISE WRITTEN STATEMENT OF REASONS FOR THE AWARD. THE ARBITRATION AWARD MAY BE SUBMITTED TO ANY COURT HAVING JURISDICTION TO BE CONFIRMED AND ENFORCED.

(e) THE ARBITRATOR(S) WILL HAVE THE AUTHORITY TO DECIDE WHETHER ANY CLAIM IS BARRED BY THE STATUTE OF LIMITATIONS AND, IF SO, TO DISMISS THE ARBITRATION ON THAT BASIS. FOR PURPOSES OF THE APPLICATION OF THE STATUTE OF LIMITATIONS, THE SERVICE ON JAMS UNDER APPLICABLE JAMS RULES OF A NOTICE OF CLAIM IS THE EQUIVALENT OF THE FILING OF A LAWSUIT. ANY DISPUTE CONCERNING THIS ARBITRATION PROVISION OR WHETHER A CLAIM IS ARBITRABLE SHALL BE DETERMINED BY THE ARBITRATOR(S). THE ARBITRATOR(S) SHALL HAVE THE POWER TO AWARD LEGAL FEES PURSUANT TO THE TERMS OF THIS AGREEMENT.

(f) THIS SECTION DOES NOT LIMIT THE RIGHT OF THE BORROWER OR THE LENDER TO: (I) EXERCISE SELF-HELP REMEDIES, SUCH AS BUT NOT LIMITED TO, SETOFF; (II) INITIATE JUDICIAL OR NONJUDICIAL FORECLOSURE AGAINST ANY REAL OR PERSONAL PROPERTY COLLATERAL; (III) EXERCISE ANY JUDICIAL OR POWER OF SALE RIGHTS, OR (IV) ACT IN A COURT OF LAW TO OBTAIN AN INTERIM REMEDY, SUCH AS BUT NOT LIMITED TO, INJUNCTIVE RELIEF, WRIT OF POSSESSION OR APPOINTMENT OF A RECEIVER, OR ADDITIONAL OR SUPPLEMENTARY REMEDIES.

(g) BY AGREEING TO BINDING ARBITRATION, THE PARTIES IRREVOCABLY AND VOLUNTARILY WAIVE ANY RIGHT THEY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY CLAIM. FURTHERMORE,

WITHOUT INTENDING IN ANY WAY TO LIMIT THIS AGREEMENT TO ARBITRATE, TO THE EXTENT ANY CLAIM IS NOT ARBITRATED, THE PARTIES IRREVOCABLY AND VOLUNTARILY WAIVE ANY RIGHT THEY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF SUCH CLAIM. THIS PROVISION IS A MATERIAL INDUCEMENT FOR THE PARTIES ENTERING INTO THIS AGREEMENT.

REMAINDER OF PAGE INTENTIONALLY LEFT BLANK

IN WITNESS WHEREOF, the parties have executed this Agreement
as of the day and year first above written.

POWELL INDUSTRIES, INC.

By: _____
Name: _____
Title: _____

BORROWER

BANK OF AMERICA, N.A.

By: _____
Name: _____
Title: _____

LENDER

EXHIBIT "A"

FORM OF COMPLIANCE CERTIFICATE

This Compliance Certificate (the "Certificate") is delivered pursuant to the Loan Agreement dated as of October 25, 2001 (together with all amendments and modifications, if any, from time to time made thereto, the "LOAN AGREEMENT"), between POWELL INDUSTRIES, INC. (the "BORROWER") and Bank of America, N.A. ("LENDER"). Unless otherwise defined, terms used herein (including the exhibits hereto) have the meanings provided in the Loan Agreement.

The undersigned, being the duly elected, qualified and acting _____ of the Borrower, on behalf of the Borrower and solely in his or her capacity as an officer of the Borrower, hereby certifies and warrants that:

As of _____, _____:

Borrower was not in default of any of the provisions of the Loan Agreement during the period to which this Certificate relates;

Tangible Net Worth. Borrower's consolidated Tangible Net Worth was \$_____ as computed on Tangible Net Worth Exhibit attached hereto.

Fixed Charge Coverage Ratio. Borrower's consolidated Fixed Charge Coverage Ratio was _____ to 1.0 as computed on the Fixed Charge Coverage Exhibit attached hereto.

Funded Debt to EBITDA. Borrower's consolidated Funded Debt to EBITDA Ratio was _____ to 1.0 as computed on Funded Debt to EBITDA Exhibit attached hereto.

IN WITNESS WHEREOF, the undersigned has executed and delivered this certificate, this _____ day of _____, 20____.

POWELL INDUSTRIES, INC.

By: _____
Name: _____
Title: _____

TANGIBLE NET WORTH EXHIBIT

PERIOD ENDING -----

TANGIBLE NET WORTH (ON A CONSOLIDATED BASIS)

1.	Tangible Assets: value of Borrower's total assets (including leaseholds, leasehold improvements and reserves against assets, but EXCLUDING sum of all intangible assets as defined below*)	\$	-----
	(A) = Total Tangible Assets	\$	-----
2.	Total Liabilities:		
	current liabilities	\$	-----
	+ long term liabilities (including, but not limited to, accrued and deferred income taxes)	\$	-----
	(A) = Total Liabilities	\$	-----
3.	Non-Current Portion of Subordinated Liabilities	\$	-----
	TANGIBLE NET WORTH = 1(A) - 2(A) + 3	\$	-----
	Required Tangible Net Worth:	\$	-----

*the sum of goodwill, patents, trademarks, trade names, organization expense, unamortized debt discount and expense, capitalized or deferred research and development costs, deferred marketing expenses, and other like intangibles and monies due from affiliates, officers, directors, employees, shareholders, members or managers of Borrower.

FIXED CHANGE COVERAGE RATIO EXHIBIT

12 MONTH PERIOD ENDING -----

FIXED CHANGE COVERAGE RATIO (ON A CONSOLIDATED BASIS)

1.	EBITDA:		
		net income before income tax	\$ -----
	+	interest expense	\$ -----
	+	depreciation	\$ -----
	+	amortization	\$ -----
	+	other non-cash charges	\$ -----
		(A) = EBITDA	\$ -----
		Minus CASH TAXES PAID	\$ -----
		Equals	
		A1 = Cash Flow	\$ -----
2.		Current portion of long term debt (as of the date 12 months prior to the current financial statement)	\$ -----
	+	current portion of capitalized lease obligations	\$ -----
	+	interest expense on all obligations	\$ -----
	+	dividends paid	\$ -----
	+	CAPEX	\$ -----
		(A) = Fixed Charges	\$ -----
		DEBT SERVICE COVERAGE RATIO = 1(A)(1) / 2(A)	----- to 1.0
		Required ratio is:	1.25 to 1.0

FUNDED DEBT TO EBITDA RATIO EXHIBIT

12 MONTH PERIOD ENDING -----

FUNDED DEBT TO EBITDA RATIO (ON A CONSOLIDATED BASIS)

1. Funded Debt:
all outstanding liabilities for borrowed money \$ -----
+ other interest-bearing liabilities, including
current and long-term debt \$ -----

LESS

The non-current portion of Subordinated
Liabilities to Borrower's obligations to Lender (\$ -----)

(A) = Funded Debt \$ -----

2. EBITDA (from Fixed Charge Coverage Ratio
Exhibit): \$ -----

FUNDED DEBT TO EBITDA RATIO = 1(A) / 2: ----- to 1.0.

EXHIBIT "B"

PROMISSORY NOTE
(Revolving Note)

\$25,000,000.00

Houston, Texas

October 25, 2001

FOR VALUE RECEIVED, the undersigned ("MAKER") promises to pay to the order of BANK OF AMERICA, N.A. ("PAYEE"), at its banking quarters in Houston, Harris County, Texas, the sum of TWENTY-FIVE MILLION AND NO/100 DOLLARS (\$25,000,000.00), or so much thereof as may be advanced against this Note pursuant to the Amended and Restated Loan Agreement dated of even date herewith by and between Maker and Payee (as may be amended, modified, supplemented, or restated from time to time, the "LOAN AGREEMENT"), together with interest at the rates and calculated as provided in the Loan Agreement.

Reference is hereby made to the Loan Agreement for matters governed thereby, including, without limitation, certain events which will entitle the holder hereof to accelerate the maturity of all amounts due hereunder. Capitalized terms used but not defined in this Note shall have the meanings assigned to such terms in the Loan Agreement.

This Note is issued pursuant to, is the "REVOLVING NOTE" under, and is payable as provided in the Loan Agreement. This Note is a revolving note subject to the terms of the Loan Agreement, an amount borrowed, may be repaid and reborrowed. This Note is issued in renewal and replacement of certain indebtedness provided in Section 4.1(e) of the Loan Agreement. Subject to compliance with applicable provisions of the Loan Agreement, Maker may at any time pay the full amount or any part of this Note without the payment of any premium or fee, but such payment shall not, until this Note is fully paid and satisfied, excuse the payment as it becomes due of any payment on this Note provided for in the Loan Agreement.

THIS NOTE SHALL BE GOVERNED AND CONTROLLED BY THE LAWS OF THE STATE OF TEXAS WITHOUT GIVING EFFECT TO PRINCIPLES THEREOF RELATING TO CONFLICTS OF LAW; PROVIDED, HOWEVER, THAT CHAPTER 346 OF THE FINANCE CODE (WHICH REGULATES CERTAIN REVOLVING CREDIT LOAN ACCOUNTS AND REVOLVING TRIPARTY ACCOUNTS) SHALL NOT APPLY TO THIS NOTE.

POWELL INDUSTRIES, INC.

By: _____
Name: _____
Title: _____

EXHIBIT "C"

PROMISSORY NOTE
(Term Note)

\$5,714,285.68

Houston, Texas

October 25, 2001

FOR VALUE RECEIVED, the undersigned ("MAKER") promises to pay to the order of BANK OF AMERICA, N.A. ("PAYEE"), at its banking quarters in Houston, Harris County, Texas, the sum of FIVE MILLION SEVEN HUNDRED FOURTEEN THOUSAND TWO HUNDRED EIGHTY-FIVE AND 68/100 DOLLARS (\$5,714,285.68), or so much thereof as may be advanced against this Note pursuant to the Amended and Restated Loan Agreement dated of even date herewith by and between Maker and Payee (as may be amended, modified, supplemented, or restated from time to time, the "LOAN AGREEMENT"), together with interest at the rates and calculated as provided in the Loan Agreement.

Reference is hereby made to the Loan Agreement for matters governed thereby, including, without limitation, certain events which will entitle the holder hereof to accelerate the maturity of all amounts due hereunder. Capitalized terms used but not defined in this Note shall have the meanings assigned to such terms in the Loan Agreement.

This Note is issued pursuant to, is the "TERM NOTE" under, and is payable as provided in the Loan Agreement. This Note is issued in renewal and replacement of certain indebtedness provided in Section 4.1(e) of the Loan Agreement. Subject to compliance with applicable provisions of the Loan Agreement, Maker may at any time pay the full amount or any part of this Note without the payment of any premium or fee, but such payment shall not, until this Note is fully paid and satisfied, excuse the payment as it becomes due of any payment on this Note provided for in the Loan Agreement.

THIS NOTE SHALL BE GOVERNED AND CONTROLLED BY THE LAWS OF THE STATE OF TEXAS WITHOUT GIVING EFFECT TO PRINCIPLES THEREOF RELATING TO CONFLICTS OF LAW; PROVIDED, HOWEVER, THAT CHAPTER 346 OF THE FINANCE CODE (WHICH REGULATES CERTAIN REVOLVING CREDIT LOAN ACCOUNTS AND REVOLVING TRIPARTY ACCOUNTS) SHALL NOT APPLY TO THIS NOTE.

POWELL INDUSTRIES, INC.

By: _____
Name: _____
Title: _____

EXHIBIT "D"

JOINDER AGREEMENT

[Subsidiary], a corporation (the "SUBSIDIARY"), hereby agrees with (a) Bank of America, N.A. (the "LENDER"), under the Amended and Restated Loan Agreement dated as of October 25, 2001, between Powell Industries, Inc., a Nevada corporation and Lender (as modified from time to time, the "LOAN AGREEMENT," the capitalized terms of which are used herein unless otherwise defined herein), and (b) the other parties to the Guaranty dated as of even date therewith, executed in connection with the Loan Agreement, as follows:

In accordance with Section 3.11 of the Loan Agreement the Subsidiary hereby (a) joins the Guaranty, as a party thereto and assumes all the obligations of a Guarantor (as defined in the Guaranty) under the Guaranty, (b) agrees to be bound by the provisions of the Guaranty, and (c) confirms that, after joining the Guaranty, as set forth above, the representations and warranties set forth in the Loan Agreement and, the Guaranty with respect to the Subsidiary are true and correct in all material respects as of the date of this Joinder Agreement.

For purposes of notices under the Guaranty, the notice address for the Subsidiary is as follows:

Attention: -----
Telephone: () -----
Telecopy: () -----

THIS WRITTEN AGREEMENT AND THE CREDIT DOCUMENTS REPRESENT THE FINAL AGREEMENT AMONG THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES.

THERE ARE NO UNWRITTEN ORAL AGREEMENTS AMONG THE PARTIES.

IN WITNESS WHEREOF this Joinder Agreement is executed and delivered as of the _____ day of _____, 20__.

[SUBSIDIARY]

By: _____
Name: _____
Title: _____

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SUBSIDIARIES OF POWELL INDUSTRIES, INC.

NAME OF DOMESTIC SUBSIDIARY -----	STATE OF INCORPORATION -----
Delta-Unibus Corp.	Illinois
Powell Electrical Manufacturing Co.	Delaware
Powell Power Electronics Company, Inc.	Delaware
Powell-Process Systems, Inc. (Inactive)	Utah
Powell-ESCO Company	Texas
Unibus, Inc.	Ohio
Powell Energy Systems Inc. (Inactive)	Nevada
Transdyn Controls, Inc.	California
Traction Power Systems, Inc.	Delaware

NAME OF FOREIGN SUBSIDIARY -----	COUNTRY OF INCORPORATION -----
Powell Foreign Sales Corporation	Barbados, West Indies

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference of our report dated November 29, 2001, included in this Form 10-K, into the Powell Industries, Inc. previously filed Registration Statements on Forms S-8 File Nos. 333-81998 and 333-63740.

ARTHUR ANDERSEN LLP

Houston, Texas
January 30, 2002