POWELL INDUSTRIES INC
Form 10-Q
August 06, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2008

OR

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

Commission File Number 001-12488
Powell Industries, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**88-0106100**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
8550 Mosley Drive, Houston, Texas	**77075-1180**
(Address of principal executive offices)	*(Zip Code)*

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

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

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller Reporting Company o

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

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date.

At August 4, 2008, there were 11,396,887 outstanding shares of the registrant s common stock, par value $0.01 per share.

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PART I FINANCIAL INFORMATION

Item 1. ***Condensed Consolidated Financial Statements***

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

	June 30, 2008 (Unaudited)	September 30, 2007
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 6,835	$ 5,257
Accounts receivable, less allowance for doubtful accounts of $1,222 and $1,739, respectively	132,532	107,717
Costs and estimated earnings in excess of billings on uncompleted contracts	83,813	69,442
Inventories, net	71,588	47,789
Income taxes receivable	1,128	548
Deferred income taxes		1,898
Prepaid expenses and other current assets	2,464	4,235
Total Current Assets	298,360	236,886
Property, plant and equipment, net	63,006	67,401
Goodwill	1,084	1,084
Intangible assets, net	26,100	28,861
Other assets	6,524	6,783
Total Assets	$ 395,074	$ 341,015
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Current maturities of long-term debt and capital lease obligations	$ 8,040	$ 8,464
Income taxes payable	2,357	1,669
Accounts payable	64,160	65,225
Accrued salaries, bonuses and commissions	23,833	19,010
Billings in excess of costs and estimated earnings on uncompleted contracts	43,203	25,924
Accrued product warranty	7,480	5,787
Other accrued expenses	12,771	9,533
Total Current Liabilities	161,844	135,612
Long-term debt and capital lease obligations, net of current maturities	30,377	27,372
Deferred compensation	2,928	3,155
Postretirement benefit obligation	1,017	942
Other liabilities	111	87
Total Liabilities	196,277	167,168
Commitments and Contingencies (Note F)		
Minority Interest	142	298

Stockholders Equity:				
Preferred stock, par value $.01; 5,000,000 shares authorized; none issued				
Common stock, par value $.01; 30,000,000 shares authorized; 11,387,187 and 11,143,866 shares issued, respectively; 11,387,187 and 11,143,866 shares outstanding, respectively		114		111
Additional paid-in capital		24,821		16,854
Retained earnings		171,905		154,572
Accumulated other comprehensive income		2,084		2,557
Deferred compensation		(269)		(545)
Total Stockholders Equity		198,655		173,549
Total Liabilities and Stockholders Equity	$	395,074	$	341,015

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

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

	Three Months Ended		Nine Months Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Revenues	$ 164,123	$ 149,131	$ 471,577	$ 413,819
Cost of goods sold	129,121	121,705	379,188	343,538
Gross profit	35,002	27,426	92,389	70,281
Selling, general and administrative expenses	21,774	21,750	62,846	56,476
Income before interest, income taxes and minority interest	13,228	5,676	29,543	13,805
Interest expense	697	922	2,333	2,529
Interest income	(59)	(110)	(260)	(410)
Income before income taxes and minority interest	12,590	4,864	27,470	11,686
Income tax provision	4,753	1,724	10,118	4,154
Minority interest	(56)	(30)	(156)	79
Net income	$ 7,893	$ 3,170	$ 17,508	$ 7,453
Net earnings per common share:				
Basic	$ 0.70	$ 0.29	$ 1.56	$ 0.68
Diluted	$ 0.69	$ 0.28	$ 1.53	$ 0.67
Weighted average shares:				
Basic	11,310	11,082	11,233	11,023
Diluted	11,470	11,271	11,416	11,207

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

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

	Nine Months Ended	
	June 30, 2008	**June 30, 2007**
Operating Activities:		
Net income	$ 17,508	$ 7,453
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	6,095	5,337
Amortization	2,840	2,888
Stock-based compensation	2,456	1,078
Minority interest	(156)	79
Loss on disposition of assets	11	300
Bad debt expense	527	255
Deferred income taxes	1,928	293
Changes in operating assets and liabilities:		
Accounts receivable, net	(25,469)	(12,429)
Costs and estimated earnings in excess of billings on uncompleted contracts	(14,577)	(20,048)
Inventories	(23,940)	(12,403)
Prepaid expenses and other current assets	1,182	(5,171)
Other assets	(54)	(192)
Accounts payable and income taxes payable	(340)	5,197
Accrued liabilities	9,876	4,605
Billings in excess of costs and estimated earnings on uncompleted contracts	17,152	14,289
Deferred compensation	160	280
Other liabilities	98	(7)
Net cash used in operating activities	(4,703)	(8,196)
Investing Activities:		
Proceeds from sale of fixed assets		155
Purchases of property, plant and equipment	(1,969)	(11,111)
Net cash used in investing activities	(1,969)	(10,956)
Financing Activities:		
Borrowings on US revolving line of credit	155,413	66,066
Payments on US revolving line of credit	(143,113)	(51,531)
Borrowings on UK revolving line of credit		1,959
Payments on UK revolving line of credit	(1,596)	
Payments on UK term loan	(1,810)	(1,778)
Payments on industrial development revenue bonds	(400)	(400)
Payments on deferred acquisition payable	(5,563)	(5,197)
Proceeds from exercise of stock options	3,963	2,674
Tax benefit from exercise of stock options	1,401	785
Payments on short-term and other financing	(39)	(504)

Net cash provided by financing activities	8,256	12,074
Net increase (decrease) in cash and cash equivalents	1,584	(7,078)
Effect of exchange rate changes on cash and cash equivalents	(6)	439
Cash and cash equivalents at beginning of period	5,257	10,495
Cash and cash equivalents at end of period	$ 6,835	$ 3,856

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

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POWELL INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

A. OVERVIEW AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Overview

Powell Industries, Inc. (we, us, our, Powell or the Company) was incorporated in the state of Delaware in 2004 a successor to a Nevada company incorporated in 1968. The Nevada corporation was the successor to a company founded by William E. Powell in 1947, which merged into the Company in 1977. Our major subsidiaries, all of which are wholly-owned, include: Powell Electrical Systems, Inc.; Transdyn, Inc.; Powell Industries International, Inc.; Switchgear & Instrumentation Limited and Switchgear & Instrumentation Properties Limited.

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

Basis of Presentation

These unaudited condensed consolidated financial statements include the accounts of Powell and its wholly-owned subsidiaries. The financial position and results of operation of our Singapore joint venture, in which we hold a majority ownership, have also been consolidated. As a result of this consolidation, we record minority interest on our balance sheet for our joint venture partner s share of the equity in the joint venture. All significant intercompany accounts and transactions have been eliminated in consolidation.

These unaudited condensed consolidated financial statements have been prepared pursuant to the rules of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures, normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted pursuant to those rules and regulations. Powell believes that the disclosures made are adequate to make the information presented not misleading. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to fairly state the financial position, results of operations and cash flows with respect to the interim consolidated financial statements have been included. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year. The year-end balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

These unaudited condensed financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto of Powell and its subsidiaries included in Powell s Annual Report on Form 10-K for the year ended September 30, 2007, which was filed with the SEC on December 7, 2007.

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 amounts reported in the condensed consolidated financial statements and accompanying footnotes. The amounts recorded for insurance claims, warranties, legal, income taxes and other contingent liabilities require judgments regarding the amount of expenses that will ultimately be incurred. We base our estimates on historical experience and on various other assumptions, as well as the specific circumstances surrounding these contingent liabilities, in evaluating the amount of liability that should be recorded. Estimates may change as new events occur, additional information becomes available or operating environments change. Actual results may differ from our estimates. The most significant estimates used in the Company s financial statements affect revenue and cost recognition for construction contracts, the allowance for doubtful accounts, self-insurance, warranty accruals, income taxes and postretirement benefit obligations.

Foreign Currency Translation

The functional currency for our foreign subsidiaries is the local currency in which the entity is located. The financial statements of all subsidiaries with a functional currency other than the U.S. Dollar have been translated into U.S. Dollars in accordance with Statement of Financial Accounting Standards (SFAS) No. 52, *Foreign Currency Translation* (SFAS No. 52). All assets and liabilities of foreign operations are translated into U.S. Dollars using period-end exchange rates and all revenues and expenses are translated at average rates during the respective period. The U.S. Dollar results that arise from such translation, as well as exchange gains and losses on intercompany balances of a long-term investment nature, are included in the cumulative currency translation adjustments in accumulated other comprehensive income in stockholders equity.

Stock-Based Compensation

Under SFAS No. 123 (revised 2004), *Shared-Based Payment* (SFAS No. 123R), we use the Black-Scholes option pricing model to estimate the fair value of our stock options. We apply the expanded guidance under SFAS No. 123R for the development of our assumptions used as inputs for the Black-Scholes option pricing model for grants issued after November 1, 2005. Expected volatility is determined using historical volatilities based on historical stock prices for a period equal to the expected term. The expected volatility assumption is adjusted if future volatility is expected to vary from historical experience. The expected term of options represents the period of time that options granted are expected to be outstanding and falls between the options vesting and contractual expiration dates. The risk-free interest rate is based on the yield at the date of grant of a zero-coupon U.S. Treasury bond whose maturity period equals the option s expected term.

Accumulated Other Comprehensive Income

Accumulated other comprehensive income, which is included as a component of stockholders equity net of tax, includes unrealized gains or losses on currency translation adjustments in foreign consolidated subsidiaries.

Income Taxes

The Company uses an estimated annual effective income tax rate in recording its quarterly provision for income taxes in the various jurisdictions in which the Company operates. Statutory tax rate changes and other significant or unusual discrete items are recognized in the quarter in which they occur.

The Company adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109*, (FIN 48) on October 1, 2007. FIN 48 addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN 48, the Company may recognize the tax benefit from uncertain tax positions only if it is at least more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon settlement with the taxing authorities. FIN 48 also provides guidance on derecognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures.

Upon adoption of FIN 48, the Company recorded a $0.3 million increase in its tax reserves, an offsetting decrease of $0.2 million to retained earnings for uncertain tax positions and an increase in deferred income tax assets of $0.1 million. As of the adoption date, the Company had total tax reserves of approximately $1.2 million. This reserve includes an estimate of potential interest and penalties on estimated liabilities for uncertain tax positions, which are recorded as components of income tax expense, in the amount of $0.4 million as of October 1, 2007. Subsequent to adoption, no significant changes were made to the Company s tax reserve balances during the first nine months of fiscal 2008.

The Company s continuing policy is to recognize interest and penalties related to income tax matters as tax expense. The amount of interest and penalty expense recorded for the three and nine months ended June 30, 2008 was not material.

There was no material change in the net amount of unrecognized tax benefits in the three and nine months ended June 30, 2008. Management believes that it is reasonably possible that within the next 12 months the total unrecognized tax benefits will decrease by approximately 35% due to the expiration of certain statutes of limitations in various state and local jurisdictions.

The Company is subject to income tax in the United States, multiple state jurisdictions and a few foreign jurisdictions, primarily the United Kingdom. We remain open to examination by the Internal Revenue Service (IRS) for tax years 2003 through 2007, as these statutes of limitations have not yet expired. Powell does not consider any state in which it does business to be a major tax jurisdiction under FIN 48. The Company remains open to examination in the United

Kingdom since the acquisition of Switchgear & Instrumentation Limited in 2005.

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New Accounting Standards

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosure requirements about fair value measurements. SFAS No. 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. SFAS No. 157 is effective for our fiscal year beginning October 1, 2008. The Company is currently evaluating the impact of adopting SFAS No. 157.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 155* (SFAS No. 159). SFAS No. 159 permits entities to measure many financial instruments and certain other assets and liabilities at fair value, with unrealized gains and losses related to these financial instruments reported in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We have not elected to measure any additional assets or liabilities at fair value that are not already measured at fair value under existing standards. Therefore, the adoption of this standard has no impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141R). SFAS No. 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS No. 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS No. 141R is effective as of the beginning of an entity s fiscal year that begins after December 15, 2008, and will be adopted by us in the first quarter of fiscal 2010. We are currently unable to predict the potential impact, if any, of the adoption of SFAS No. 141R on future acquisitions.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of Accounting Research Bulletin 51* (SFAS No. 160). SFAS No. 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent s ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS No. 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 is effective as of the beginning of an entity s fiscal year that begins after December 15, 2008, and will be adopted by us in the first quarter of fiscal 2010. We are currently evaluating the potential impact of the adoption of SFAS No. 160 on our consolidated results of operations and financial condition.

In April 2008, the FASB issued FSP No. FAS 142-3, *Determination of the Useful Life of Intangible Assets* (FSP FAS 142-3). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used for purposes of determining the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142). FSP FAS 142-3 is intended to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141R and other accounting principles generally accepted in the United States. FSP FAS 142-3 is effective for fiscal years beginning after December 15, 2008, and will be adopted by us in the first quarter of fiscal 2010. Earlier application is not permitted. We are currently evaluating the potential impact, if any, of the adoption of FSP FAS 142-3 on our consolidated results of operations and financial condition.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS No. 162). SFAS No. 162 is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States of America. SFAS No. 162 will be effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. The Company is currently evaluating the potential impact, if any, of the adoption of SFAS No. 162 on our consolidated financial statements.

In June 2008, the FASB issued FSP No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (FSP EITF 03-6-1). FSP EITF 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and therefore need to be included in the earnings allocation in calculating earnings per share under the two-class method described in SFAS No. 138, *Earnings per Share*. FSP EITF 03-6-1 requires companies to treat unvested share-based payment awards that have non-forfeitable rights to dividends or dividend equivalents as a separate class of securities in calculating earnings per share. FSP EITF 03-6-1 is effective for fiscal years beginning after December

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15, 2008, and will be adopted by us in the first quarter of fiscal 2010. Earlier application is not permitted. The Company does not expect adoption of FSP EITF 03-6-1 to have a material effect on its earnings per share.

B. EARNINGS PER SHARE

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
Numerator:				
Net income	$ 7,893	$ 3,170	$ 17,508	$ 7,453
Denominator:				
Denominator for basic earnings per share-weighted average shares	11,310	11,082	11,233	11,023
Dilutive effect of stock options and restricted stock	160	189	183	184
Denominator for diluted earnings per share-adjusted weighted average shares with assumed conversions	11,470	11,271	11,416	11,207
Net earnings per share:				
Basic	$ 0.70	$ 0.29	$ 1.56	$ 0.68
Diluted	$ 0.69	$ 0.28	$ 1.53	$ 0.67

There were no options excluded from the computation of diluted earnings per share for the three and nine months ended June 30, 2008, respectively, as the average market prices of our common stock were greater than the options exercise prices. Excluded from the computation of diluted earnings per share for the three months ended June 30, 2007 were approximately 15,000 restricted stock units. For the nine months ended June 30, 2007, 12,000 shares of restricted stock and approximately 15,000 restricted stock units were excluded from the computation of diluted earnings per share. The restricted stock and restricted stock units were excluded from the computation because their effect was anti-dilutive.

C. DETAIL OF SELECTED BALANCE SHEET ACCOUNTS

Allowance for Doubtful Accounts

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
Balance at beginning of period	$ 1,035	$ 882	$ 1,739	$ 1,044
Adjustments to the allowance	90	339	526	255
Deductions for uncollectible accounts written off, net of recoveries	97	(75)	(1,036)	(169)
Increase due to foreign currency translation		7	(7)	23
Balance at end of period	$ 1,222	$ 1,153	$ 1,222	$ 1,153

Warranty Accrual

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
Balance at beginning of period	$ 6,866	$ 4,664	$ 5,787	$ 3,443
Adjustments to the accrual	1,710	1,817	4,135	4,021
Deductions for warranty charges	(1,099)	(1,201)	(2,406)	(2,237)
Increase due to foreign currency translation	3	28	(36)	81
Balance at end of period	$ 7,480	$ 5,308	$ 7,480	$ 5,308

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Inventories

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

	June 30, 2008	September 30, 2007
Raw materials, parts and subassemblies	$ 56,862	$ 31,914
Work-in-progress	14,726	15,875
Total inventories	$ 71,588	$ 47,789

Cost and Estimated Earnings on Uncompleted Contracts

The components of costs and estimated earnings and related amounts billed on uncompleted contracts are summarized below (in thousands):

	June 30, 2008	September 30, 2007
Costs incurred on uncompleted contracts	$ 556,396	$ 456,892
Estimated earnings	139,601	104,136
	695,997	561,028
Less: Billings to date	655,387	517,510
	$ 40,610	$ 43,518
Included in the accompanying balance sheets under the following captions:		
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 83,813	$ 69,442
Billings in excess of costs and estimated earnings on uncompleted contracts	(43,203)	(25,924)
	$ 40,610	$ 43,518

D. COMPREHENSIVE INCOME

Comprehensive income is as follows (in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2008	2007	2008	2007
Net income	$ 7,893	$ 3,170	$ 17,508	$ 7,453
Other comprehensive income, net of tax				
Unrealized gain on forward exchange contracts		151		151
Unrealized (loss) gain on foreign currency translation, net of tax	13	152	(473)	844
Comprehensive income	$ 7,906	$ 3,473	$ 17,035	$ 8,448

E. LONG-TERM DEBT

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

	June 30, 2008	September 30, 2007
US Revolver	$ 14,300	$ 2,000
UK Revolver	2,993	4,710
UK Term Loan	5,986	7,986
Deferred acquisition payable	9,512	15,075
Industrial development revenue bonds	5,600	6,000
Capital lease obligations	26	65
Subtotal long-term debt and capital lease obligations	38,417	35,836
Less current portion	(8,040)	(8,464)
Total long-term debt and capital lease obligations	$ 30,377	$ 27,372

US and UK Revolvers

On December 14, 2007, we amended our existing credit agreement (Amended Credit Agreement) with a major domestic bank and certain other financial institutions. This amendment to our credit facility was made to expand our US borrowing capacity by $16.5

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million to provide additional working capital support for the Company. The Amended Credit Agreement extended the expiration date to December 31, 2011.

The Amended Credit Agreement provides for a 1) $58.5 million revolving credit facility (US Revolver), 2) £4.0 million (pound sterling) (approximately $8.0 million) revolving credit facility (UK Revolver) and 3) £6.0 million (approximately $12.0 million) single advance term loan (UK Term Loan). The Amended Credit Agreement contains certain covenants with respect to minimum earnings (as defined), maximum capital expenditures, minimum tangible net worth and restrictions on our ability to pay dividends. Obligations are secured by the stock of our subsidiaries. The interest rate for amounts outstanding under the Amended Credit Agreement is a floating rate based upon the London interbank offered rate (LIBOR) plus a margin which can range from 0% to 1%, as determined by the Company s consolidated leverage ratio as defined within the Amended Credit Agreement. Expenses associated with the issuance of the original credit agreement are classified as deferred loan costs, totaled $576,000 and are being amortized as a non-cash charge to interest expense.

The US Revolver and the UK Revolver provide for the issuance of letters of credit which would reduce the amounts which may be borrowed under the respective revolvers. The amount available under this agreement was reduced by $17.2 million for our outstanding letters of credit at June 30, 2008. There was £1.5 million, or approximately $3.0 million, outstanding under the UK Revolver and $14.3 million outstanding under the US Revolver as of June 30, 2008. Amounts available under the US Revolver and the UK Revolver were approximately $27.0 million and $5.0 million, respectively, at June 30, 2008. The US Revolver and the UK Revolver expire on December 31, 2011.

UK Term Loan

The UK Term Loan provided £6.0 million, or approximately $12.0 million, for financing the July 2005 acquisition of Switchgear & Instrumentation Limited. Approximately £5.0 million, or approximately $10.0 million, of this facility was used to finance the portion of the purchase price of Switchgear & Instrumentation Limited that was denominated in pounds sterling. The remaining £1.0 million, or approximately $2.0 million, was utilized as the initial working capital for the surviving business of Switchgear & Instrumentation Limited that we operate (referred to as S&I). Quarterly installments of £300,000, or approximately $599,000, began March 31, 2006, with the final payment due on March 31, 2010. As of June 30, 2008, £3.0 million, or $6.0 million, was outstanding on the UK Term Loan. The interest rate for amounts outstanding under the UK Term Loan is a floating rate based upon LIBOR plus a margin which can range from 0% to 1% as determined by the Company s consolidated leverage ratio as defined within the Amended Credit Agreement.

Deferred Acquisition Payable

In connection with the acquisition of the Power/Vac® product line, $8.5 million of the total purchase price of $32.0 million was paid to General Electric Company (GE) at closing on August 7, 2006. The remaining balance of the purchase price of $23.5 million is payable in four installments every 10 months over the 40 months following the acquisition date. The deferred installments result in a discounted deferred purchase price payable of approximately $9.5 million at June 30, 2008, based on an assumed discount rate of 6.6%. The current portion of this deferred acquisition payable is $5.2 million and is included in the current portion of long-term debt.

Industrial Development Revenue Bonds

We borrowed $8.0 million in October 2001 through a loan agreement funded with proceeds from tax-exempt industrial development revenue bonds (Bonds). These Bonds were issued by the Illinois Development Finance Authority and were used for the completion of our Northlake, Illinois facility. Pursuant to the Bond issuance, a reimbursement agreement between the Company and a major domestic bank required an issuance by the bank of an irrevocable direct-pay letter of credit (Bond LC) to the Bonds trustee to guarantee payment of the Bonds principal and interest when due. The Bond LC is subject to both early termination and extension provisions customary to such agreements. While the Bonds mature in 2021, the reimbursement agreement requires annual redemptions of $400,000 that commenced on October 25, 2002. A sinking fund is used for the redemption of the Bonds. At June 30, 2008, the balance in the sinking fund was approximately $330,000 and was recorded in cash and cash equivalents. The Bonds bear interest at a floating rate determined weekly by the Bonds remarketing agent, which was the underwriter for the Bonds and is an affiliate of the bank. This interest rate was 1.75% per annum on June 30, 2008.

F. COMMITMENTS AND CONTINGENCIES

Letters of Credit and Bonds

Certain customers require us to post bank letter of credit guarantees or performance bonds issued by a surety. These guarantees and performance bonds assure our customers that we will perform under terms of our contracts with associated vendors and subcontractors. In the event of default, the customer may demand payment from the bank under a letter of credit or performance by the surety under a performance bond. To date, there have been no significant expenses related to either for the periods reported. We were contingently liable for secured and unsecured letters of credit of $34.6 million as of June 30, 2008. We also had performance bonds totaling approximately $134.3 million that were outstanding at June 30, 2008.

In March 2007, we renewed and amended our facility agreement (Facility Agreement) with a large international bank. The Facility Agreement provides S&I with 1) £10.0 million in bonds (approximately $20.0 million), 2) £2.5 million of forward exchange contracts and currency options (approximately $5.0 million) and 3) the issuance of bonds and entering into forward exchange contracts and currency options. At June 30, 2008, we had outstanding a total of £5.9 million, or approximately $11.8 million, of bonds under this Facility Agreement.

Litigation

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

Other Contingencies

We previously entered into a construction joint venture agreement to supply, install and commission a Supervisory Control and Data Acquisition System (SCADA) to monitor and control the distribution and delivery of fresh water to the City and County of San Francisco Public Utility Commission (Commission). The project was substantially completed and has been performing to the satisfaction of the Commission. However, various factors outside the control of the Company and its joint venture partner caused numerous changes and additions to the work that in turn delayed the completion of the project. The Commission has withheld liquidated damages and earned contract payments from the joint venture. The Company has made claims against the Commission for various matters, including compensation for extra work and delay to the project.

Despite attempts at mediation, the parties could not resolve their dispute, and a jury trial commenced in December 2006. On May 1, 2007, the jury delivered its verdict in favor of the joint venture, of which the Company is the managing partner, and determined that the Commission had breached its contract with the joint venture. The court has issued and filed its final judgment confirming the jury verdict and has also awarded pre-judgment interest and post-judgment interest. The judgment is subject to appeal, and the Commission filed a notice of appeal on June 27, 2008. However, based upon the judgment issued in favor of the Company, we anticipate that we will be able to recover the approximately $2.0 million recorded in the consolidated balance sheet at June 30, 2008.

G. STOCK-BASED COMPENSATION

Refer to the Company s Annual Report on Form 10-K for the fiscal year ended September 30, 2007 for a full description of the Company s existing stock-based compensation plans.

Restricted Stock Units

In October 2006, the Company granted approximately 107,000 restricted stock units (RSU s) with a fair value of $31.86 per RSU to certain officers and key employees. The fair value of the RSUs was based on the closing price of the Company s common stock as reported on the NASDAQ Global Market (NASDAQ) on February 23, 2007, which was the date stockholders approved our 2006 Equity Compensation Plan. The actual amount of RSUs earned will be based on cumulative earnings per share as reported relative to established goals for the remaining two and three year performance cycles which began October 1, 2006, and range from 0% to 150% of the target RSUs granted. The remaining vesting period ranges from two to three years. The RSUs do not have voting rights of common stock and the shares of common stock underlying the RSUs are not considered issued and outstanding. Approximately 21,000 of the RSUs granted in October 2006 expired as performance targets were not met.

In October 2007, the Company granted approximately 34,300 RSUs with a fair value of $37.89 per RSU to certain officers and key employees. The fair value of the RSUs was based on the closing price of the Company s common stock as reported on the NASDAQ on September 28, 2007. The actual amount of RSUs earned will be based on cumulative earnings per share as reported relative to established goals for the three year performance cycle which began October 1, 2007, and ranges from 0% to 150% of the target RSUs granted. The vesting period is three years.

The RSUs do not have voting rights of common stock and the shares of common stock underlying the RSUs are not considered issued and outstanding until actually issued.

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The Company recorded compensation expense of approximately $1.8 million related to the RSUs for the nine months ended June 30, 2008.

Stock Options

Stock option activity for the nine months ended June 30, 2008 was as follows:

	Stock Options	Weighted Average Exercise Price	Remaining Weighted Average Contractual Term (Years)	Aggregate Intrinsic Value (In thousands)
Outstanding at September 30, 2007	505,450	$17.44		
Granted				
Exercised	(224,950)	17.83		
Forfeited / Cancelled	(2,800)	17.85		
Outstanding at June 30, 2008	277,700	$17.13	3.16	$ 4,756
Exercisable at June 30, 2008	199,700	$16.62	2.84	$ 3,318

H. BUSINESS SEGMENTS

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

The tables below reflect certain information relating to our operations by business segment. All revenues represent sales from unaffiliated customers. The accounting policies of the business segments are the same as those described in the summary of significant accounting policies. Corporate expenses and certain assets are allocated to the operating business segments primarily based on revenues. The corporate assets are mainly cash and cash equivalents.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2008	2007	2008	2007
Revenues:				
Electrical Power Products	$ 156,516	$ 143,051	$ 451,699	$ 396,428
Process Control Systems	7,607	6,080	19,878	17,391
Total	$ 164,123	$ 149,131	$ 471,577	$ 413,819
Gross profit:				
Electrical Power Products	$ 32,044	$ 25,523	$ 85,346	$ 65,182
Process Control Systems	2,958	1,903	7,043	5,099
Total	$ 35,002	$ 27,426	$ 92,389	$ 70,281

Income before income taxes and minority interest:

Electrical Power Products	$ 11,244	$ 4,769	$ 25,283	$ 11,107
Process Control Systems	1,346	95	2,187	579
Total	$ 12,590	$ 4,864	$ 27,470	$ 11,686

	June 30, 2008	September 30, 2007
Identifiable tangible assets:		
Electrical Power Products	$ 336,365	$ 279,901
Process Control Systems	11,685	7,365
Corporate	19,641	23,460
Total	$ 367,691	$ 310,726

In addition, the Electrical Power Products business segment had approximately $1,084,000 and $1,084,000 of goodwill and $26,100,000 and $28,861,000 of intangible and other assets as of June 30, 2008 and September 30, 2007, respectively, and corporate

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had approximately $197,000 and $344,000 of deferred loan costs, as of June 30, 2008 and September 30, 2007, respectively, which are not included in identifiable tangible assets above.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the accompanying condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q and with our Annual Report on Form 10-K for the year ended September 30, 2007, which was filed with the Securities and Exchange Commission on December 7, 2007 and is available on the SEC s website at www.sec.gov. Any forward-looking statements made by or on our behalf are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Readers are cautioned that such forward-looking statements involve risks and uncertainties in that the actual results may differ materially from those projected in the forward-looking statements. Important factors that could cause actual results to differ include risks set forth in Item 1A. Risk Factors included in our Annual Report on Form 10-K.

Overview

We develop, design, manufacture and service custom engineered-to-order equipment and systems for the management and control of electrical energy and other critical processes. Headquartered in Houston, Texas, we serve the transportation, environmental, energy, industrial and utility industries. Our business operations are consolidated into two business segments: Electrical Power Products and Process Control Systems. Financial information related to these business segments is included in Note H of Notes to Condensed Consolidated Financial Statements.

On August 7, 2006, we purchased certain assets related to the American National Standards Institute (ANSI) medium voltage switchgear and circuit breaker business of General Electric Company s (GE) Consumer & Industrial unit located at its West Burlington, Iowa facility. We refer to the acquired product line as Power/Vac®. The relocation of the product line from Iowa to Houston, Texas and related activities was substantially completed in February 2008.

Overall, we continue to experience strong market demand for our products and services. Pricing in our markets has improved in conjunction with the overall increase in business activity. We believe this increase was a result of the petrochemical and utility markets entering into a new investment cycle. Customer inquiries, or requests for proposals, steadily strengthened throughout fiscal year 2007 and have remained strong into the first nine months of fiscal 2008. This increase in customer inquiries has led to increased orders and, accordingly, a very strong backlog of orders.

Results of Operations

Revenue and Gross Profit

Consolidated revenues increased $15.0 million to $164.1 million in the third quarter of fiscal 2008 compared to $149.1 million in the third quarter of fiscal 2007. Revenues increased as the Company has responded to strong market demand by increasing our capacity and throughput. For the third quarter of fiscal 2008, domestic revenues increased by 31.0% to $121.9 million compared to the third quarter of 2007. Total international revenues were $42.2 million in the third quarter of 2008 compared to $56.0 million in the third quarter of 2007. International revenues are primarily related to energy related investments, principally oil and gas projects. Gross profit for the third quarter of fiscal 2008, as compared to the third quarter of fiscal 2007, increased by approximately $7.6 million to $35.0 million as a result of improved pricing and productivity. Gross profit as a percentage of revenues increased to 21.3% in the third quarter of fiscal 2008, compared to 18.4% in the third quarter of fiscal 2007. This increase in gross profit as a percentage of revenues resulted from an increased production volume and improved pricing, as well as the favorable impact from the successful completion of certain jobs with margins that exceeded expectations. Gross profit was also positively impacted by approximately $0.5 million which consisted of $1.9 million related to the recovery of costs related to additional work on a project that was substantially completed in prior years, partially offset by approximately $1.4 million to record a 2006 charge for a liability related to a contract the Company entered into in fiscal 2006.

For the nine months ended June 30, 2008, consolidated revenues increased $57.8 million to $471.6 million compared to $413.8 million for the nine months ended June 30, 2007. Revenues increased primarily due to an increased sales effort and strong market demand. For the first nine months of fiscal 2008, domestic revenues increased by 27.1% to $341.8 million compared to the first nine months of fiscal 2007. Total international revenues were $129.8 million in the first nine months of 2008 compared to $145.0 million in the first nine months of fiscal 2007. Gross profit for the first nine months of fiscal 2008, as compared to the first nine months of fiscal

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2007, increased by approximately $22.1 million, to $92.4 million, as a result of improved pricing and productivity. Gross profit as a percentage of revenues increased to 19.6% for the first nine months of fiscal 2008, compared to 17.0% for the first nine months of fiscal 2007. This increase in gross profit as a percentage of revenues resulted from the increase in production volume and improved pricing, as well as the favorable impact from the successful completion of certain jobs with margins that exceeded expectations. Gross profit was also positively impacted by approximately $0.5 million which consisted of $1.9 million related to the recovery of costs related to additional work on a project that was substantially completed in prior years, partially offset by approximately $1.4 million to record a 2006 charge for a liability related to a contract the Company entered into in fiscal 2006.

Electrical Power Products

Our Electrical Power Products business segment recorded revenues of $156.5 million in the third quarter of fiscal 2008, compared to $143.1 million for the third quarter of fiscal 2007. In the third quarter of 2008, revenues from public and private utilities were approximately $41.3 million, compared to $35.8 million in the third quarter of fiscal 2007. Revenues from industrial and commercial customers totaled $105.2 million in the third quarter of 2008, an increase of $8.5 million compared to the third quarter of fiscal 2007. Municipal and transit projects generated revenues of $10.0 million in the third quarter of fiscal 2008 compared to $10.6 million in the third quarter of fiscal 2007.

Business segment gross profit, as a percentage of revenues, was 20.5% in the third quarter of fiscal 2008, compared to 17.8% in the third quarter of fiscal 2007. Excluding the direct impact of the Power/Vac® product line, business segment gross profit would have been approximately 21.5% in the third quarter of fiscal 2008. Cost of sales and gross profit were also negatively impacted by approximately $1.4 million to record a 2006 charge for a liability related to a contract the Company entered into in fiscal 2006.

For the nine months ended June 30, 2008, our Electrical Power Products segment recorded revenues of $451.7 million, compared to $396.4 million for the nine months ended June 30, 2007. In the first nine months of fiscal 2008, revenues from public and private utilities were approximately $137.4 million, compared to $133.2 million in the first nine months of fiscal 2007. Revenues from commercial and industrial customers totaled $292.4 million in the first nine months of fiscal 2008, an increase of $53.2 million compared to the first nine months of fiscal 2007. Municipal and transit projects generated revenues of $21.9 million in the first nine months of fiscal 2008, compared to $24.2 million in the first nine months of fiscal 2007.

For the nine months ended June 30, 2008, gross profit from the Electrical Power Products business segment, as a percentage of revenues, was 18.9%, compared to 16.4% for the nine months ended June 30, 2007. The increase in gross profit as a percentage of revenues is attributable to an increase in production volume and improved pricing, along with higher than anticipated margins being achieved on various jobs. Excluding the direct impact of the Power/Vac® product line, business segment gross profit would have been approximately 21.4% for the nine months ended June 30, 2008. Cost of sales and gross profit were also negatively impacted by approximately $1.4 million to record a 2006 charge for a liability related to a contract the Company entered into in fiscal 2006.

Process Control Systems

Our Process Control Systems business segment recorded revenues of $7.6 million in the third quarter of fiscal 2008, an increase from $6.1 million in the third quarter of fiscal 2007. Business segment gross profit, as a percentage of revenues, increased to 38.9% in the third quarter of fiscal 2008 compared to 31.3% in the third quarter of fiscal 2007. This increase resulted from a favorable mix of jobs and achieving synergies and increased efficiencies through regionalization of operations. Revenues and gross profit were also positively impacted by approximately $1.9 million resulting from the recovery of costs related to additional work on a project that was substantially completed in prior years.

For the nine months ended June 30, 2008, our Process Control Systems business segment recorded revenues of $19.9 million, up from $17.4 million for the nine months ended June 30, 2007. Business segment gross profit increased, as a percentage of revenues, to 35.4% for the first nine months of fiscal 2008, compared to 29.3% for the first nine months of fiscal 2007. This increase resulted from a favorable mix of jobs and achieving synergies and increased efficiencies through regionalization of operations. Revenues and gross profit were also positively impacted by approximately $1.9 million resulting from the recovery of costs related to additional work on a project that was substantially completed in prior years.

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

Consolidated Selling, General and Administrative Expenses

Consolidated selling, general and administrative expenses were the same for the three months ended June 30, 2008 and 2007, at $21.8 million, while as a percentage of revenues they decreased to 13.3% of revenues in the third quarter of fiscal 2008 compared to 14.6% of revenues in the third quarter of fiscal 2007. Selling, general and administrative expenses as a percentage of revenues decreased due to our ability to leverage our existing infrastructure to support our increased production volume.

For the nine months ended June 30, 2008, consolidated selling, general and administrative expenses decreased to 13.3% of revenues, compared to 13.6% of revenues for the nine months ended June 30, 2007. Selling, general and administrative expenses were $62.8 million for the first nine months of fiscal 2008 compared to $56.5 million for the first nine months of fiscal 2007. Selling, general and administrative expenses as a percentage of revenues decreased due to our ability to leverage our existing infrastructure to support our increased production volume. Selling, general and administrative expenses increased primarily due to increased selling and administrative costs related to the Power/Vac® product line and related operations and increased compensation costs, including cash and non-cash equity incentives, which are consistent with the increase in volume and earnings.

Interest Expense and Income

Interest expense was $0.7 million and $2.3 million for the three and nine months ended June 30, 2008, a decrease of approximately $0.2 million and $0.2 million compared to the three and nine months ended June 30, 2007, respectively. The decrease in interest expense is primarily due to lower interest rates.

Interest income was $0.1 million and $0.3 million for the three and nine months ended June 30, 2008 compared to $0.1 million and $0.4 million for the three and nine months ended June 30, 2007, respectively. This decrease resulted as cash was used to fund working capital during the first nine months of fiscal 2008.

Provision for Income Taxes

Our provision for income taxes reflects an effective tax rate on earnings before income taxes of 37.8% in the third quarter of fiscal 2008 compared to 35.4% in the third quarter of fiscal 2007. For the first nine months of fiscal 2008, our effective tax rate was 36.8% compared to 35.5% for the first nine months of fiscal 2007. Our effective tax rate is impacted by income generated in the United Kingdom, which has a lower statutory rate than the United States; however, the lower statutory rate will be offset by certain expenses that are not deductible for tax purposes in the United Kingdom, such as amortization of intangible assets. The effective tax rate has increased as a result of the relative shift in taxable income between domestic and international reporting jurisdictions, coupled with higher state income taxes in the United States.

In addition, adjustments to estimated tax accruals are analyzed and adjusted quarterly as events occur to warrant such change. Adjustments to tax accruals are a component of the effective tax rate.

Net Income

In the third quarter of fiscal 2008, we generated net income of $7.9 million, or $0.69 per diluted share, compared to $3.2 million, or $0.28 per diluted share, in the third quarter of fiscal 2007. For the nine months ended June 30, 2008, we recorded net income of $17.6 million, or $1.53 per diluted share, compared to $7.5 million, or $0.67 per diluted share, for the nine months ended June 30, 2007. As discussed above, we generated higher revenues and improved gross profits in all of our business segments, while leveraging our existing infrastructure to support our increased production volume.

Backlog

The order backlog at June 30, 2008 was $553.1 million, compared to $464.5 million at September 30, 2007 and $410.9 million at the end of the third quarter of fiscal 2007. New orders placed during the third quarter of fiscal 2008 totaled $187.6 million compared to $151.2 million in the third quarter of fiscal 2007.

Liquidity and Capital Resources

We have maintained a positive liquidity position. Working capital was $136.5 million at June 30, 2008, compared to $101.3 million at September 30, 2007. As of June 30, 2008, current assets exceeded current liabilities by 1.8 times and our debt to total capitalization ratio was 16.2%. The increase in working capital was driven primarily by the increase in accounts receivable and inventories

commensurate with the increase in business volume. We anticipate that we will continue to reinvest a portion of our cash generated from operations into working capital this year due to increased business activity because our progress payment terms on long-term projects with our customers extend beyond the payment terms with our suppliers. Working capital needs are anticipated to increase with growing levels of business activity. We believe that working capital, borrowing capabilities and cash generated from operations will be sufficient to finance the anticipated operational activities, capital improvements and debt repayments for the foreseeable future.

At June 30, 2008, we had cash and cash equivalents of $6.8 million, compared to $5.3 million at September 30, 2007. Long-term debt and capital lease obligations, including current maturities, totaled $38.4 million at June 30, 2008, compared to $35.8 million at September 30, 2007. The increase in borrowings was primarily due to the funding of working capital needs due to increased production volume, along with billing terms that are weighted toward significant completion of long-term projects. We have a $58.5 million revolving credit facility in the U.S. and an additional £4.0 million (approximately $8.0 million) revolving credit facility in the United Kingdom, both of which expire in December 2011. As of June 30, 2008, there was approximately $34.5 million borrowed under these lines of credit, which is included in our long-term debt. Amounts available under the U.S. revolving credit facility and the revolving credit facility in the United Kingdom were approximately $27.0 million and $5.0 million, respectively, at June 30, 2008. For further information regarding our debt, see Notes E and F of Notes to Condensed Consolidated Financial Statements.

Operating Activities

During the first nine months of fiscal 2008 and 2007, cash used in operating activities was approximately $4.7 million and $8.2 million, respectively. Cash flow from operations is primarily influenced by demand for our products and services and is negatively impacted as our progress payment terms on long-term projects with our customers extend beyond the payment terms with our suppliers. The payment of annual incentive compensation in the first nine months of fiscal 2008, along with our recent increase in volume and inventories needed for our existing backlog have resulted in negative cash flow from operations in the first nine months of fiscal 2008.

Investing Activities

Investments in property, plant and equipment during the first nine months of fiscal 2008 totaled approximately $2.0 million compared to $11.1 million during the first nine months of fiscal 2007. The majority of our capital expenditures in the first nine months of fiscal 2007 were used to continue the implementation of our new Enterprise Resource Planning System (ERP), and the expansion of two of our operating facilities as a result of integrating the Power/Vac® product line. These operating facility expansions were completed in fiscal 2007.

Financing Activities

Net cash provided by financing activities was approximately $8.3 million for the first nine months of fiscal 2008, compared to $12.1 million for the first nine months of fiscal 2007. Borrowings on the line of credit were used to fund operations and capital expenditures.

New Accounting Standards

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosure requirements about fair value measurements. SFAS No. 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. SFAS No. 157 is effective for our fiscal year beginning October 1, 2008. The Company is currently evaluating the impact of adopting SFAS No. 157.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 155* (SFAS No. 159). SFAS No. 159 permits entities to measure many financial instruments and certain other assets and liabilities at fair value, with unrealized gains and losses related to these financial instruments reported in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We have not elected to measure any additional assets or liabilities at fair value that are not already measured at fair value under existing standards. Therefore, the adoption of this standard has no impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141R). SFAS No. 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS No. 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS No. 141R is effective as of the beginning of an entity s fiscal year that begins after December 15, 2008, and will be adopted by us in the first quarter of fiscal 2010. We are currently unable to predict the potential impact, if any, of the adoption of SFAS No. 141R on future acquisitions.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of Accounting Research Bulletin 51* (SFAS No. 160). SFAS No. 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent s ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS No. 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 is effective as of the beginning of an entity s fiscal year that begins after December 15, 2008, and will be adopted by us in the first quarter of fiscal 2010. We are currently evaluating the potential impact of the adoption of SFAS No. 160 on our consolidated results of operations and financial condition.

In April 2008, the FASB issued FSP No. FAS 142-3, *Determination of the Useful Life of Intangible Assets* (FSP FAS 142-3). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used for purposes of determining the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142). FSP FAS 142-3 is intended to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141R and other accounting principles generally accepted in the United States. FSP FAS 142-3 is effective for fiscal years beginning after December 15, 2008, and will be adopted by us in the first quarter of fiscal 2010. Earlier application is not permitted. We are currently evaluating the potential impact, if any, of the adoption of FSP FAS 142-3 on our consolidated results of operations and financial condition.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS No. 162). SFAS No. 162 is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States of America. SFAS No. 162 will be effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. The Company is currently evaluating the potential impact, if any, of the adoption of SFAS No. 162 on our consolidated financial statements.

In June 2008, the FASB issued FSP No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (FSP EITF 03-6-1). FSP EITF 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and therefore need to be included in the earnings allocation in calculating earnings per share under the two-class method described in SFAS No. 138, *Earnings per Share*. FSP EITF 03-6-1 requires companies to treat unvested share-based payment awards that have non-forfeitable rights to dividends or dividend equivalents as a separate class of securities in calculating earnings per share. FSP EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008, and will be adopted by us in the first quarter of fiscal 2010. Earlier application is not permitted. The Company does not expect adoption of FSP EITF 03-6-1 to have a material effect on its earnings per share.

Critical Accounting Policies

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

There have been no material changes to our critical accounting policies as disclosed in our Annual Report on Form 10-K for the year ended September 30, 2007, except as follows:

Income Taxes We account for uncertain tax positions in accordance with FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of SFAS No. 109, Accounting for Income Taxes*, (FIN 48). FIN 48 prescribes a comprehensive model for how companies should recognize, measure, present and disclose in their financial statements uncertain tax positions taken or to be taken on a tax return. The income tax laws and regulations are voluminous and are often ambiguous. As such, we are required to make many subjective assumptions and judgments regarding our tax positions that can materially affect amounts recognized in the consolidated balance sheets and statements of operations.

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Outlook for Fiscal 2008

Our backlog of orders is approximately $553.1 million, the highest in our history. Customer inquiries, or requests for proposals, have steadily strengthened over the past three fiscal years. We anticipate that strong business activities in our principal markets will continue throughout 2008.

Backlog growth has been driven by strong market demand in petrochemical, utility and transportation markets. Additionally, our acquisitions in 2005 and 2006 have strengthened our strategic position in the electrical power products market and expanded our product offering in the utility, industrial and commercial markets. We enhanced our capabilities with the addition of medium and low voltage IEC switchgear, intelligent motor control systems and power distribution solutions. The Power/Vac® switchgear product line acquired from GE has a large installed base and a broad customer base across utility, industrial and commercial markets. These acquisitions provided us with a significantly broader product portfolio and enhanced our capabilities to meet market demands around the world. We also significantly enhanced our ability to reach a broader market and gain access to new customers with a long-term commercial alliance with GE, which obligates GE to purchase from us their requirements for ANSI medium voltage switchgear and circuit breakers and other related equipment and components. The costs and effort to relocate the Power/Vac® product line have negatively impacted our earnings to date, and we expect this to continue through 2008 as we continue the integration efforts. We believe that our expanded product portfolio and new channels to new markets have strengthened us in our Electrical Power Products business segment and positioned us for continued growth.

We anticipate that we will continue to reinvest our cash generated from operations to support our increased business activity and the acquired Power/Vac® product line. Working capital needs are anticipated to increase with growing levels of business activity. We believe that cash available and borrowing capacity should be sufficient to finance anticipated operational activities, capital improvements and debt repayments for the foreseeable future.

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

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

We are subject to market risk resulting from changes in interest rates related to our floating rate bank credit facility. At June 30, 2008, $36.0 million was outstanding, bearing interest at approximately 4.47% per year. A hypothetical 100 basis point increase in variable interest rates would result in a total annual increase in interest expense of approximately $360,000. While we do not currently have any derivative contracts to hedge our exposure to interest rate risk, we have in the past and may in the future enter into such contracts. Overall, we believe that changes in interest rates will not have a material near-term impact on our future earnings or cash flows. During each of the past three years, we have not experienced a significant effect on our business due to changes in interest rates.

We have significant operations that expose us to currency risk in the British Pound Sterling and to a lesser extent the Euro. We believe the exposure to the effects that fluctuating foreign currencies have on our consolidated results of operations is limited because the foreign operations primarily invoice customers and collect obligations in their respective currencies or U.S. Dollars and a portion of our credit facility is payable in British Pounds Sterling. Additionally, expenses associated with these transactions are generally contracted and paid for in the same local currencies. While we do not currently have any derivative contracts to hedge our exposure to foreign currency exchange risk, we have in the past and may in the future enter into such contracts.

We are subject to market risk from fluctuating market prices of certain raw materials. While such materials are typically available from numerous suppliers, commodity raw materials are subject to price fluctuations. We attempt to pass along such commodity price increases to our customers on a contract-by-contract basis to avoid a negative effect on profit margin. While we may do so in the future, we have not currently entered into any derivative contracts to hedge our exposure to commodity risk. We continue to experience price increases with some of our key raw materials. Competitive market pressures may limit our ability to pass these cost increases to our customers, thus negatively impacting our earnings. Fluctuations in commodity prices may have a material impact on our future earnings and cash flows.

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Item 4. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures

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

Management, with the participation of our CEO and CFO, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on such evaluation, our CEO and CFO have each concluded that as of June 30, 2008, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms and that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosures.

Internal Control over Financial Reporting

During the first nine months of fiscal 2008, management continued the domestic ERP implementation which began in fiscal 2006. This conversion has involved various changes to internal processes and control procedures over financial reporting. However, the basic internal controls over financial reporting have not materially changed.

Design and Operation of Control Systems

Our management, including the CEO and CFO, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system s objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and breakdowns can occur because of simple error or mistakes. Controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or personnel, or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II OTHER INFORMATION

Item 1. ***Legal Proceedings***

We previously entered into a construction joint venture agreement to supply, install and commission a Supervisory Control and Data Acquisition System (SCADA) to monitor and control the distribution and delivery of fresh water to the City and County of San Francisco Public Utility Commission (Commission). The project was substantially completed and has been performing to the satisfaction of the Commission. However, various factors outside of the control of the Company and its joint venture partner caused numerous changes and additions to the work that in turn delayed the completion of the project. The Commission has withheld liquidated damages and earned contract payments from the joint venture. The Company has made claims against the Commission for various matters, including compensation for extra work and delay to the project.

Despite attempts at mediation, the parties could not resolve their dispute, and a jury trial commenced in December 2006. On May 1, 2007, the jury delivered its verdict in favor of the joint venture, of which the Company is the managing partner, and determined that the Commission had breached its contract with the joint venture. The court has issued and filed its final judgment confirming the jury

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verdict and has also awarded pre-judgment interest and post-judgment interest. The judgment is subject to appeal, and the Commission filed a notice of appeal on June 27, 2008. However, based upon the judgment issued in favor of the Company, we anticipate that we will be able to recover the approximately $2.0 million recorded in the condensed consolidated balance sheet at June 30, 2008.

Item 1A. *Risk Factors*

There are no material changes from the risk factors previously disclosed in the Company s Annual Report on Form 10-K for the fiscal year ended September 30, 2007.

Item 6. *Exhibits*

Number	Description of Exhibits
3.1	Certificate of Incorporation of Powell Industries, Inc. filed with the Secretary of State of the State of Delaware on February 11, 2004 (filed as Exhibit 3.1 to our Form 8-A/A filed November 1, 2004, and incorporated herein by reference).
3.2	By-laws of Powell Industries, Inc. (filed as Exhibit 3.2 to our Form 8-A/A filed November 1, 2004, and incorporated herein by reference).
*31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a).
*31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a).
*32.1	Certification of Chief Executive Officer Pursuant to Section 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*32.2	Certification of Chief Financial Officer Pursuant to Section 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith

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SIGNATURES

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

	POWELL INDUSTRIES, INC. (Registrant)
August 6, 2008 Date	By: /s/ Thomas W. Powell Thomas W. Powell Chairman and Chief Executive Officer (Principal Executive Officer)
August 6, 2008 Date	By: /s/ Don R. Madison Don R. Madison Executive Vice President Chief Financial and Administrative Officer (Principal Financial and Accounting Officer)

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