POWELL INDUSTRIES INC
Form 10-K
December 10, 2008

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

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended September 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 *(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 check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. o Yes þ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. o Yes þ No

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 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. o

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):

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of the last business day of the most recently completed second fiscal quarter, March 31, 2008, was approximately $443,610,000.

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

At December 3, 2008, there were 11,403,687 outstanding shares of the registrant s common stock, par value $0.01 per share.

Documents Incorporated By Reference

Portions of the registrant s definitive Proxy Statement for the 2009 annual meeting of stockholders to be filed not later than 120 days after September 30, 2008, are incorporated by reference into Part III of this Form 10-K.

POWELL INDUSTRIES, INC.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS; RISK FACTORS

Forward-Looking Statements

This Annual Report on Form 10-K (Annual Report) includes forward-looking statements based on the Company s current expectations, which are subject to risks and uncertainties. Forward-looking statements include information concerning future results of operations and financial condition. Statements that contain words such as believes, expects, anticipates, intends, estimates, continue, should, could, may, plan, project, predict, v may be forward-looking statements. These forward-looking statements are subject to risks and uncertainties, and many factors could affect the future financial results and condition of the Company. Factors that may have a material effect on our revenues, expenses and operating results include adverse business or market conditions, the Company s ability to secure and satisfy customers, our customers financial condition and their ability to secure financing to support current and future projects, the availability and cost of materials from suppliers, adverse competitive developments and changes in customer requirements as well as those circumstances discussed under Item 1A. Risk Factors, below. Accordingly, actual results may differ materially from those expressed or implied by the forward-looking statements contained in this Annual Report. 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.

The forward-looking statements contained in this Annual Report are based on current assumptions that the Company will continue to develop, market, manufacture and ship products and provide services on a competitive and timely basis; that competitive conditions in the Company s markets will not change in a materially adverse way; that the Company will accurately identify and meet customer needs for products and services; that the Company will be able to retain and hire key employees; that the Company s products and capabilities will remain competitive; that the financial markets and banking systems will stabilize and availability of credit will continue; that risks related to shifts in customer demand are minimized and that there will be no material adverse change in the operations or business of the Company. Assumptions relating to these factors involve judgments that are based on available information, which may not be complete, and are subject to changes in many factors beyond the control of the Company that can materially affect results. Because of these and other factors that affect our operating results, past financial performance should not be considered an indicator of future performance, and investors should not use historical trends to anticipate results or trends in future periods.

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PART I

Item 1. *Business*

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.

Our website address is www.powellind.com. We make available, free of charge on or through our website, copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (SEC). Paper or electronic copies of such material may also be requested by contacting the Company at our corporate offices.

On December 13, 2005, we announced a change in our fiscal year-end from October 31 to September 30, effective September 30, 2006. The change was designed to align our financial reporting with calendar quarters and to reduce the impact holidays have on our reporting timeline. As a result, the results of operations and cash flows for fiscal year ended September 30, 2007, will be compared to the 11-month period ended September 30, 2006.

Our business operations are consolidated into two business segments: Electrical Power Products and Process Control Systems. Approximately 73%, 66% and 70% of our consolidated revenues for the fiscal years ended September 30, 2008, 2007 and 2006, respectively, were generated in the United States of America. Approximately 86% of our long-lived assets were located in the United States at September 30, 2008, with the remaining balance located primarily in the United Kingdom. Financial information related to our business and geographical segments is included in Note L of Notes to Consolidated Financial Statements.

On August 7, 2006, we purchased certain assets related to the manufacturing of American National Standards Institute (ANSI) medium voltage switchgear and circuit breaker business of General Electric Company s (GE) Consumer & Industrial unit for $32.0 million, not including expenses. The purchase price was paid from existing cash and short-term marketable securities and from borrowings under our revolving credit agreement. In connection with the acquisition, we entered into a 15-year supply agreement with GE pursuant to which GE will purchase from the Company (subject to limited conditions for exceptions) all of its requirements for ANSI medium voltage switchgear and circuit breakers and other related equipment and components. We also agreed to purchase certain of our required product components and subassemblies from GE. In addition, GE agreed to provide services related to transitioning the product line from West Burlington, Iowa, to the Company s facilities in Houston, Texas. The relocation of the product line, including all related product technology and design formation, engineering, manufacturing and related activities, was completed during fiscal 2008. We refer to the acquired product line herein as Power/Vac®. The operating results of Power/Vac® are included in our Electrical Power Products business segment from the acquisition date. For further information on Power/Vac®, see Note D of Notes to Consolidated Financial Statements.

On July 14, 2006, we acquired certain assets and hired the service and administrative employees of an electrical services company in Louisiana for approximately $1.5 million. The purchase price was paid from existing cash and short-term marketable securities. The operating results of this acquisition are included in our Electrical Power Products business segment from the acquisition date. For further information on this acquisition, see Note D of Notes to Consolidated Financial Statements.

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On July 4, 2005, we acquired selected assets and assumed certain operating liabilities and contracts of Switchgear & Instrumentation Limited in the United Kingdom. We refer to the acquired business herein as S&I. The operating results of S&I are included in our Electrical Power Products business segment from that date. Total consideration paid for S&I was approximately $19.2 million, of which approximately $10.3 million of the purchase price was funded from existing cash and investments and the balance was provided through additional debt financing.

Electrical Power Products

Our Electrical Power Products business segment designs, develops, manufactures and markets engineered-to-order electrical power distribution and control systems designed (1) to distribute, monitor and control the flow of electrical energy and (2) to provide protection to motors, transformers and other electrically-powered equipment. Our principal products include power control room packages, distribution switchgear, offshore modules, motor control centers and bus duct systems. These products are designed for application voltages ranging from 480 volts to in excess of 38,000 volts and are used in the transportation, industrial and utility markets.

On August 7, 2006, we purchased the Power/Vac® product line described above and in Management s Discussion and Analysis of Financial Condition and Results of Operations Overview. We believe that this acquisition strengthens our strategic position in the electrical power products business and allows us to reach new markets and a broader base of customers. In conjunction with the Power/Vac® acquisition, Powell entered into a long-term commercial alliance with GE Consumer & Industrial whereby Powell became the exclusive supplier of ANSI medium voltage switchgear to GE.

On July 14, 2006, we acquired certain assets and hired the service and administrative employees of an electrical services company in Louisiana. This acquisition allowed us to extend sales and services to the Eastern Gulf Coast Region.

On July 4, 2005, we acquired selected assets and assumed certain operating liabilities and contracts of Switchgear & Instrumentation Limited, as described above and in Management s Discussion and Analysis of Financial Condition and Results of Operations Overview. S&I s primary manufacturing facility is located in the United Kingdom. This acquisition is part of the Company s overall strategy to increase its international presence. S&I affords Powell the opportunity to serve customers with products and solutions covering a wider range of electrical standards and opens new geographic markets previously closed due to our previous lack of product portfolio that met international electrical design and test standards. The fit, culture and market position of Powell and S&I, compare favorably as both have similar reputations in engineered-to-order solutions.

Customers and Markets

This business segment s principal products are designed for use by and marketed to technologically sophisticated users of large amounts of electrical energy that typically have a need for complex combinations of electrical components and systems. Our customers include oil and gas producers, oil and gas pipelines, refineries, petrochemical plants, electrical power generators, public and private utilities, co-generation facilities, mining/metals, pulp and paper plants, transportation systems, governmental agencies and other large industrial customers.

Products and services are principally sold directly to the end-user or to an engineering, procurement and construction (EPC) firm on behalf of the end-user. Each project is specifically tailored to meet the exact specifications and requirements of the individual customer. Powell s expertise is in the engineering and packaging of the various systems into a single deliverable. We market and sell our products and services to a wide variety of customers, markets and geographic regions. During 2006, we did not have any one customer that accounted for more than 10% of annual segment revenues. However, as a result of the supply agreement that we entered into on August 7, 2006, with GE, our revenues from GE were approximately $100 million and $82 million in fiscal 2007 and fiscal 2008, respectively, or approximately 18% and 13% of our consolidated revenues for these periods. Aside from GE, with whom we have a long-term supply agreement, we do not believe that the loss of any specific customer would have a material adverse effect on our business. We could be adversely impacted by a significant reduction in business volume from a particular industry which we currently serve. GE has become a significant customer and has accounted for, and could continue to account for, more than 10% of the annual revenues of this business segment as a result of the supply agreement that we entered into on August 7, 2006.

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During each of the past three fiscal years, no one country outside of the United States accounted for more than 10% of segment revenues. For information on the geographic areas in which our consolidated revenues were recorded in each of the past three fiscal years, see Note L of Notes to Consolidated Financial Statements.

Competition

Our Electrical Power Products business segment operates in a competitive market where competition for each project varies. The competition may include large multinational firms as well as small regional low-cost providers, depending upon the type of project. This business segment s products and systems are engineered-to-order and packaged to meet the exact specifications of our customers. Many repeat customers seek our involvement in finding solutions to specific project-related issues, including physical size, rating, application, installation and commissioning. We consider our engineering, manufacturing and service capabilities vital to the success of our business, and believe our technical and project management strengths, together with our responsiveness and flexibility to the needs of our customers, give us a competitive advantage in our markets. Ultimately, our competitive position is dependent upon our ability to provide quality custom engineered-to-order products and systems on a timely basis at a competitive price.

Backlog

Backlog represents the amount of revenue that we expect to realize from work to be performed on uncompleted contracts, including new contractual agreements on which work has not begun. Orders in the Electrical Power Products business segment backlog at September 30, 2008, totaled $493.0 million compared to $434.9 million at September 30, 2007. We anticipate that approximately $475.8 million of our ending 2008 backlog will be fulfilled during our fiscal year 2009. Orders included in our backlog are represented by customer purchase orders and contracts, which we believe to be firm. However, conditions outside of our control have caused us to experience some customer delays and cancellations of certain projects in the past.

Raw Materials and Suppliers

The principal raw materials used in Electrical Power Products operations include steel, copper, aluminum and various electrical components. These raw material costs represented approximately 49% of our revenues in fiscal 2008. Unanticipated increases in raw material requirements, disruptions in supplies or price increases could increase production costs and adversely affect profitability.

We purchase certain key electrical components on a sole-sourced basis and maintain a qualification and performance monitoring program to control risk associated with sole-sourced items. Changes in our design to accommodate similar components from other suppliers could be implemented to resolve a supply problem related to a sole-sourced component. In this circumstance, supply problems could result in short-term delays in our ability to meet commitments to our customers. We believe that sources of supply for raw materials and components are generally sufficient, and we have no reason to believe a shortage of raw materials will cause any material adverse impact during fiscal year 2009. While we are not dependent on any one supplier for a material amount of our raw materials, we are highly dependent on our suppliers in order to meet commitments to our customers. We did not experience significant or unusual problems in the purchase of key raw materials and commodities in the past three years.

Inflation

This business segment is subject to the effects of changing prices. During the last three fiscal years, we experienced increased costs for certain commodities, in particular steel, copper and aluminum products, which are used in the production of our products. While the cost outlook for commodities used in the production of our products is not certain, we believe we can manage these inflationary pressures through contract pricing adjustments and by actively pursuing internal cost reduction efforts. We did not enter into any derivative contracts to hedge our exposure to commodity price changes in fiscal years 2008, 2007 or 2006.

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Employees

At September 30, 2008, the Electrical Power Products business segment had 2,370 full-time employees located in the United States, the United Kingdom and Singapore. Our employees are not represented by unions, and we believe that our relationship with our employees is good.

Research and Development

This business segment s research and development activities are directed toward the development of new products and processes as well as improvements in existing products and processes. Research and development expenditures were $6.3 million, $5.4 million and $3.7 million in fiscal years 2008, 2007 and 2006, respectively.

Intellectual Property

While we are the holder of various patents, trademarks and licenses relating to this business segment, we do not consider any individual intellectual property to be material to our consolidated business operations.

Process Control Systems

Our Process Control Systems business segment designs and delivers technology solutions that help our customers manage their critical transportation, environmental, energy, industrial and utility facilities. We offer a diverse set of professional services that specialize in the design, integration and support of high-availability control, security/surveillance and communications systems. These systems allow our customers to safely and effectively manage their vital processes and facilities.

Customers and Markets

This business segment s products and services are principally sold directly to end-users in the transportation, environmental, energy and industrial sectors. We may be dependent, from time to time, on one specific contract or customer for a significant percentage of our revenues due to the nature of large, long-term construction projects common to this business segment. In each of the past three fiscal years, we had revenues with one or more customers that individually accounted for more than 10% of our segment revenues. Revenues from these customers totaled $5.4 million, $5.9 million and $7.9 million in fiscal 2008, 2007 and 2006, respectively. Our contracts often represent large-scale, single-need projects with an individual customer. By their nature, these projects are typically nonrecurring for those customers, and multiple and/or continuous requirements of similar magnitude with the same customer are rare. Thus, the inability to successfully replace a completed large contract with one or more contracts of combined similar magnitude could have a material adverse effect on segment revenues.

During each of the past three fiscal years, the United States is the only country that accounted for more than 10% of segment revenues. For information on the geographic areas in which our consolidated revenues were recorded in each of the past three fiscal years, see Note L of Notes to Consolidated Financial Statements.

Competition

This business segment operates in a competitive market where competition for each contract varies. The competition may include large multinational firms as well as small regional low-cost providers, depending upon the type of system and customer requirements.

Our customized systems are designed to meet the specifications of our customers. Each order is designed, delivered and installed to the unique requirements of the particular application. We consider our engineering, systems integration, installation and support capabilities vital to the success of our business. We believe our technical software products and project management strengths, together with our responsiveness, our flexibility, financial strength and our over 30-year history of supporting mission-critical systems give us a competitive advantage in our markets.

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Backlog

Orders in the Process Control Systems business segment backlog at September 30, 2008, totaled $25.5 million compared to $29.6 million at September 30, 2007. We anticipate that approximately $19.6 million of our year-end 2008 backlog will be fulfilled during our 2009 fiscal year. Orders included in our backlog are represented by customer purchase orders and contracts, which we believe to be firm. We have not experienced a material amount of canceled orders during the past three fiscal years.

Employees

The Process Control Systems business segment had 116 full-time employees at September 30, 2008, all located in the United States. Our employees are not represented by unions, and we believe that our relationship with our employees is good.

Research and Development

The majority of research and development activities of this business segment are directed toward the development of our software suites for the management and control of the critical processes and facilities of our customers. Non-project research and development expenditures were $0.3 million, $0.3 million and $0.6 million in fiscal years 2008, 2007 and 2006, respectively.

Intellectual Property

While we are the holder of various copyrights related to software for this business segment, we do not consider any individual intellectual property to be material to our consolidated business operations.

Item 1A. *Risk Factors*

Our business is subject to a variety of risks and uncertainties, including, but not limited to, the risks and uncertainties described below. While we believe that the risks and uncertainties described below are the most significant risks and uncertainties facing our business, they are not the only ones facing our company. Additional risks and uncertainties not known to us or not described below may also impair our business operations. If any of the following risks actually occur, our business, financial condition and results of operations could be harmed and we may not be able to achieve our goals. This Annual Report also includes statements reflecting assumptions, expectations, projections, intentions or beliefs about future events that are intended as forward-looking statements under the Private Securities Litigation Reform Act of 1995 and should be read in conjunction with the discussion under Forward-Looking Statements, above.

The current worldwide financial crisis and economic downturn may likely affect our customer base and suppliers, and could materially affect our backlog and profits.

The current worldwide financial crisis has reduced the availability of liquidity and credit, including letters of credit and surety bonds, to fund or support the continuation and expansion of industrial business operations worldwide. Recent financial market conditions have resulted in significant write-downs of asset values by financial institutions, and have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions and, in some cases, to fail. Many lenders and institutional investors have reduced and, in some cases, ceased to provide funding to borrowers. Continued disruption of the credit markets could adversely affect our customers or our own letter of credit and surety bonding capacity, which support the continuation and expansion of projects worldwide and could result in contract cancellations or suspensions or project delays. If one or more of our suppliers or subcontractors experiences difficulties that result in a reduction or interruption in supply to us, or they fail to meet any of our manufacturing requirements, our business could be adversely impacted until we are able to secure alternative sources, if any. Furthermore, our ability to expand our business would be limited if, in the future, we are unable to increase our bonding capacity or our credit facility on favorable terms or at all. These disruptions could lead to a lower demand for our services and could materially impact our business, financial condition and results of operations or the trading price of our common stock.

The U.S. government s proposed plan to address the financial crises may not be effective to stabilize the financial markets or to increase the availability of credit.

In response to the financial crises affecting the banking system and financial markets and going concern threats to investment banks and other financial institutions, legislation was enacted that provides the U.S. Treasury the authority to, among other things, purchase mortgage-backed and other securities from financial institutions for the purpose of stabilizing the financial markets. Since enactment of the legislation, the capital markets have continued to experience extreme levels of volatility and the credit markets have not yet shown any significant increase in the availability of credit. There can be no assurance what impact this legislation ultimately will have on the financial markets. If actions taken pursuant to the legislation are not successful in stabilizing the financial markets and increasing the availability of credit, it could have a material adverse effect on our business, financial condition and results of operations or the trading price of our common stock.

Our industry is highly competitive.

Many of our competitors are significantly larger and have substantially greater resources than we do. Competition in the industry depends on a number of factors, including price. Certain of our competitors may have lower cost structures and may, therefore, be able to provide their products or services at lower prices than we are able to provide. We cannot be certain that our competitors will not develop the expertise, experience and resources to provide services that are superior in both price and quality to our services. Similarly, we cannot be certain that we will be able to maintain or enhance our competitive position within our industry, maintain our customer base at current levels or increase our customer base.

International and political events may adversely affect our operations.

International sales accounted for approximately 27% of our revenues in fiscal 2008, including sales from our operations in the United Kingdom. We primarily operate in developed countries with historically stable operating and fiscal environments. Our consolidated results of operations, cash flows and financial condition could be adversely affected by the occurrence of political and economic instability; social unrest, acts of terrorism, force majeure, war or other armed conflict; inflation; currency fluctuations, devaluations and conversion restrictions; governmental activities that limit or disrupt markets, restrict payments or limit the movement of funds and trade restrictions and economic embargoes imposed by the United States or other countries.

Fluctuations in the price and supply of raw materials used to manufacture our products may reduce our profits.

Our raw material costs represented approximately 49% of our revenues for the fiscal year ended September 30, 2008. We purchase a wide variety of raw materials to manufacture our products, including steel, aluminum, copper and various electrical components. Unanticipated increases in raw material requirements or price increases could increase production costs and adversely affect profitability.

Our use of percentage-of-completion accounting could result in a reduction or elimination of previously reported profits.

As discussed in Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates and in Notes to Consolidated Financial Statements, a significant portion of our revenues is recognized on the percentage-of-completion method of accounting. The percentage-of-completion accounting practice we use results in our recognizing contract revenues and earnings ratably over the contract term in proportion to our incurrence of contract costs. The earnings or losses recognized on individual contracts are based on estimates of contract revenues, costs and profitability. The process of estimating costs on projects combines professional engineering, cost estimating, pricing and accounting judgment. Contract losses are recognized in full when determined, and contract profit estimates are adjusted based on ongoing reviews of contract profitability. Previously recorded estimates are adjusted as the project progresses. In certain circumstances, it is possible that such adjustments could have a significant impact on our operating results for any fiscal quarter or year.

Our dependence upon fixed-price contracts could result in reduced profits or, in some cases, losses, if costs increase above our estimates.

We currently generate, and expect to continue to generate, a significant portion of our revenues under fixed-price contracts. We must estimate the costs of completing a particular project to bid for fixed-price contracts. The cost of labor and materials, however, may vary from the costs we originally estimated. These variations, along with other risks inherent in performing fixed-price contracts, may cause actual revenue and gross profits for a project to differ from those we originally estimated, and could result in reduced profitability or losses on projects. Revenues and profits recognized under the percentage-of-completion method of accounting may be reversed if estimates of costs to complete a project increase. Depending upon the size of a particular project, variations from the estimated contract costs could have a significant impact on our operating results for any fiscal quarter or year.

Our acquisition strategy involves a number of risks.

Our strategy has been to pursue growth and product diversification through the acquisition of companies or assets that will enable us to expand our product and service offerings. We routinely review potential acquisitions. However, we may be unable to implement this strategy if we cannot reach agreement on potential strategic acquisitions on acceptable terms or for other reasons. Moreover, our acquisition strategy involves certain risks, including difficulties in the integration of operations and systems; the termination of relationships by key personnel and customers of the acquired company; a failure to add additional employees to handle the increased volume of business; additional financial and accounting challenges and complexities in areas such as tax planning, treasury management and financial reporting; risks and liabilities from our acquisitions, some of which may not be discovered during our due diligence; a disruption of our ongoing business or an inability of our ongoing business to receive sufficient management attention and a failure to realize the cost savings or other financial benefits we anticipated.

Financing for acquisitions may require us to obtain additional equity or debt financing, which, if available, may not be available on attractive terms.

We may not be able to fully realize the revenue value reported in our backlog.

We have a backlog of work to be completed on contracts. Orders included in our backlog are represented by customer purchase orders and contracts, which we believe to be firm. Backlog develops as a result of new business taken, which represents the revenue value of new project commitments received by us during a given period. Backlog consists of projects which either (1) have not yet been started or (2) are in progress and are not yet completed. In the latter case, the revenue value reported in backlog is the remaining value associated with work that has not yet been completed. From time to time, projects are canceled that appeared to have a high certainty of going forward at the time they were recorded as new business taken. In the event of a project cancellation, we may be reimbursed for certain costs but typically have no contractual right to the total revenue reflected in our backlog. In addition to our being unable to recover certain direct costs, canceled projects may also result in additional unrecoverable costs due to the resulting underutilization of our assets.

Our operating results may vary significantly from quarter to quarter.

Our quarterly results may be materially and adversely affected by changes in estimated costs or revenues under fixed-price contracts; the timing and volume of work under new agreements; general economic conditions; the spending patterns of customers; variations in the margins of projects performed during any particular quarter; losses experienced in our operations not otherwise covered by insurance; a change in the demand or production of our products and our services caused by severe weather conditions; a change in the mix of our customers, contracts and business; increases in design and manufacturing costs; the ability of customers to pay their invoices owed to us and disagreements with customers related to project performance on delivery.

Accordingly, our operating results in any particular quarter may not be indicative of the results that you can expect for any other quarter or for an entire year.

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We may be unsuccessful at generating internal growth.

Our ability to generate internal growth will be affected by, among other factors, our ability to attract new customers; increase the number or size of projects performed for existing customers; hire and retain employees and increase volume utilizing our existing facilities.

In addition, our customers may reduce the number or size of projects available to us. Many of the factors affecting our ability to generate internal growth may be beyond our control, and we cannot be certain that our strategies will be successful or that we will be able to generate cash flow sufficient to fund our operations and to support internal growth. If we are unsuccessful, we may not be able to achieve internal growth, expand our operations or grow our business.

The departure of key personnel could disrupt our business.

We depend on the continued efforts of our executive officers and senior management. We cannot be certain that any individual will continue in such capacity for any particular period of time. The loss of key personnel, or the inability to hire and retain qualified employees, could negatively impact our ability to manage our business.

Our business requires skilled labor, and we may be unable to attract and retain qualified employees.

Our ability to maintain our productivity and profitability will be limited by our ability to employ, train and retain skilled personnel necessary to meet our requirements. We may experience shortages of qualified personnel. We cannot be certain that we will be able to maintain an adequate skilled labor force necessary to operate efficiently and to support our growth strategy or that our labor expenses will not increase as a result of a shortage in the supply of skilled personnel. Labor shortages or increased labor costs could impair our ability to maintain our business or grow our revenues, and may adversely impact our profitability.

Failure to successfully comply with Section 404 of the Sarbanes-Oxley Act of 2002 could negatively impact our business.

Section 404 of the Sarbanes-Oxley Act of 2002 requires our management to report on our internal controls over financial reporting and also requires our independent registered public accountants to attest to this report. The failure to comply with Section 404 could negatively impact our financial condition and results of operations.

Actual and potential claims, lawsuits and proceedings could ultimately reduce our profitability and liquidity and weaken our financial condition.

We could be named as a defendant in future legal proceedings claiming damages from us in connection with the operation of our business. Most of the actions against us arise out of the normal course of our performing services or manufacturing equipment. We are and will likely continue to be a plaintiff in legal proceedings against customers, in which we seek to recover payment of contractual amounts due to us, as well as claims for increased costs incurred by us. When appropriate, we establish provisions against certain legal exposures, and we adjust such provisions from time to time according to ongoing developments related to each exposure. If in the future our assumptions and estimates related to such exposures prove to be inadequate or wrong, our consolidated results of operations, cash flows and financial condition could be adversely affected. In addition, claims, lawsuits and proceedings may harm our reputation or divert management resources away from operating our business.

We carry insurance against many potential liabilities, and our risk management program may leave us exposed to unidentified or unanticipated risks.

Although we maintain insurance policies with respect to our related exposures, including certain self-insured medical and dental programs, these policies contain deductibles and limits of coverage. We estimate our liabilities for known claims and unpaid claims and expenses based on information available as well as projections for claims incurred but not reported. However, insurance liabilities are difficult to estimate due to various factors. If any of our insurance policies or programs are not effective in mitigating our risks, we may incur losses that are not covered by our insurance policies or that exceed our accruals or that exceed our coverage limits and could adversely impact our consolidated results of operations, cash flows and financial position.

Technological innovations by competitors may make existing products and production methods obsolete.

All of the products manufactured and sold by the Company depend upon the best available technology for success in the marketplace. The competitive environment is highly sensitive to technological innovation in both segments of our business. It is possible for competitors (both domestic and foreign) to develop products or production methods, which will make current products or methods obsolete or at least hasten their obsolescence.

Catastrophic events could disrupt our business.

The occurrence of catastrophic events ranging from natural disasters such as hurricanes to epidemics such as health epidemics to acts of war and terrorism could disrupt or delay the Company s ability to complete projects for its customers and could potentially expose the Company to third-party liability claims. Such events may or may not be fully covered by our various insurance policies or may be subject to deductibles. In addition, such events could impact the Company s customers and suppliers, resulting in temporary or long-term delays and/or cancellations of orders or raw materials used in normal business operations. These situations are outside the Company s control and could have a significant adverse impact on the results of operations.

Item 1B. ***Unresolved Staff Comments***

None.

Item 2. ***Properties***

We have manufacturing facilities, sales offices, field offices and repair centers located throughout the United States, and we have a manufacturing facility located in the United Kingdom. We also rent manufacturing space in Singapore on an as-needed basis. Our facilities are generally located in areas that are readily accessible to raw materials and labor pools and are maintained in good condition. These facilities, together with recent expansions, are expected to meet our needs for the foreseeable future.

Our principal manufacturing locations by segment as of September 30, 2008, are as follows:

			Approximate Square Footage	
Location	**Number of Facilities**	**Acres**	**Owned**	**Leased**
Electrical Power Products:				
Houston, TX	3	78.1	430,600	138,600
North Canton, OH	1	8.0	72,000	
Northlake, IL	1	10.0	103,500	
Bradford, United Kingdom	1	7.9	129,200	
Process Control Systems:				
Pleasanton, CA	1			21,200
Duluth, GA	1			29,700

All leased properties are subject to long-term leases with remaining lease terms ranging from one to six years as of September 30, 2008. We do not anticipate experiencing significant difficulty in retaining occupancy of any of our leased facilities through lease renewals prior to expiration or through month-to-month occupancy, or in replacing them with equivalent facilities.

Item 3. ***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

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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 verdict and has also awarded pre-judgment interest, court costs 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 net assets of approximately $1.9 million recorded in the consolidated balance sheet at September 30, 2008.

Item 4. *Submission of Matters to a Vote of Security Holders*

We did not submit any matter to a vote of our stockholders during the fourth quarter of fiscal year 2008.

PART II

Item 5. *Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

Price Range of Common Stock

Our common stock trades on the NASDAQ Global Market (NASDAQ) under the symbol POWL. The following table sets forth, for the periods indicated, the high and low sales prices per share as reported on the NASDAQ for our common stock.

	High	Low
Fiscal Year 2007:		
First Quarter	$ 33.60	$ 20.63
Second Quarter	33.73	27.78
Third Quarter	37.25	27.05
Fourth Quarter	38.10	30.26
Fiscal Year 2008:		
First Quarter	$ 47.00	$ 37.51
Second Quarter	45.76	35.47
Third Quarter	55.50	38.50
Fourth Quarter	57.98	37.34

As of December 3, 2008, the last reported sales price of our common stock on the NASDAQ was $20.31 per share. As of December 3, 2008, there were 579 stockholders of record of our common stock. All common stock held in street names are recorded in the Company s stock register as being held by one stockholder.

See Part III, Item 12 for information regarding securities authorized for issuance under our equity compensation plans.

Dividend Policy

Our current credit agreements limit the payment of dividends, other than dividends payable solely in our capital stock, without prior consent of our lenders. To date, we have not paid cash dividends on our common stock, and for the foreseeable future we intend to retain earnings for the development of our business. Future decisions to pay cash dividends will be at the discretion of the Board of Directors and will depend upon our results of operations, financial condition and capital expenditure plans and restrictive covenants under our credit facilities, along with other relevant factors.

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Performance Graph

The following Performance Graph and related information shall not be deemed soliciting material or to be filed with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or Securities Act of 1934, each as amended, except to the extent that we specifically incorporate it by reference into such filing.

The following graph compares, for the period from October 31, 2003, to September 30, 2008, the cumulative stockholder return on our common stock with the cumulative total return on the NASDAQ Market Index and Industrial Electrical Equipment. The comparison assumes that $100 was invested on October 31, 2003, in our common stock, the NASDAQ Market Index and Industrial Electrical Equipment. The stock price performance reflected on the following graph is not necessarily indicative of future stock price performance.

COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN
AMONG POWELL INDUSTRIES, INC.,
INDUSTRIAL ELECTRICAL EQUIPMENT AND NASDAQ MARKET INDEX

Item 6. *Selected Financial Data*

The selected financial data shown below for the past five years (including the 11-month period ended September 30, 2006) was derived from our audited financial statements. The historical results are not necessarily indicative of the operating results to be expected in the future. The selected financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and related notes included elsewhere in this Annual Report.

On August 7, 2006, we purchased certain assets related to the ANSI medium voltage switchgear and circuit breaker business of GE s Consumer & Industrial unit. The operating results of the Power/Vac® product line are included from that date.

On July 14, 2006, we acquired certain assets and hired the service and administrative employees of an electrical services company in Louisiana. The operating results of this acquisition are included in our Electrical Power Products business segment from that date.

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On July 4, 2005, we acquired selected assets and assumed certain operating liabilities and contracts of Switchgear & Instrumentation Limited. The operating results of S&I are included from that date.

	Years Ended September 30,		11 Months Ended September 30,	Years Ended October 31,	
	2008	2007	2006	2005	2004
	(In thousands, except per share data)				
Statements of Operations:					
Revenues	$ 638,704	$ 564,282	$ 374,547	$ 256,645	$ 206,142
Cost of goods sold	512,298	468,691	305,489	213,411	170,165
Gross profit	126,406	95,591	69,058	43,234	35,977
Selling, general and administrative expenses	84,001	77,246	55,345	41,846	35,357
Gain on sale of land and building				(1,052)	
Income before interest, income taxes, minority interest	42,405	18,345	13,713	2,440	620
Interest expense (income), net	2,537	2,943	698	(386)	(744)
Income tax provision (benefit)	14,072	5,468	4,609	932	(282)
Minority interest	(51)	21	(3)	63	(23)
Net income	$ 25,847	$ 9,913	$ 8,409	$ 1,831	$ 1,669
Basic earnings per share	$ 2.29	$ 0.90	$ 0.77	$ 0.17	$ 0.16
Diluted earnings per share	$ 2.26	$ 0.88	$ 0.76	$ 0.17	$ 0.15

	As of September 30,			As of October 31,	
	2008	2007	2006	2005	2004
	(In thousands)				
Balance Sheet Data:					
Cash and cash equivalents	$ 10,134	$ 5,257	$ 10,495	$ 24,844	$ 8,974
Marketable securities				8,200	54,208
Property, plant and equipment, net	61,546	67,401	60,336	55,678	45,041
Total assets	397,634	341,015	292,678	226,778	196,079
Long-term debt and capital lease obligations, including current maturities	41,758	35,836	42,396	21,531	7,100
Total stockholders equity	206,874	173,549	156,931	143,994	139,835
Total liabilities and stockholders equity	$ 397,634	$ 341,015	$ 292,678	$ 226,778	$ 196,079

Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

The following discussion should be read in conjunction with the accompanying consolidated financial statements and related notes. 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. For a description of the risks and uncertainties, please see Cautionary Statement Regarding Forward-Looking Statements; Risk Factors and Item 1A. Risk Factors contained in this Annual Report.

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.

Effective September 30, 2006, we changed our fiscal year-end from October 31 to September 30. Therefore, our consolidated operating results and cash flows for the year ended September 30, 2007, are compared to the operating results and cash flows for the 11 months ended September 30, 2006.

On August 7, 2006, we purchased certain assets related to the ANSI medium voltage switchgear and circuit breaker business of GE s Consumer & Industrial unit. The operating results of the Power/Vac® product line are included from that date and are included in our Electrical Power Products business segment.

The Power/Vac® medium voltage switchgear product line enhances our product portfolio, comes with a large installed base and has broad customer support across utility, industrial and commercial markets. In connection with the acquisition, we entered into a 15-year supply agreement in which GE is obligated to purchase from Powell (subject to limited conditions for exceptions) all of its requirements for ANSI medium voltage switchgear and circuit breakers and other related equipment and components. The Power/Vac® product line, together with our long-term commercial alliance with GE, has expanded our position in the marketplace and enabled us to reach a broader market and gain access to new customers. We completed the relocation of the Power/Vac® product line from West Burlington, Iowa, to our facilities in Houston, Texas, during fiscal year 2008.

Throughout fiscal 2008, we experienced strong market demand for our products and services. New investments in oil and gas infrastructure, as well as new investments by municipal and transit authorities to expand and improve public transportation, were key drivers of increased business activity in fiscal 2008. Customer inquiries, or requests for proposals, continued to strengthen throughout fiscal years 2007 and 2008. This increase in customer inquiries led to increased orders in fiscal year 2008 and, accordingly, a strong backlog of orders entering into fiscal year 2009.

Results of Operations

Twelve Months Ended September 30, 2008 (Fiscal 2008) Compared to Twelve Months Ended September 30, 2007 (Fiscal 2007)

Revenue and Gross Profit

Consolidated revenues increased $74.4 million to $638.7 million in Fiscal 2008 compared to $564.3 million in Fiscal 2007. Revenues increased as we have responded to strong market demand by increasing our capacity and throughput. Domestic revenues increased by 25.9% to $469.1 million in Fiscal 2008 compared to $372.7 million in Fiscal 2007. International revenues decreased from $191.6 million in Fiscal 2007 to $169.6 million in Fiscal 2008, as a large international project was substantially completed in Fiscal 2007. The increase in consolidated revenues was primarily due to higher levels of energy related investments, principally oil and gas projects. Gross profit in Fiscal 2008 increased by approximately $30.8 million compared to Fiscal 2007, as a result of improved pricing and productivity.

Electrical Power Products

Our Electrical Power Products business segment recorded revenues of $611.5 million in Fiscal 2008, compared to $541.6 million in Fiscal 2007. In Fiscal 2008, revenues from public and private utilities were approximately $171.8 million compared to $174.4 million in Fiscal 2007. Revenues from commercial and industrial customers totaled $400.0 million in Fiscal 2008, an increase of $69.6 million compared to Fiscal 2007. Municipal and transit projects generated revenues of $39.7 million in Fiscal 2008 compared to $36.8 million in Fiscal 2007.

Business segment gross profit, as a percentage of revenues, was 19.3% in Fiscal 2008 compared to 16.4% in Fiscal 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 21.2% for 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 we entered into in fiscal 2006.

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Process Control Systems

In Fiscal 2008, our Process Control Systems business segment recorded revenues of $27.2 million, up from $22.7 million in Fiscal 2007. Business segment gross profit increased as a percentage of revenues, to 30.2% for Fiscal 2008, compared to 28.8% for 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 in Fiscal 2008 were also positively impacted by approximately $1.9 million related to the favorable settlement of a claim for extra work performed on a project that was substantially completed in prior years.

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

Consolidated Selling, General and Administrative Expenses

Consolidated selling, general and administrative expenses decreased to 13.2% of revenues in Fiscal 2008 compared to 13.7% of revenues in Fiscal 2007. Selling, general and administrative expenses increased to $84.0 million in Fiscal 2008 compared to $77.2 million in Fiscal 2007. This increase is a result of increased commissions, salaries and incentive compensation due to increased volumes and earnings. 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.

Interest Income and Expense

Interest expense was $2.9 million in Fiscal 2008, a decrease of approximately $0.6 million compared to Fiscal 2007. The decrease in interest expense was primarily due to lower interest rates.

Interest income was $0.4 million in Fiscal 2008 compared to $0.6 million in Fiscal 2007. This decrease resulted from lower interest rates and cash was used to fund working capital during Fiscal 2008.

Provision for Income Taxes

Our provision for income taxes reflects an effective tax rate on earnings before income taxes of 35.3% in Fiscal 2008 compared to 35.5% in 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; as well as a mix of various state income taxes due to the relative mix of volume 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 Fiscal 2008, we recorded net income of $25.8 million, or $2.26 per diluted share, compared to $9.9 million, or $0.88 per diluted share, in Fiscal 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 September 30, 2008, was $518.6 million, compared to $464.5 million at September 30, 2007. New orders placed during Fiscal 2008 totaled $705.4 million compared to $667.1 million in Fiscal 2007.

Fiscal 2007 Compared to Eleven Months Ended September 30, 2006 (Fiscal 2006)

Revenue and Gross Profit

Consolidated revenues increased $189.8 million to $564.3 million in Fiscal 2007 compared to $374.5 million in Fiscal 2006. Revenues increased primarily due to general market recovery, concerted sales efforts and the acquisition of the Power/Vac® product line in the fourth quarter of Fiscal 2006. The Power/Vac® product line added revenues of

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$85.7 million in Fiscal 2007. Domestic revenues increased by 41.7% to $372.7 million in Fiscal 2007 compared to $263.1 million in Fiscal 2006. International revenues were $191.6 million in Fiscal 2007 compared to $111.5 million in Fiscal 2006. The increase was primarily due to higher levels of energy related investments, principally oil and gas projects. Gross profit in Fiscal 2007 increased by approximately $26.5 million compared to Fiscal 2006, as a result of improved pricing and productivity.

Electrical Power Products

Our Electrical Power Products business segment recorded revenues of $541.6 million in Fiscal 2007, which included revenues of $85.7 million from the Power/Vac® product line, compared to $347.9 million in Fiscal 2006. In Fiscal 2007, revenues from public and private utilities were approximately $174.4 million compared to $113.6 million in Fiscal 2006. Revenues from commercial and industrial customers totaled $330.4 million in Fiscal 2007, an increase of $126.0 million compared to Fiscal 2006. Municipal and transit projects generated revenues of $36.8 million in Fiscal 2007 compared to $29.9 million in Fiscal 2006.

Business segment gross profit, as a percentage of revenues, was 16.4% in Fiscal 2007 compared to 17.7% in Fiscal 2006. In Fiscal 2007, gross profit, as a percentage of revenues, was negatively impacted by the integration and start up costs associated with relocating the Power/Vac® product line to Houston, Texas. Higher than average gross margins from service and replacement projects, as a result of the 2005 hurricanes along the Gulf Coast region, increased the gross profit percentage in Fiscal 2006. Excluding the direct impact of the Power/Vac® product line, business segment gross profit would have been approximately 19.5% in Fiscal 2007. Gross profit was also negatively impacted by the operating performance of one of the Company s smaller business units which had a number of jobs that were underestimated at quotation in previous years, as well as operational challenges in completing certain projects.

Process Control Systems

In Fiscal 2007, our Process Control Systems business segment recorded revenues of $22.7 million, down from $26.6 million in Fiscal 2006. This decrease in revenues is primarily attributable to the substantial completion of certain large projects in early 2006. Business segment gross profit, as a percentage of revenues, increased to 28.8% in Fiscal 2007 compared to 28.4% in Fiscal 2006. Gross profit in each of Fiscal 2007 and 2006 was negatively impacted by approximately $2.3 million related to legal and other costs incurred to recover amounts owed on a previously completed contract.

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

Consolidated Selling, General and Administrative Expenses

Consolidated selling, general and administrative expenses decreased to 13.7% of revenues in Fiscal 2007 compared to 14.8% of revenues in Fiscal 2006. Selling, general and administrative expenses were $77.2 million in Fiscal 2007 compared to $55.3 million in Fiscal 2006. Selling, general and administrative expenses increased primarily due to amortization expense, increased administrative costs related to the integration of the Power/Vac® product line and related operations and increased payroll and recruiting costs, which are consistent with the increase in volume. Additionally, bad debt expense increased primarily related to collection shortfalls associated with certain projects with operational issues at one of the Company s smaller business units.

Interest Income and Expense

Interest expense was $3.5 million in Fiscal 2007, an increase of approximately $1.9 million compared to Fiscal 2006. The increase in interest expense was primarily due to interest expense imputed as a discount on the purchase price for the acquisition of the Power/ Vac® product line in the fourth quarter of Fiscal 2006.

Interest income was $0.6 million in Fiscal 2007 compared to $0.9 million in Fiscal 2006. This decrease resulted as cash generated from operations was used to reduce debt balances.

Provision for Income Taxes

Our provision for income taxes reflects an effective tax rate on earnings before income taxes of 35.5% in Fiscal 2007 compared to 35.0% in Fiscal 2006. 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.

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 Fiscal 2007, we recorded net income of $9.9 million, or $0.88 per diluted share, compared to $8.4 million, or $0.76 per diluted share, in Fiscal 2006. We had an increase in selling, general and administrative expenses associated with higher levels of business activity and the integration and relocation costs of the Power/Vac® product line, partially offset by higher revenues and improved gross profits in our Electrical Power Products business segment. Additionally, net income was also negatively impacted by underperformance at one of the Company s smaller business units stemming from performance and collection issues with certain projects.

Backlog

The order backlog at September 30, 2007, was $464.5 million, compared to $355.1 million at September 30, 2006. New orders placed during Fiscal 2007 totaled $667.1 million compared to $470.7 million in Fiscal 2006.

Liquidity and Capital Resources

We have maintained a positive liquidity position. Working capital increased to $150.7 million at September 30, 2008, compared to $101.3 million at September 30, 2007. This increase in working capital resulted primarily from increases in inventory and accounts receivable due to increased demand for our products and services. As of September 30, 2008, current assets exceeded current liabilities by 1.99 times and our debt to total capitalization ratio was 16.8%.

At September 30, 2008, we had cash, cash equivalents and marketable securities of $10.1 million, compared to $5.3 million at September 30, 2007. We have a $58.5 million revolving credit facility in the U.S. and an additional £4.0 million (approximately $7.3 million) revolving credit facility in the United Kingdom, both of which expire in December 2011. As of September 30, 2008, there was approximately $21.7 million borrowed under these lines of credit. Total long-term debt and capital lease obligations, including current maturities, totaled $41.8 million at September 30, 2008, compared to $35.8 million at September 30, 2007. Letters of credit outstanding were $22.2 million and $20.6 at September 30, 2008 and 2007, respectively, which reduced our availability under our credit facilities. Amounts available under the U.S. revolving credit facility and the revolving credit facility in the United Kingdom were approximately $19.5 million and $4.5 million, respectively, at September 30, 2008. For further information regarding our debt, see Notes H and K of Notes to Consolidated Financial Statements.

In December 2008, the Company further amended its Amended Credit Agreement to provide additional working capital support for the Company for 180 days, expiring June 1, 2009. The availability under the US Revolver was increased by $25 million through February 28, 2009 to provide additional capacity to the Company as a result of working capital continuing to be invested due to increased operations in the second half of Fiscal 2008. This additional capacity is then reduced to $12.5 million through June 1, 2009. On June 1, 2009, the amount available under the US Revolver will be reduced to its previous limit of $58.5 million. This amendment also increases the applicable interest rate by 25 to 50 basis points. The amendment also raised the baseline amount for the minimum tangible net worth covenant to $172.5 million from $120 million. Additionally, this amendment extends the expiration of the Amended Credit Agreement by one year, to December 31, 2012.

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Operating Activities

During Fiscal 2008, cash used in operating activities was approximately $5.2 million. Cash flow from operations was negatively impacted as accounts receivable and inventories increased due to higher volume as a result of demand for our products and services. During Fiscal 2007, cash provided by operating activities was approximately $12.2 million and during Fiscal 2006, cash used in operating activities was approximately $4.7 million. In all years, cash was principally used to fund growth in accounts receivable, inventories and costs related to projects which could not be billed under the contract terms.

Investing Activities

Investments in property, plant and equipment during Fiscal 2008 totaled approximately $3.4 million compared to $14.3 million and $8.4 million in Fiscal 2007 and 2006, respectively. The majority of our 2007 capital expenditures were used to continue the implementation of our new enterprise resource planning system (ERP system), and the expansion of two of our operating facilities. We incurred approximately $1.9 million in Fiscal 2007 at our Electrical Power Products operations and $6.6 million in Fiscal 2006, related to the implementation of the ERP system. The majority of our 2006 capital investments were used to improve our capabilities to manufacture switchgear and electrical power control rooms, as well as investments in the ERP system mentioned above. In 2006, investing activities included cash expenditures of $9.7 million for the acquisition of the Power/Vac® product line from GE (which does not include the total $32.0 million purchase price payable over 40 months) and $1.5 million for the acquisition of the services business in Louisiana previously described.

There were no proceeds from the sale of fixed assets in Fiscal 2008. Proceeds from the sale of fixed assets provided cash of approximately $0.2 million and $0.8 million in Fiscal 2007 and 2006, respectively. Proceeds from the sale of fixed assets in Fiscal 2007 and 2006 were primarily from the sale of idled manufacturing facilities and equipment.

There were no net proceeds from the sale and purchase of marketable securities in Fiscal 2008 or 2007. Net proceeds from the sale and purchase of marketable securities were $8.2 million in Fiscal 2006. Marketable securities were sold to finance working capital requirements of the business in Fiscal 2006.

Financing Activities

Net cash provided by financing activities was approximately $13.8 million in Fiscal 2008. The primary source of cash in financing activities in Fiscal 2008 was due to borrowings on the US revolving line of credit, which is used to fund operations and capital expenditures and proceeds from the exercise of stock options. Net cash used in financing activities was approximately $4.0 million in Fiscal 2007 and net cash provided by financing activities was approximately $0.7 million in Fiscal 2006. The primary use of cash in financing activities in Fiscal 2007 was due to payments on the US revolving line of credit. The primary source of cash from financing activities in Fiscal 2006 was proceeds from the exercise of stock options.

Contractual Obligations

At September 30, 2008, our long-term contractual obligations were limited to debt and leases. The table below details our commitments by type of obligation, including interest if applicable, and the period that the payment will become due (in thousands).

As of September 30, 2008	Long-Term Debt	Capital Lease	Operating Lease

Payments Due by Period:	**Obligations**	**Obligations**	**Obligations**	**Total**
Less than 1 year	$ 9,019	$ 13	$ 2,995	$ 12,027
1 to 3 years	32,010		5,273	37,283
3 to 5 years	860		3,688	4,548
More than 5 years	3,872		587	4,459
Total long-term contractual obligations	$ 45,761	$ 13	$ 12,543	$ 58,317

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Other Commercial Commitments

The following table reflects other commercial commitments or potential cash outflows that may result from a contingent event (in thousands):

As of September 30, 2008, Payments Due by Period:	Letters of Credit
Less than 1 year	$ 18,913
1 to 3 years	11,862
3 to 5 years	
More than 5 years	515
Total long-term commercial obligations	$ 31,290

We are contingently liable for secured and unsecured letters of credit of $31.3 million as of September 30, 2008, of which $20.0 million reduces our borrowing capacity. We also had performance and maintenance bonds totaling approximately $127.1 million that were outstanding at September 30, 2008. Performance and maintenance bonds are used to guarantee contract performance to our customers.

Outlook for Fiscal 2009

Our backlog of orders going into Fiscal 2009 is approximately $518.6 million, a $54.1 million increase over the beginning backlog of orders going into Fiscal 2008. Backlog growth has been driven by strong market demand in petrochemical, utility and transportation markets. Additionally, our recent acquisitions have strengthened our strategic position in the electrical power products market and expanded our product offering in the utility, industrial and commercial markets. We have enhanced our capabilities with the addition of medium and low voltage IEC switchgear, intelligent motor control systems and power distribution solutions. The acquired Power/Vac® switchgear product line has a large installed base and a broad customer support across utility, industrial and commercial markets. These recent acquisitions provide us with a significantly broader product portfolio and have enhanced our capabilities to meet market demands around the world. We believe that our expanded product portfolio and new channels to new markets have strengthened us in our Electrical Power Products business and positioned us for continued growth.

Growth in demand for energy is expected to continue over the long term. New infrastructure investments will be needed to ensure the available supply of petroleum products. New power generation and distribution infrastructure will also be needed to meet the growing demand for electrical energy. New power generation plants will also be needed to replace the aging facilities across the United States, as those plants reach the end of their life cycle. A heightened concern for environmental damage, together with the uncertainty of gasoline prices, has expanded the popularity of urban transit systems and pushed ridership to an all-time high, which will drive new investment in transit infrastructure. Opportunities for future projects continue; however, the timing of many of these projects is difficult to predict. The current worldwide financial crises have reduced the availability of liquidity and credit to fund the continuation and expansion of many industrial business operations worldwide. Recent financial market conditions have significantly increased the volatility of currency and commodity markets. This uncertainty may defer or delay commitments for new infrastructure projects that are in our opportunity pipeline.

The investment in working capital needed to produce our backlog varies and is impacted by the type of projects and the billing and payment terms on each project. The increase in volume over the last three years has increased our investment in working capital. As projects are completed and customer payments are received, cash flow from the projects is recovered. While we believe that cash available and borrowing capacity under our existing revolvers should be sufficient to finance anticipated operational activities, capital improvements and debt repayments for the foreseeable future, the current financial crises could have an adverse effect on our business. We will continue to actively monitor the collection of accounts receivable and investments in inventories to enhance our operating cash flow.

In response to the financial crises affecting the banking system and financial markets, and ongoing threats to other financial institutions, U.S. legislation was enacted for the purpose of stabilizing the financial markets. Since

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enactment of the legislation, the capital markets have continued to experience extreme volatility and the credit markets have not yet shown any significant increase in the availability of credit. There can be no assurance what impact this legislation ultimately will have on financial markets. If actions taken to provide stabilization to the financial markets and increasing availability of credit are unsuccessful, it could have a material adverse effect on our business, financial condition and results of operations.

Effects of Inflation

We have experienced significant price volatility related to raw materials, primarily copper, aluminum and steel, during the past three years. Fixed price contracts can limit our ability to pass cost increases to our customers, thus negatively impacting our earnings. We anticipate that the volatility in commodity prices could impact our operations in 2009.

Critical Accounting Policies and Estimates

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

Revenue Recognition

Our revenues are primarily generated from engineering and manufacturing of custom products under long-term contracts that may last from one month to several years, depending on the contract. Revenues from long-term contracts are recognized on the percentage-of-completion method of accounting as provided by the American Institute for Certified Public Accountants Statement of Position 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts* (SOP 81-1).

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

Revenues associated with maintenance, repair and service contracts are recognized when the services are performed in accordance with Staff Accounting Bulletin No. 104, *Revenue Recognition, Revised and Updated.* Expenses related to these types of services are recognized as incurred.

Allowance for Doubtful Accounts

We maintain and continually assess the adequacy of an allowance for doubtful accounts representing our estimate for losses resulting from the inability of our customers to pay amounts due to us. This estimated allowance

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is based on historical experience of uncollected accounts, the level of past due accounts, the overall level of outstanding accounts receivable, information about specific customers with respect to their inability to make payments and expectations of future conditions that could impact the collectibility of accounts receivable. However, future changes in our customers operating performance and cash flows, or in general economic conditions, could have an impact on their ability to fully pay these amounts, which could have a material impact on our operating results.

Impairment of Long-Lived Assets

We evaluate the recoverability of the carrying amount of long-lived assets, including intangible assets with definite useful lives, whenever events or changes in circumstances indicate that the carrying value of an asset may not be fully recoverable. The review for impairment of these long-lived assets takes into account estimates of future cash flows. For assets held for sale or disposal, the fair value of the asset is measured using quoted market prices or an estimation of net realizable value. An impairment loss exists when estimated undiscounted cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount.

Intangible Assets

We account for goodwill and other intangible assets in accordance with Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets.* This statement requires that goodwill and other intangible assets with indefinite useful lives are no longer amortized but instead requires a test for impairment to be performed annually, or immediately if conditions indicate that an impairment could exist. Intangible assets with definite useful lives are amortized over their estimated useful lives.

Accruals for Contingent Liabilities

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

Warranty Costs

We provide for estimated warranty costs at the time of sale based upon historical rates applicable to individual product lines. In addition, specific provisions are made when the costs of such warranties are expected to exceed accruals. We use past experience and historical claims to determine the estimated liability. Actual results could differ from our estimate.

Accounting for Income Taxes

We account for income taxes under the asset and liability method. This approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. Developing our provision for income taxes requires significant judgment and expertise in federal and state income tax laws, regulations and strategies, including the determination of deferred tax assets and liabilities and, if necessary, any valuation allowances that may be required for deferred tax assets. We have not recorded any valuation allowances as of September 30, 2008, because we believe that future taxable income will, more likely than not, be sufficient to realize the benefits of those assets as the temporary differences in basis reverse over time. Our judgments and tax strategies are subject to audit by various taxing authorities.

We 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 positions. 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.

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 SFAS No. 52, *Foreign Currency Translation.* All assets and liabilities of foreign operations are translated into U.S. Dollars using year-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.

Hedging Activities

SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended and interpreted, requires that each derivative instrument (including certain derivative instruments embedded in other contracts) be recorded on the balance sheet as either an asset or a liability and measured at its fair value. The statement also requires that changes in the derivative s fair value be recognized currently in earnings in either income (loss) from continuing operations or accumulated other comprehensive income (loss), depending on whether the derivative qualifies for fair value or cash flow accounting treatment. At September 30, 2008, we had no derivative instruments in place.

New Accounting Pronouncements

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 disclosures 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. 115* (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 on 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.

In October 2008, as a result of the recent credit crisis, the FASB issued FSP No. FAS 157-3, *Determining the Fair Value of a Financial Asset in a Market That is Not Active* (FSP FAS 157-3). FSP FAS 157-3 clarifies the application of SFAS No. 157 in a market that is not active. FSP FAS 157-3 addresses how management should consider measuring fair value when relevant observable data does not exist. FSP FAS 157-3 also provides guidance on how observable market information in a market that is not active should be considered when measuring fair value, as well as how the use of market quotes should be considered when assessing the relevance of observable and unobservable data available to measure fair value. FSP FAS 157-3 is effective upon issuance, for companies that have adopted SFAS No. 157. Revisions resulting from a change in the valuation technique or its application shall be accounted for as a change in accounting estimate in accordance with SFAS No. 154, *Accounting Changes and Error Corrections*. As SFAS No. 157 is not effective for the Company until fiscal year 2009, this standard currently has no effect on our results of operations, cash flows or financial position.

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Item 7A. *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.

Interest Rate Risk

We are subject to market risk resulting from changes in interest rates related to our floating rate bank credit facility. At September 30, 2008, $46.7 million was outstanding, bearing interest at approximately 4.4% per year. A hypothetical 100 basis point increase in variable interest rates would result in a total annual increase in interest expense of approximately $467,000. 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. During each of the past three years, we have not experienced a significant effect on our business due to changes in interest rates.

Foreign Currency Transaction Risk

We have significant operations that expose us to currency risk in the British Pound Sterling and to a lesser extent the Euro. Amounts invested in our foreign operations are translated into U.S. Dollars at the exchange rates in effect at year end. The resulting translation adjustments are recorded as accumulated other comprehensive income (loss), a component of stockholders equity in our consolidated balance sheets. 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 Pound 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.

Commodity Price Risk

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 entered into any derivative contracts to hedge our exposure to commodity risk in Fiscal 2008. We continue to experience price volatility with some of our key raw materials and components. Fixed price contracts may limit our ability to pass 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.

Market Risk

We are also exposed to general market and other risk and its potential impact on accounts receivable or costs and estimated earnings in excess of billings on uncompleted contracts. The amounts recorded may be at risk if our customers ability to pay these obligations is negatively impacted by economic conditions. Our customers are typically oil and gas producers, oil and gas pipelines, refineries, petrochemical plants, electrical power generators, public and private utilities, co-generation facilities, mining/metals, pulp and paper plants, transportation systems, governmental agencies and other large industrial customers. We maintain on-going discussions with customers regarding contract status with respect to payment status, change orders and billing terms in an effort to monitor collections of amounts billed.

Item 8. ***Financial Statements and Supplementary Data***

Index to Consolidated Financial Statements **Page**

Financial Statements:

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Powell Industries, Inc. and its subsidiaries at September 30, 2008 and 2007, and the results of their operations and their cash flows for the years ended September 30, 2008 and 2007 and the eleven months ended September 30, 2006 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note B to the consolidated financial statements, the Company has changed the manner in which it accounts for defined benefit pension and other postretirement benefits for 2007. Additionally, as discussed in Note I to the consolidated financial statements, the Company has changed the manner in which it accounts for uncertainty in income taxes for 2008.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Houston, Texas
December 10, 2008

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POWELL INDUSTRIES, INC. AND SUBSIDIARIES

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

	September 30, 2008	September 30, 2007
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 10,134	$ 5,257
Accounts receivable, less allowance for doubtful accounts of $1,180 and $1,739, respectively	132,446	107,717
Costs and estimated earnings in excess of billings on uncompleted contracts	82,574	69,442
Inventories, net	72,679	47,789
Income taxes receivable	149	548
Deferred income taxes	1,518	1,898
Prepaid expenses and other current assets	3,935	4,235
Total Current Assets	303,435	236,886
Property, plant and equipment, net	61,546	67,401
Goodwill	1,084	1,084
Intangible assets, net	25,014	28,861
Other assets	6,555	6,783
Total Assets	$ 397,634	$ 341,015
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Current maturities of long-term debt and capital lease obligations	$ 7,814	$ 8,464
Income taxes payable	7,223	1,669
Accounts payable	54,168	65,225
Accrued salaries, bonuses and commissions	26,361	19,010
Billings in excess of costs and estimated earnings on uncompleted contracts	39,336	25,924
Accrued product warranty	6,793	5,787
Other accrued expenses	11,041	9,533
Total Current Liabilities	152,736	135,612
Long-term debt and capital lease obligations, net of current maturities	33,944	27,372
Deferred compensation	2,821	3,155
Postretirement benefit obligation	807	942
Other liabilities	204	87
Total Liabilities	190,512	167,168
Commitments and Contingencies (Note K)		
Minority Interest	248	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; 11,403,687 and 11,143,866 shares issued, respectively; 11,403,687 and 11,143,866 shares outstanding, respectively	114	111
Additional paid-in capital	26,921	16,854
Retained earnings	180,244	154,572
Accumulated other comprehensive income	335	2,557
Deferred compensation	(740)	(545)
Total Stockholders Equity	206,874	173,549
Total Liabilities and Stockholders Equity	$ 397,634	$ 341,015

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

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POWELL INDUSTRIES, INC. AND SUBSIDIARIES

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

	Year Ended September 30, 2008	Year Ended September 30, 2007	11 Months Ended September 30, 2006
Revenues	$ 638,704	$ 564,282	$ 374,547
Cost of goods sold	512,298	468,691	305,489
Gross profit	126,406	95,591	69,058
Selling, general and administrative expenses	84,001	77,246	55,345
Income before interest, income taxes and minority interest	42,405	18,345	13,713
Interest expense	2,892	3,501	1,625
Interest income	(355)	(558)	(927)
Income before income taxes and minority interest	39,868	15,402	13,015
Income tax provision	14,072	5,468	4,609
Minority interest in net income (loss)	(51)	21	(3)
Net income	$ 25,847	$ 9,913	$ 8,409
Net earnings per common share:			
Basic	$ 2.29	$ 0.90	$ 0.77
Diluted	$ 2.26	$ 0.88	$ 0.76
Weighted average shares:			
Basic	11,265	11,045	10,876
Diluted	11,452	11,233	11,089

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

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POWELL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
(In thousands)

	Other Compre-hensive Income	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumu-lated Other Compre-hensive Income (Loss)	Deferred Compen-sation	Total
alance, October 31, 2005		11,002	$ 110	$ 10,252	$ 136,250	$ (1,417)	$ (11)	$ (1,190)	$ 143,994
et income	$ 8,409				8,409				8,409
oreign currency anslation adjustments	784						784		784
ealized loss on fair value edge	44						44		44
mortization of deferred ompensation-ESOP								311	311
xercise of stock options				297		636			933
ock-based compensation				1,989					1,989
come tax benefit from ock options exercised				204					204
mortization of restricted ock				138				102	240
eferred compensation stricted stock				(119)				119	
suance of restricted stock				15		256		(248)	23
otal comprehensive come	$ 9,237				8,409		828		9,237
alance, September 30, 006		11,002	110	12,776	144,659	(525)	817	(906)	156,931
et income	9,913				9,913				9,913
oreign currency anslation adjustments	1,528						1,528		1,528
mortization of deferred ompensation-ESOP								361	361
xercise of stock options		124	1	2,847		416			3,264
ock-based compensation				664					664
come tax benefit from ock options exercised				393					393
mortization of restricted ock				296					296

eferred compensation
stricted stock