

POWELL INDUSTRIES INC

Form 10-Q

May 06, 2009

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

(Mark One)

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

**For the quarterly period ended March 31, 2009**

**OR**

**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**

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.  Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

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

Large accelerated filer       Accelerated filer       Non-accelerated filer       Smaller reporting company

(Do not check if a smaller reporting company)

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

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

At May 1, 2009, there were 11,436,060 outstanding shares of the registrant's common stock, par value \$0.01 per share.



**POWELL INDUSTRIES, INC. AND SUBSIDIARIES  
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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Condensed Consolidated Financial Statements****POWELL INDUSTRIES, INC. AND SUBSIDIARIES****Condensed Consolidated Balance Sheets****(In thousands, except share and per share data)**

	<b>March 31, 2009</b>	<b>September 30, 2008</b>
	<b>(Unaudited)</b>	
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 60,142	\$ 10,134
Accounts receivable, less allowance for doubtful accounts of \$1,609 and \$1,180, respectively	125,952	132,446
Costs and estimated earnings in excess of billings on uncompleted contracts	55,380	82,574
Inventories, net	59,338	72,679
Income taxes receivable	135	149
Deferred income taxes	3,508	1,518
Prepaid expenses and other current assets	2,859	3,935
Total Current Assets	307,314	303,435
Property, plant and equipment, net	58,884	61,546
Goodwill	1,084	1,084
Intangible assets, net	22,872	25,014
Other assets	6,296	6,555
Total Assets	\$ 396,450	\$ 397,634
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current Liabilities:		
Current maturities of long-term debt and capital lease obligations	\$ 6,398	\$ 7,814
Income taxes payable	6,306	7,223
Accounts payable	48,976	54,168
Accrued salaries, bonuses and commissions	19,818	26,361
Billings in excess of costs and estimated earnings on uncompleted contracts	65,038	39,336
Accrued product warranty	6,336	6,793
Other accrued expenses	12,451	11,041
Total Current Liabilities	165,323	152,736
Long-term debt and capital lease obligations, net of current maturities	8,211	33,944
Deferred compensation	2,707	2,821
Postretirement benefit obligation	857	807
Other liabilities	210	204
Total Liabilities	177,308	190,512
Commitments and Contingencies (Note G)		
Minority Interest	278	248

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Stockholders' Equity:

Preferred stock, par value \$.01; 5,000,000 shares authorized; none issued		
Common stock, par value \$.01; 30,000,000 shares authorized; 11,436,060 and 11,403,687 shares issued, respectively; 11,436,060 and 11,403,687 shares outstanding, respectively	114	114
Additional paid-in capital	27,947	26,921
Retained earnings	196,949	180,244
Accumulated other comprehensive income (loss)	(5,877)	335
Deferred compensation	(269)	(740)
Total Stockholders' Equity	218,864	206,874
Total Liabilities and Stockholders' Equity	\$ 396,450	\$ 397,634

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

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

	Three Months Ended		Six Months Ended	
	March 31, 2009	March 31, 2008	March 31, 2009	March 31, 2008
Revenues	\$ 164,099	\$ 160,333	\$ 334,588	\$ 307,454
Cost of goods sold	130,255	129,641	266,242	250,067
Gross profit	33,844	30,692	68,346	57,387
Selling, general and administrative expenses	20,323	20,961	41,884	41,072
Income before interest, income taxes and minority interest	13,521	9,731	26,462	16,315
Interest expense	262	771	734	1,636
Interest income	(3)	(86)	(60)	(201)
Income before income taxes and minority interest	13,262	9,046	25,788	14,880
Income tax provision	4,655	3,236	9,052	5,365
Minority interest	(245)	(219)	31	(100)
Net income	\$ 8,852	\$ 6,029	\$ 16,705	\$ 9,615
Net earnings per common share:				
Basic	\$ 0.78	\$ 0.54	\$ 1.46	\$ 0.86
Diluted	\$ 0.77	\$ 0.53	\$ 1.45	\$ 0.84
Weighted average shares:				
Basic	11,413	11,232	11,413	11,194
Diluted	11,495	11,416	11,487	11,398

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

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

	<b>Six Months Ended</b>	
	<b>March</b>	<b>March 31,</b>
	<b>31, 2009</b>	<b>2008</b>
Operating Activities:		
Net income	\$ 16,705	\$ 9,615
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	3,764	4,057
Amortization	1,738	1,895
Stock-based compensation	1,253	1,860
Minority interest	31	(100)
Loss on disposition of assets	8	11
Bad debt expense	1,088	436
Deferred income taxes	(1,726)	2,362
Changes in operating assets and liabilities:		
Accounts receivable, net	2,083	(11,342)
Costs and estimated earnings in excess of billings on uncompleted contracts	26,249	(9,084)
Inventories	12,386	(15,251)
Prepaid expenses and other current assets	1,105	(2,263)
Other assets	(21)	(76)
Accounts payable and income taxes payable	(4,699)	(8,344)
Accrued liabilities	(6,723)	645
Billings in excess of costs and estimated earnings on uncompleted contracts	26,490	15,736
Deferred compensation	45	169
Other liabilities	55	63
Net cash provided by (used in) operating activities	79,831	(9,611)
Investing Activities:		
Proceeds from sale of fixed assets	1	
Purchases of property, plant and equipment	(2,981)	(1,530)
Net cash used in investing activities	(2,980)	(1,530)
Financing Activities:		
Borrowings on US revolving line of credit	50,953	80,503
Payments on US revolving line of credit	(69,953)	(66,879)
Payments on UK revolving line of credit		(1,596)
Payments on UK term loan	(860)	(1,212)
Payments on industrial development revenue bonds	(400)	(400)
Payments on deferred acquisition payable	(5,220)	
Proceeds from exercise of stock options	53	2,288
Tax benefit from exercise of stock options	32	1,016
Payments on short-term and other financing	(13)	(26)
Net cash (used in) provided by financing activities	(25,408)	13,694



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Net increase in cash and cash equivalents	51,443		2,553
Effect of exchange rate changes on cash and cash equivalents	(1,435)		(24)
Cash and cash equivalents at beginning of period	10,134		5,257
Cash and cash equivalents at end of period	\$ 60,142	\$	7,786

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

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**POWELL INDUSTRIES, INC. AND SUBSIDIARIES**

***Notes to Condensed Consolidated Financial Statements (Unaudited)***

**A. OVERVIEW AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Overview*

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

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

*Basis of Presentation*

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

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

These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto of Powell and its subsidiaries included in Powell's Annual Report on Form 10-K for the year ended September 30, 2008, which was filed with the SEC on December 10, 2008.

*Use of Estimates*

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

*Fair Value Measurements*

On October 1, 2008, we adopted the Financial Accounting Standards Board ( FASB ) Statement of Financial Accounting Standards ( SFAS ) No. 157, *Fair Value Measurements* ( SFAS No. 157 ). SFAS No. 157, issued in September 2006, establishes a common definition for fair value to be applied to U.S. GAAP guidance requiring use of fair value, establishes a framework for measuring fair

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value and expands disclosure about such fair value measurements. In February 2008, the FASB issued Staff Position ( FSP ) 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13* ( FSP 157-1 ), and FSP 157-2, *Effective Date of FASB Statement No. 157* ( FSP 157-2 ). FSP 157-1 removes certain leasing transactions from the scope of SFAS No. 157. FSP 157-2 partially defers the effective date of SFAS No. 157 for one year for certain non-financial assets and non-financial liabilities that are recognized at fair value on a nonrecurring basis (at least annually). SFAS No. 157 is effective for financial assets and liabilities and non-financial assets and liabilities that are recognized at fair value on a recurring basis in fiscal years beginning after November 15, 2007, our fiscal year 2009. Under FSP 157-2, the effective date for non-financial assets and liabilities that are recognized at fair value on a nonrecurring basis will be fiscal years beginning after November 15, 2008, which will be our fiscal year 2010. Our adoption of SFAS No. 157 for our financial assets and liabilities and non-financial assets and liabilities that are recognized using fair value on a recurring basis did not have a significant impact on our financial statements. See Note C, *Fair Value Measurements*, for further discussion of our adoption of SFAS No. 157. In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ( SFAS No. 159 ). SFAS No. 159 provides companies with an option to report selected financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007, our fiscal year 2009. We have determined not to elect the fair value measurement option under SFAS No. 159.

*Foreign Currency Translation*

The functional currency for the Company's foreign subsidiaries is the local currency where 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 period-end exchange rates and all revenues and expenses are translated at average rates during the respective period. The U.S. Dollar results that arise from such translation, as well as exchange gains and losses on intercompany balances of a long-term investment nature, are included in the cumulative currency translation adjustments in accumulated other comprehensive income in stockholders' equity.

*Derivative Financial Instruments*

As part of managing its exposure to changes in foreign currency exchange rates, the Company periodically utilizes foreign exchange forward contracts. The objective of these contracts is to minimize impacts to cash flows and profitability due to changes in foreign currency exchange rates on accounts receivable, accounts payable and forecasted cash transactions. These contracts are recorded in the Condensed Consolidated Balance Sheets at fair value, which is based upon an income approach consisting of a discounted cash flow model that takes into account the present value of the future cash flows under the terms of the contracts using current market information as of the reporting date, such as foreign currency spot and forward rates.

The Company formally documents its hedging relationship, including identifying the hedging instruments and the hedged items, as well as its risk management objectives and strategies for undertaking the hedge transaction. The Company also formally assesses, both at inception and at least quarterly thereafter, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in the cash flows of the hedged item. The effective portion of the change in fair value of a derivative is recorded as a component of accumulated other comprehensive income in the Condensed Consolidated Balance Sheets. When the hedged item affects the income statement, the gain or loss included in accumulated other comprehensive income is reported on the same line in the Condensed Consolidated Statements of Operations as the hedged item. In addition, any ineffective portion of the changes in the fair value of derivatives used as cash flow hedges is reported in the Condensed Consolidated Statements of Operations as the changes occur. If it is determined that a derivative ceases to be a highly effective hedge, or if the anticipated transaction is no longer likely to occur, the Company discontinues hedge accounting and any unrealized gains or losses are recorded in the Condensed Consolidated Financial Statements.

On January 1, 2009, the Company adopted SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* – an amendment of FASB Statement No. 133 ( SFAS No. 161 ). SFAS No. 161 amends and expands the

disclosure requirements of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* ( SFAS No. 133 ), and was issued in response to concerns and criticisms about the lack of adequate disclosure of derivative instruments and hedging activities. SFAS No. 161 is focused on requiring enhanced disclosure on 1) how and why an entity uses derivative instruments and hedging activities; 2) how derivative

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instruments and related hedging activities are accounted for under SFAS No. 133 and 3) how derivative instruments and related hedging activities affect an entity's cash flows, financial position and performance.

To accomplish the three objectives listed above, SFAS No. 161 requires: 1) qualitative disclosures regarding the objectives and strategies for using derivative instruments and engaging in hedging activities in the context of an entity's overall risk exposure; 2) quantitative disclosures in tabular format of the fair values of derivative instruments and their gains and losses and 3) disclosures about credit-risk related contingent features in derivative instruments. The adoption of SFAS No. 161 did not have an impact on the Company's consolidated financial position or results of operations. As a result of the adoption of this statement, we have expanded our disclosures regarding derivative instruments and hedging activities within Note I.

*Accumulated Other Comprehensive Income (Loss)*

Accumulated other comprehensive income (loss), which is included as a component of stockholders' equity net of tax, includes unrealized gains or losses on derivative instruments and cumulative currency translation adjustments.

*Income Taxes*

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

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

In the first quarter of fiscal 2008, the Company adopted FIN 48. Upon adoption of FIN 48 the Company recorded a \$0.3 million increase in its tax reserves, an offsetting decrease of \$0.2 million to retained earnings for uncertain tax positions and an increase in deferred income tax assets of \$0.1 million. As of the adoption date, the Company had total tax reserves of approximately \$1.2 million. At March 31, 2009, the total tax reserves had decreased to approximately \$1.0 million as a result of the expiration of certain state statute of limitations.

The Company's continuing policy is to recognize interest and penalties related to income tax matters as tax expense. The amount of interest and penalty expense recorded for the three and six months ended March 31, 2009 was not material.

There was no material change in the net amount of unrecognized tax benefits in the three and six months ended March 31, 2009. Management believes that it is reasonably possible that within the next 12 months the total unrecognized tax benefits will decrease by approximately 37% due to the expiration of certain statutes of limitations in various state and local jurisdictions.

The Company is subject to income tax in the United States, multiple state jurisdictions and a few foreign jurisdictions, primarily the United Kingdom. For United States federal income tax purposes, all years prior to 2004 are closed. The Internal Revenue Service (IRS) is currently examining the 2006 and 2007 years. Powell does not consider any state in which it does business to be a major tax jurisdiction under FIN 48. The Company remains open to examination in the United Kingdom since the acquisition of Switchgear & Instrumentation Limited in 2005.

*New Accounting Standards*

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

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establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS No. 141R is effective as of the beginning of an entity's fiscal year that begins after December 15, 2008, and will be adopted by us in the first quarter of fiscal 2010. We are currently unable to predict the potential impact, if any, of the adoption of SFAS No. 141R on future acquisitions.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - an amendment of Accounting Research Bulletin 51* ( SFAS No. 160 ). SFAS No. 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS No. 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 is effective as of the beginning of an entity's fiscal year that begins after December 15, 2008, and will be adopted by us in the first quarter of fiscal 2010. The Company does not expect the adoption of SFAS No. 160 to have a material effect 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. 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 does not expect the adoption of SFAS No. 162 to have a material impact 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 Change and Error Corrections*.

FSP FAS 157-3 was adopted by us effective October 1, 2008, but currently has no effect on the Company's results of operations, cash flows or financial position.

In November 2008, the Emerging Issues Task Force ( EITF ) reached a consensus on EITF Issue No. 08-06, *Equity Method Investment Considerations* ( EITF 08-06 ). The objective of EITF 08-06 is to clarify how to account for certain transactions involving equity method investments. EITF 08-06 is effective for financial statements issued for fiscal years beginning on or after

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December 15, 2008 and interim periods within those years. The Company will adopt EITF 08-06 as of the beginning of fiscal 2010, and is currently assessing the potential impact upon adoption.

In December 2008, the FASB issued FSP No. FAS 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets* ( FSP FAS 132(R)-1 ). FSP FAS 132(R)-1 amends SFAS No. 132(R), *Employers' Disclosures about Pensions and Other Postretirement Benefits*, ( SFAS No. 132(R) ) to provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. The disclosures about plan assets required by FSP FAS 132(R)-1 shall be provided for fiscal years ending after December 15, 2009, and will be adopted by us in the first quarter of fiscal 2011. The Company does not expect FSP FAS 132(R)-1 will have a material impact on its condensed consolidated financial statements.

In January 2009, the FASB issued FSP No. EITF 99-20-1, *Amendments to the Impairment Guidance of EITF Issue No. 99-20* ( FSP EITF 99-20-1 ). FSP EITF 99-20-1 eliminates the requirement that a holder's best estimate of cash flows be based upon those that a market participant would use. Instead, FSP EITF 99-20-1 requires that an other-than-temporary impairment be recognized through earnings when it is probable that there has been an adverse change in the holder's estimated cash flows from the cash flows previously projected. FSP EITF 99-20-1 is effective for the first interim period or fiscal year ending after December 15, 2008, and each interim and annual period thereafter. Retroactive application to a prior interim period is not permitted. Because the Company holds no such securities, the adoption of FSP EITF 99-20-1 has not had nor is it expected to have an impact on the Company's results of operations, financial position or cash flows.

In April 2009, the FASB issued FSP No. FAS 107-1 and Accounting Principles Board ( APB ) 28-1, *Interim Disclosures about Fair Value of Financial Instruments*, ( FSP FAS 107-1 and APB 28-1 ) which amends SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, ( SFAS No. 107 ) and APB Opinion No. 28, *Interim Financial Reporting*, respectively, to require disclosures about fair value of financial instruments in interim financial statements, in addition to the annual financial statements as already required by SFAS No. 107. FSP FAS 107-1 and APB 28-1 will be required for interim periods ending after June 15, 2009, and will be adopted by us in the third quarter of fiscal 2009. The Company does not expect the adoption of FSP FAS 107-1 and APB 28-1 to have a material impact on its condensed consolidated financial statements.

In April 2009, the FASB issued FSP No. FAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies* ( FSP FAS 141(R)-1 ). FSP FAS 141(R)-1 amends SFAS No. 141R to clarify the initial and subsequent recognition, subsequent accounting and disclosure of assets and liabilities arising from contingencies in a business combination. FSP FAS 141(R)-1 requires that assets acquired and liabilities assumed in a business combination that arise from contingencies be recognized at fair value, as determined in accordance with SFAS No. 157, if the acquisition-date fair value can be reasonably estimated. If the acquisition-date fair value of an asset or liability cannot be reasonably estimated, the asset or liability would be measured at the amount that would be recognized in accordance with SFAS No. 5, *Accounting for Contingencies* ( SFAS No. 5 ), and FASB Interpretation No. 14, *Reasonable Estimation of the Amount of a Loss*. FSP FAS 141(R)-1 becomes effective for the Company on October 1, 2010. As the provisions of FSP FAS 141(R)-1 will be applied prospectively to business combinations with an acquisition date on or after the guidance becomes effective, the impact to the Company cannot be determined until a transaction occurs.

In April 2009, the FASB issued FSP No. FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* ( FSP FAS 157-4 ), which provides additional guidance for applying the provisions of SFAS No. 157. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants under current market conditions. FSP FAS 157-4 requires an evaluation of whether there has been a significant decrease in the volume and level of activity for the asset or liability in relation to normal market activity for the asset or liability. If there has, transactions or quoted prices may not be indicative of fair value and a significant adjustment may need to be made to those prices to estimate fair value. Additionally, an entity must consider whether the observed transaction was orderly (that is, not distressed or forced). If the transaction was orderly, the obtained price can be considered a relevant observable input for determining fair value. If the transaction is not orderly, other valuation techniques must be used when estimating fair value. FSP FAS 157-4 must be applied prospectively for



interim periods ending after June 15, 2009, and will be adopted in the third quarter of fiscal 2009. The Company is currently assessing the impact that FSP FAS 157-4 may have on its financial statements.

**Table of Contents****B. EARNINGS PER SHARE**

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

	<b>Three Months Ended March 31,</b>		<b>Six Months Ended March 31,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<i>Numerator:</i>				
Net income	\$ 8,852	\$ 6,029	\$ 16,705	\$ 9,615
<i>Denominator:</i>				
Denominator for basic earnings per share-weighted average shares	11,413	11,232	11,413	11,194
Dilutive effect of stock options and restricted stock	82	184	74	204
Denominator for diluted earnings per share-adjusted weighted average shares with assumed conversions	11,495	11,416	11,487	11,398
<i>Net earnings per share:</i>				
Basic	\$ 0.78	\$ 0.54	\$ 1.46	\$ 0.86
Diluted	\$ 0.77	\$ 0.53	\$ 1.45	\$ 0.84

All options were included in the computation of diluted earnings per share for the three and six months ended March 31, 2009 and 2008, respectively, as the options' exercise prices were less than the average market price of our common stock.

**C. FAIR VALUE MEASUREMENTS**

We measure certain financial assets and liabilities at fair value. As discussed in Note A, *Overview and Summary of Significant Accounting Policies*, effective October 1, 2008, we adopted SFAS No. 157, subject to the deferral provisions of FSP 157-2. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Fair value is defined as an exit price which represents the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in valuing an asset or liability. SFAS No. 157 also requires the use of valuation techniques to measure fair value that maximize the use of observable inputs and minimize the use of unobservable inputs. As a basis for considering such assumptions and inputs, SFAS No. 157 establishes a fair value hierarchy which identifies and prioritizes three levels of inputs to be used in measuring fair value.

The three levels of the fair value hierarchy are as follows:

Level 1 Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 Inputs other than the quoted prices in active markets that are observable either directly or indirectly, including: quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active or other inputs that are observable or can be corroborated by observable market data.

Level 3 Unobservable inputs that are supported by little or no market data and require the reporting entity to develop its own assumptions.

The following table summarizes the fair value of our assets that were accounted for at fair value on a recurring basis as of March 31, 2009 (in thousands):

	<b>Fair Value Measurements Using Inputs Considered as</b>			<b>Fair Value at March 31, 2009</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<b>Assets</b>				
Cash equivalents	\$ 19,148	\$	\$	\$ 19,148
Foreign currency forward contracts		\$ 89	\$	89
<b>Total</b>	\$ 19,148	\$ 89	\$	\$ 19,237
<b>Liabilities</b>				
Foreign currency forward contracts	\$	\$ 2,928	\$	\$ 2,928
<b>Total</b>	\$	\$ 2,928	\$	\$ 2,928

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Cash equivalents, primarily funds held in commercial paper, bank notes and money market instruments, are reported at their current carrying value which approximates fair value due to the short-term nature of these instruments and are included in cash and cash equivalents in our Condensed Consolidated Balance Sheets. Our commercial paper, bank notes and money market instruments are valued primarily using quoted market prices and are included in Level 1 inputs. The fair value at March 31, 2009 for cash equivalents was approximately \$19.1 million.

Foreign currency forward contracts are valued using an income approach which consists of a discounted cash flow model that takes into account the present value of future cash flows under the terms of the contracts using observable market spot and forward rates as of our reporting date, and are included in Level 2 inputs in the above table. We use these derivative instruments to mitigate non-functional currency transaction exposure. We mitigate derivative credit risk by transacting with highly rated counterparties. We have evaluated the credit and non-performance risks associated with our derivative counterparties and believe them to be insignificant at March 31, 2009. All contracts are recorded at fair value and marked-to-market at the end of each reporting period, with unrealized gains and losses being included in accumulated other comprehensive income on the Condensed Consolidated Balance Sheets for that period. The \$2.8 million net fair value of our foreign currency forward contracts was included in prepaid expenses and other current assets and other accrued expenses in our Condensed Consolidated Balance Sheets.

**D. DETAIL OF SELECTED BALANCE SHEET ACCOUNTS***Allowance for Doubtful Accounts*

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>March 31,</b>		<b>March 31,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Balance at beginning of period	\$ 1,082	\$ 1,668	\$ 1,180	\$ 1,739
Accrued bad debt expense	754	366	1,088	436
Deductions for uncollectible accounts written off, net of recoveries	(181)	(999)	(566)	(1,133)
Decrease due to foreign currency translation	(46)		(93)	(7)
Balance at end of period	\$ 1,609	\$ 1,035	\$ 1,609	\$ 1,035

*Warranty Accrual*

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>March 31,</b>		<b>March 31,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Balance at beginning of period	\$ 7,291	\$ 6,162	\$ 6,793	\$ 5,787
Accrued warranty expense	627	1,301	2,175	2,426
Deductions for warranty charges	(1,564)	(595)	(2,208)	(1,307)
Decrease due to foreign currency translation	(18)	(2)	(424)	(40)
Balance at end of period	\$ 6,336	\$ 6,866	\$ 6,336	\$ 6,866

*Inventories*

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

<b>March 31,</b>	<b>September</b>
<b>2009</b>	<b>30,</b>
	<b>2008</b>

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Raw materials, parts and subassemblies	\$ 40,501	\$ 57,742
Work-in-progress	18,837	14,937
Total inventories	\$ 59,338	\$ 72,679

**Table of Contents***Cost and Estimated Earnings on Uncompleted Contracts*

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

	<b>March 31, 2009</b>	<b>September 30, 2008</b>
Costs incurred on uncompleted contracts	\$ 525,223	\$ 513,549
Estimated earnings	137,785	120,571
	663,008	634,120
Less: Billings to date	672,666	590,882
Net (overbilled) underbilled position	\$ (9,658)	\$ 43,238
Included in the accompanying balance sheets under the following captions:		
Costs and estimated earnings in excess of billings on uncompleted contracts underbilled	\$ 55,380	\$ 82,574
Billings in excess of costs and estimated earnings on uncompleted contracts overbilled	(65,038)	(39,336)
Net (overbilled) underbilled position	\$ (9,658)	\$ 43,238

**E. COMPREHENSIVE INCOME**

Comprehensive income is as follows (in thousands):

	<b>Three Months Ended March 31,</b>		<b>Six Months Ended March 31,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Net income	\$ 8,852	\$ 6,029	\$ 16,705	\$ 9,615
Unrealized loss on foreign currency translation, net of tax	(259)		(4,279)	(486)
Unrealized loss on derivative contracts	(202)		(1,933)	
Comprehensive income	\$ 8,391	\$ 6,029	\$ 10,493	\$ 9,129

**F. LONG-TERM DEBT**

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

	<b>March 31, 2009</b>	<b>September 30, 2008</b>
US Revolver	\$	\$ 19,000
UK Revolver	2,132	2,726
UK Term Loan	2,985	4,907
Deferred acquisition payable	4,292	9,512
Industrial development revenue bonds	5,200	5,600
Capital lease obligations		13

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Subtotal long-term debt and capital lease obligations	14,609	41,758
Less current portion	(6,398)	(7,814)
Total long-term debt and capital lease obligations	\$ 8,211	\$ 33,944

*US and UK Revolvers*

In December 2007, we amended our existing credit agreement ( Amended Credit Agreement ) with a major domestic bank and certain other financial institutions. This amendment to our credit facility was made to expand our US borrowing capacity to provide additional working capital support for the Company.

The Amended Credit Agreement provides for a 1) \$58.5 million revolving credit facility ( US Revolver ), 2) £4.0 million (pound sterling) (approximately \$5.7 million) revolving credit facility ( UK Revolver ) and 3) £6.0 million (approximately \$8.5 million) single advance term loan ( UK Term Loan ). The Amended Credit Agreement contains certain covenants discussed below and restricts our ability to pay dividends. Obligations are collateralized by the stock of our subsidiaries. The interest rate for amounts outstanding under the Amended Credit Agreement for the US Revolver is a floating rate based upon the higher of the Federal Funds Rate plus 0.5%, or the bank's prime rate. The interest rate for amounts outstanding under the Amended Credit Agreement for the UK Revolver and the UK Term Loan is a floating rate based upon the London interbank offered rate ( LIBOR ) plus a margin which can range from 1% to 2%, as determined by the Company's consolidated leverage ratio as defined within the Amended Credit Agreement.

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Expenses associated with the issuance of the original credit agreement are classified as deferred loan costs, totaled \$576,000 and are being amortized as a non-cash charge to interest expense.

In December 2008, we further amended our 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, to \$83.5 million, through February 28, 2009. On March 1, 2009, this additional capacity was reduced by \$12.5 million. 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 increased 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 extended the expiration of the Amended Credit Agreement by one year, to December 31, 2012.

The US Revolver and UK Revolver provide for the issuance of letters of credit which would reduce the amounts which may be borrowed under the respective revolvers. The amount available under this agreement was reduced by approximately \$15.9 million for our outstanding letters of credit at March 31, 2009.

There was £1.5 million, or approximately \$2.1 million, outstanding under the UK Revolver at March 31, 2009. There were no borrowings outstanding under the US Revolver as of March 31, 2009. Amounts available under the US Revolver and the UK Revolver were approximately \$55.1 million and \$3.6 million, respectively, at March 31, 2009. The US Revolver and the UK Revolver expire on December 31, 2012.

The Amended Credit Agreement contains financial covenants defining various financial measures and the levels of these measures with which we must comply, as well as a material adverse change clause. A material adverse change is defined as a material change in the operations, business, properties, liabilities or condition (financial or otherwise) of the Company or a material impairment of the ability of the Company to perform its obligations under its debt agreements. Covenant compliance is assessed as of each quarter-end.

The Amended Credit Agreement's principal financial covenants include:

*Minimum Tangible Net Worth* The Amended Credit Agreement requires consolidated tangible net worth (stockholders' equity, less intangible assets) as of the end of each quarter to be greater than the sum of \$172,500,000, plus an amount equal to 50% of the Company's consolidated net income for each fiscal quarter, plus an amount equal to 100% of the aggregate increase in stockholders' equity by reason of the issuance and sale of any equity interests.

*Minimum Fixed Charge Coverage Ratio* The Amended Credit Agreement requires that the consolidated fixed charge coverage ratio be greater than 1.25 to 1.00. The consolidated fixed charge calculation is income before interest and income taxes, increased by depreciation and amortization expense (EBITDA) and reduced by income taxes and capital expenditures for the previous 12 months, divided by the sum of payments on long-term debt, excluding the US Revolver and the UK Revolver and interest expense, during the previous 12 months.

*Maximum Leverage Ratio* The Amended Credit Agreement requires that the ratio be less than 2.75 to 1.00 for the quarter ended March 31, 2009, and forward. The maximum leverage ratio is the sum of total long-term debt and outstanding letters of credit, less industrial development revenue bonds, divided by the EBITDA for the previous 12 months.

The Amended Credit Agreement is collateralized by a pledge of 100% of the voting capital stock of each of the Company's domestic subsidiaries and 66% of the voting capital stock of each non-domestic subsidiary of the Company. The Amended Credit Agreement provides for customary events of default and carries cross-default provisions with the Company's existing subordinated debt. If an event of default (as defined in the Amended Credit Agreement) occurs and is continuing, on the terms and subject to the conditions set forth in the Amended Credit Agreement, amounts outstanding under the Amended Credit Agreement may be accelerated and may become or be declared immediately due and payable. As of March 31, 2009, the Company was in compliance with all of the financial covenants of the Amended Credit Agreement.

*UK Term Loan*

The UK Term Loan provided £6.0 million, or approximately \$8.5 million, for financing the acquisition of Switchgear & Instrumentation Limited. Approximately £5.0 million, or approximately \$7.1 million, of this facility was used to finance the portion of the purchase price of Switchgear & Instrumentation Limited that was denominated in pounds sterling. The remaining £1.0 million, or approximately \$1.4 million, was utilized as the initial working capital for the



surviving business of Switchgear & Instrumentation Limited that we operate (referred to as S&I ). Quarterly installments of £300,000, or approximately \$426,000, began March 31, 2006, with the final payment due on March 31, 2010. As of March 31, 2009, £2.1 million, or \$3.0 million, was outstanding on the UK

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Term Loan. The interest rate for amounts outstanding under the UK Term Loan is a floating rate based upon LIBOR plus a margin which can range from 1% to 2% as determined by the Company's consolidated leverage ratio as defined within the Amended Credit Agreement.

*Deferred Acquisition Payable*

In connection with the acquisition of the Power/Vac<sup>®</sup> product line, \$8.5 million of the total purchase price of \$32.0 million was paid to General Electric Company at closing on August 7, 2006. The remaining balance of the purchase price of \$23.5 million is payable in four installments every 10 months over the 40 months following the acquisition date. The remaining deferred installments resulted in a discounted deferred acquisition payable of approximately \$4.3 million at March 31, 2009, based on an assumed discount rate of 6.6%. The entire balance of this deferred acquisition payable is classified as current and is included in the current portion of long-term debt as this payment is due to be made in December 2009.

*Industrial Development Revenue Bonds*

We borrowed \$8.0 million in October 2001 through a loan agreement funded with proceeds from tax-exempt industrial development revenue bonds ( Bonds ). These Bonds were issued by the Illinois Development Finance Authority and were used for the completion of our Northlake, Illinois facility. Pursuant to the Bond issuance, a reimbursement agreement between the Company and a major domestic bank required an issuance by the bank of an irrevocable direct-pay letter of credit ( Bond LC ) to the Bonds' trustee to guarantee payment of the Bonds' principal and interest when due. The Bond LC is subject to both early termination and extension provisions customary to such agreements. While the Bonds mature in 2021, the reimbursement agreement requires annual redemptions of \$400,000 that commenced on October 25, 2002. A sinking fund is used for the redemption of the Bonds. At March 31, 2009, the balance in the restricted sinking fund was approximately \$234,000 and was recorded in cash and cash equivalents. The Bonds bear interest at a floating rate determined weekly by the Bonds' remarketing agent, which was the underwriter for the Bonds and is an affiliate of the bank. This interest rate was 0.85% per year on March 31, 2009.

**G. COMMITMENTS AND CONTINGENCIES***Letters of Credit and Bonds*

Certain customers require us to post bank letter of credit guarantees or performance bonds issued by a surety. These guarantees and performance bonds assure our customers that we will perform under terms of our contracts with associated vendors and subcontractors. In the event of default, the customer may demand payment from the bank under a letter of credit or performance by the surety under a performance bond. To date, there have been no significant expenses related to either for the periods reported. We were contingently liable for secured and unsecured letters of credit of \$15.9 million as of March 31, 2009, under our Amended Credit Agreement. We also had performance and maintenance bonds totaling approximately \$173.5 million that were outstanding, with additional bonding capacity of approximately \$126.5 million available, at March 31, 2009.

In March 2007, we renewed and amended our facility agreement ( Facility Agreement ) between S&I and a large international bank. The Facility Agreement provides S&I with 1) £10.0 million in bonds (approximately \$14.2 million), 2) £2.5 million of forward exchange contracts and currency options (approximately \$3.6 million) and 3) the ability to issue bonds and enter into forward exchange contracts and currency options. At March 31, 2009, we had outstanding a total of £5.9 million, or approximately \$8.3 million, under this Facility Agreement.

The Facility Agreement is secured by a guarantee from Powell. The Facility Agreement's principal financial covenants are the same as those discussed in Note F for the Amended Credit Facility. The Facility Agreement provides for customary events of default and carries cross-default provisions with the Company's Amended Credit Facility. If an event of default (as defined in the Facility Agreement) occurs and is continuing, on the terms and subject to the conditions set forth in the Facility Agreement, obligations outstanding under the Facility Agreement may be accelerated and may become or be declared immediately due and payable.

*Litigation*

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



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*Other Contingencies*

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

Despite previous 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.

As required by the court, the Commission made a partial payment of the award of \$2.5 million in December 2008. This amount allowed the Company to recover the amount recorded as a net asset on its Condensed Consolidated Balance Sheet related to this project.

The Company is actively pursuing the payment of additional amounts awarded by the court.

**H. STOCK-BASED COMPENSATION**

Refer to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2008 for a full description of the Company's existing stock-based compensation plans.

*Restricted Stock Units*

In October 2007 and October 2008, the Company granted approximately 34,300 and 32,900 restricted stock units ( RSU s ), respectively, with a fair value of \$37.89 and \$40.81 per unit, respectively, to certain officers and key employees. The fair value of the RSUs was based on the closing price of the Company's common stock as reported on the NASDAQ Global Market ( NASDAQ ) on the grant dates. The actual amount of the RSUs earned will be based on cumulative earnings per share as reported relative to established goals for the three year performance cycles which began October 1 of the year granted, and ranges from 0% to 150% of the target RSUs granted. At March 31, 2009, there were approximately 95,400 RSUs outstanding with a vesting period of three years. The RSUs do not have voting rights of common stock, and the shares of common stock underlying the RSUs are not considered issued and outstanding until actually issued.

During the six months ended March 31, 2009, the Company recorded compensation expense of approximately \$1.0 million related to the RSUs. The Company recorded compensation expense of approximately \$1.4 million related to the RSUs for the six months ended March 31, 2008.

**Table of Contents***Stock Options*

Stock option activity for the six months ended March 31, 2009 was as follows:

	Stock Options	Weighted Average Exercise Price	Remaining Weighted Average Contractual Term (Years)	Aggregate Intrinsic Value (In thousands)
Outstanding at September 30, 2008	267,300	\$ 17.14		
Granted				
Exercised	(3,400)	15.49		
Forfeited / Cancelled				
Outstanding at March 31, 2009	263,900	\$ 17.16	2.43	\$ 4,529
Exercisable at March 31, 2009	185,900	\$ 16.62	2.09	\$ 3,090

**I. DERIVATIVE INSTRUMENTS AND HEDGING STRATEGIES**

The Company operates in various countries and has a significant operation in the United Kingdom. These international operations expose the Company to market risk associated with foreign currency exchange rate fluctuations. The Company has entered into certain forward contracts to hedge the risk of foreign currency rate fluctuations. The Company has elected to apply the hedge accounting rules pursuant to SFAS No. 133, as amended by SFAS No. 138, *Accounting for Certain Derivatives and Certain Hedging Activities* ( SFAS No. 138 ). The Company's objective is to hedge the variability in forecasted cash flow due to the foreign currency risk (U.S. Dollar/British Pound Sterling exchange rate) associated with certain contracted sales. As of March 31, 2009, the Company held only derivatives that were designated as cash flow hedges.

In order for a derivative to qualify for hedge accounting, the derivative must be formally designated as a cash flow hedge by documenting the relationship between the derivative and the hedged item. The documentation should include a description of the hedging instrument, the hedge item, the risk being hedged, the Company's risk management objective and strategy for undertaking the hedge, the method for assessing the effectiveness of the hedge and the method for measuring hedge ineffectiveness. Additionally, the hedge relationship must be expected to be highly effective at offsetting changes in either the fair value or cash flows of the hedged item at both inception of the hedge and on an on-going basis. The Company assesses the on-going effectiveness of its hedges in accordance with the Cumulative Dollar-Offset Approach as described in Derivative Implementation Group Issue No. E-8, *Hedging General: Assessing Hedge Effectiveness of Fair Value and Cash Flow Hedges Period-by-Period or Cumulatively under a Dollar-Offset Approach*, and measures and records hedge ineffectiveness at the end of each fiscal quarter, as necessary.

All derivatives are recognized on the Condensed Consolidated Balance Sheet at their fair value and classified based on the instrument's maturity date. The total notional amount of outstanding derivatives as of March 31, 2009 was approximately \$21.8 million.

The following table presents the fair value of derivative instruments included within the Condensed Consolidated Balance Sheet as of March 31, 2009:

Asset Derivatives		Liability Derivatives	
Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value

(in thousands)

Derivatives designated as  
hedging instruments under  
FAS 133:

Foreign exchange forwards	Prepaid expenses and other current assets	\$ 89	Other accrued expenses	\$ 2,928
Foreign exchange forwards	Deferred income taxes	1,045	Other liabilities	
Total derivatives		\$ 1,134		\$ 2,928

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The following table presents the amounts affecting the Condensed Consolidated Statement of Operations for the three and six month periods ended March 31, 2009:

	Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivatives <sup>1</sup>		Location of Gain (Loss) Reclassified from Accumulated Other comprehensive Income into Income	Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Income <sup>1</sup>	
	Three Months Ended March 31, 2009	Six Months Ended March 31, 2009		Three Months Ended March 31, 2009	Six Months Ended March 31, 2009
<b>Derivatives designated under FAS 133</b>					
	( in thousands)			(in thousands)	
Derivatives designated as cash flow hedges:					
Foreign exchange forwards	\$ (311)	\$ (2,978)	Other income (expense)	\$ 8	\$ 8
Total designated cash flow hedges	\$ (311)	\$ (2,978)		\$ 8	\$ 8

<sup>1</sup> For the three and six month periods ended March 31, 2009, the Company recorded in other (income) expense an immaterial amount of ineffectiveness from cash flow hedges.

Refer to Note C for a description of how the above financial instruments are valued in accordance with SFAS No. 157 and Note E for additional information on changes in other comprehensive income for the three and six month periods ended March 31, 2009.

*Cash Flow Hedges*

The purpose of the Company's foreign currency hedging activities is to protect the Company from the risk that the eventual cash flows resulting from transactions that are currently denominated in British pounds sterling will be adversely affected by changes in exchange rates. The Company is currently hedging its exposure to the reduction in value of forecasted foreign currency cash flows through foreign currency forward agreements through August 16,

2010.

All changes in fair values of outstanding cash flow hedge derivatives, except the ineffective portion, are recorded in accumulated other comprehensive income, until net income is affected by the variability of cash flows of the hedged transaction. In most cases, amounts recorded in accumulated other comprehensive income will be released to net income some time after the maturity of the related derivative. The Condensed Consolidated Statement of Operations classification of effective hedge results is the same as that of the underlying exposure. Results of hedges of revenue and product costs are recorded in revenue and costs of sales, respectively, when the underlying hedged transaction affects net income. Results of hedges of selling and administrative expense are recorded together with those costs when the related expense is recorded. In addition, any ineffective portion of the changes in the fair value of the derivatives designated as cash flow hedges are reported in the Condensed Consolidated Statements of Operations as the changes occur.

As of March 31, 2009, approximately \$1.9 million of deferred net losses (net of tax) on outstanding derivatives recorded in accumulated other comprehensive income are expected to be reclassified to net income during the next twelve months as a result of underlying hedged transactions being recorded in net income. Actual amounts ultimately reclassified to net income are dependent on the exchange rates in effect when the derivative contracts that are currently outstanding mature. As of March 31, 2009, the maximum term over which the Company is hedging exposure to the variability of cash flows for its forecasted and recorded transactions is 17 months.

The Company formally assesses both at a hedge's inception and on an ongoing basis, whether the derivatives that are used in the hedging transaction have been highly effective in offsetting changes in the cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. Effectiveness for cash flow hedges is assessed based on forward rates. When it is determined that a derivative is not, or has ceased to be, highly effective as a hedge, the Company discontinues hedge accounting prospectively.

The Company discontinues hedge accounting prospectively when (1) it determines that the derivative is no longer highly effective in offsetting changes in the cash flows of a hedged item (including hedged items such as firm commitments or forecasted transactions);



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(2) the derivative expires or is sold, terminated or exercised; (3) it is no longer probable that the forecasted transaction will occur or (4) management determines that designating the derivative as a hedging instrument is no longer appropriate.

When the Company discontinues hedge accounting because it is no longer probable that the forecasted transaction will occur in the originally expected period, the gain or loss on the derivative remains in accumulated other comprehensive income and is reclassified to net income when the forecasted transaction affects net income. However, if it is probable that a forecasted transaction will not occur by the end of the originally specified time period or within an additional two-month period of time thereafter, the gains and losses that were accumulated in other comprehensive income will be recognized immediately in net income. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, the Company will carry the derivative at its fair value on the balance sheet, recognizing future changes in the fair value in selling, general and administrative expense. For the three and six month periods ended March 31, 2009, the Company recorded in selling, general and administrative expense an immaterial amount of ineffectiveness from cash flow hedges.

*Credit Risk*

The Company is exposed to credit-related losses in the event of non-performance by counterparties to hedging instruments. Recently, the ability of financial counterparties to perform under financial instruments has become less certain. The Company attempts to take into account the financial viability of counterparties in both valuing the instruments and determining their effectiveness as hedging instruments. If a counterparty was unable to perform, the Company's ability to qualify for hedging certain transactions would be compromised and the realizable value of the financial instruments would be uncertain. As a result, the Company's results of operations and cash flows would be impacted.

**J. BUSINESS SEGMENTS**

We manage our business through operating subsidiaries, which are comprised of two reportable business segments: Electrical Power Products and Process Control Systems. Electrical Power Products includes equipment and systems for the distribution and control of electrical energy. Process Control Systems consists principally of instrumentation, computer controls, communications and data management systems to control and manage critical processes. The tables below reflect certain information relating to our operations by business segment. All revenues represent sales from unaffiliated customers. The accounting policies of the business segments are the same as those described in the summary of significant accounting policies. Corporate expenses and certain assets are allocated to the operating business segments primarily based on revenues. The corporate assets are mainly cash, cash equivalents and marketable securities.

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

	<b>Three Months Ended March 31,</b>		<b>Six Months Ended March 31,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Revenues:				
Electrical Power Products	\$ 158,291	\$ 154,094	\$ 322,201	\$ 295,183
Process Control Systems	5,808	6,239	12,387	12,271
Total	\$ 164,099	\$ 160,333	\$ 334,588	\$ 307,454
Gross profit:				
Electrical Power Products	\$ 31,960	\$ 28,458	\$ 64,132	\$ 53,302
Process Control Systems	1,884	2,234	4,214	4,085
Total	\$ 33,844	\$ 30,692	\$ 68,346	\$ 57,387

Income before income taxes and minority interest:

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Electrical Power Products	\$ 13,143	\$ 8,425	\$ 25,262	\$ 14,039
Process Control Systems	119	621	526	841
Total	\$ 13,262	\$ 9,046	\$ 25,788	\$ 14,880

	<b>March 31, 2009</b>	<b>September 30, 2008</b>
Identifiable tangible assets:		
Electrical Power Products	\$ 292,854	\$ 342,105
Process Control Systems	7,032	8,734
Corporate	72,410	20,507
Total	\$ 372,296	\$ 371,346

In addition, the Electrical Power Products business segment had approximately \$1,084,000 and \$1,084,000 of goodwill and \$22,872,000 and \$25,014,000 of intangible and other assets as of March 31, 2009 and September 30, 2008, respectively, and corporate had approximately \$198,000 and \$189,000 of deferred loan costs, as of March 31, 2009 and September 30, 2008, respectively, which are not included in identifiable tangible assets above. The increase in identifiable tangible assets at corporate results primarily from the increase in cash and cash equivalents.

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

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the accompanying condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q and with our Annual Report on Form 10-K for the year ended September 30, 2008, which was filed with the Securities and Exchange Commission on December 10, 2008 and is available on the SEC's website at [www.sec.gov](http://www.sec.gov).*

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

We are including the following discussion to inform our existing and potential shareholders generally of some of the risks and uncertainties that can affect our Company and to take advantage of the safe harbor protection for forward-looking statements that applicable federal securities law affords.

From time to time, our management or persons acting on our behalf make forward-looking statements to inform existing and potential shareholders about our Company. These statements may include projections and estimates concerning the timing and success of specific projects and our future backlog, revenues, income and capital spending. Forward-looking statements are generally accompanied by words such as estimate, project, predict, believe, expect, anticipate, plan, goal or other words that convey the uncertainty of future events or outcomes. In addition, sometimes we will specifically describe a statement as being a forward-looking statement and refer to this cautionary statement. In addition, various statements in this Quarterly Report on Form 10-Q, including those that express a belief, expectation or intention, as well as those that are not statements of historical fact, are forward-looking statements. These forward-looking statements speak only as of the date of this report; we disclaim any obligation to update these statements unless required by securities law, and we caution you not to rely on them unduly. We have based these forward-looking statements on our current expectations and assumptions about future events. While our management considers these expectations and assumptions to be reasonable, they are inherently subject to significant business, economic, competitive, regulatory and other risks, contingencies and uncertainties, most of which are difficult to predict and many of which are beyond our control. These risks, contingencies and uncertainties relate to, among other matters, the following:

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

Our industry is highly competitive.

International and political events may adversely affect our operations.

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

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

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

Our acquisition strategy involves a number of risks.

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

Our operating results may vary significantly from quarter to quarter.

We may be unsuccessful at generating internal growth.

The departure of key personnel could disrupt our business.

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

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

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

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

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

Catastrophic events could disrupt our business.

We believe the items we have outlined above are important factors that could cause estimates included in our financial statements to differ materially from actual results and those expressed in a forward-looking statement made in this report or elsewhere by us or on our behalf. We have discussed many of these factors in more detail in our Annual Report on Form 10-K for the year ended September 30, 2008. These factors are not necessarily all of the factors that could affect us. Unpredictable or unanticipated factors we have not discussed in this report could also have material adverse effects on actual results of matters that are the subject of our forward-looking statements. We do not intend to update our description of important factors each time a potential important factor arises, except as required by applicable securities laws and regulations. We advise our shareholders that they should (1) be aware that factors not referred to above could affect the accuracy of our forward-looking statements and (2) use caution and common sense when considering our forward-looking statements.

**Overview**

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

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, strengthened throughout fiscal years 2007 and 2008. This increase in customer inquiries led to increased orders in fiscal year 2008, and accordingly, a stronger backlog of orders into fiscal year 2009.

**Results of Operations**

*Revenue and Gross Profit*

Consolidated revenues increased \$3.8 million to \$164.1 million in the second quarter of fiscal 2009 compared to \$160.3 million in the second quarter of fiscal 2008. For the second quarter of fiscal 2009, domestic revenues increased by 12.0% to \$128.1 million compared to the second quarter of 2008. Total international revenues decreased to \$36.0 million in the second quarter of 2009 compared to \$45.9 million in the second quarter of 2008 as a result of the completion of a large international project at the end of fiscal 2008. International revenues are primarily related to energy related investments, principally oil and gas projects. Gross profit for the second quarter of fiscal 2009, as compared to the second quarter of fiscal 2008, increased by approximately \$3.1 million to \$33.8 million as a result of improved pricing and contract execution. Gross profit as a percentage of revenues increased to 20.6% in the second quarter of fiscal 2009, compared to 19.1% in the second quarter of fiscal 2008. This increase in gross profit as a percentage of revenues resulted from an increased production volume and improved pricing, as well as the favorable

impact from the successful completion of certain jobs with margins that exceeded expectations.

For the six months ended March 31, 2009, consolidated revenues increased \$27.1 million to \$334.6 million compared to \$307.5 million for the six months ended March 31, 2008. Revenues increased primarily due to an increased sales effort and strong market

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demand. For the first six months of fiscal 2009, domestic revenues increased by 19.3% to \$262.4 million compared to the first six months of fiscal 2008. Total international revenues decreased to \$72.2 million in the first six months of 2009 compared to \$87.6 million in the first six months of fiscal 2008 as a result of the completion of a large international project at the end of fiscal 2008. Gross profit for the first six months of fiscal 2009, as compared to the first six months of fiscal 2008, increased by approximately \$11.0 million, to \$68.3 million, as a result of improved pricing and contract execution. Gross profit as a percentage of revenues increased to 20.4% for the first six months of fiscal 2009, compared to 18.7% for the first six months of fiscal 2008. This increase in gross profit as a percentage of revenues resulted from the increase in production volume and improved pricing, as well as the favorable impact from the successful completion of certain jobs with margins that exceeded expectations.

*Electrical Power Products*

Our Electrical Power Products business segment recorded revenues of \$158.3 million in the second quarter of fiscal 2009, compared to \$154.1 million for the second quarter of fiscal 2008. In the second quarter of 2009, revenues from public and private utilities were approximately \$29.8 million, compared to \$52.4 million in the second quarter of fiscal 2008. Revenues from industrial and commercial customers totaled \$107.7 million in the second quarter of 2009, an increase of \$6.8 million compared to the second quarter of fiscal 2008. Municipal and transit projects generated revenues of \$20.8 million in the second quarter of fiscal 2009 compared to \$0.8 million in the second quarter of fiscal 2008.

Business segment gross profit, as a percentage of revenues, was 20.2% in the second quarter of fiscal 2009, compared to 18.5% in the second quarter of fiscal 2008. The increase in gross profit as a percentage of revenues was attributable to an increase in production volume and improved pricing, along with higher than anticipated margins being achieved on various jobs.

For the six months ended March 31, 2009, our Electrical Power Products segment recorded revenues of \$322.2 million, compared to \$295.2 million for the six months ended March 31, 2008. In the first six months of fiscal 2009, revenues from public and private utilities were approximately \$68.3 million, compared to \$96.1 million in the first six months of fiscal 2008. Revenues from commercial and industrial customers totaled \$221.8 million in the first six months of fiscal 2009, an increase of \$34.6 million compared to the first six months of fiscal 2008. Municipal and transit projects generated revenues of \$32.1 million in the first six months of fiscal 2009, compared to \$11.9 million in the first six months of fiscal 2008.

For the six months ended March 31, 2009, gross profit from the Electrical Power Products business segment, as a percentage of revenues, was 19.9%, compared to 18.1% for the six months ended March 31, 2008. The increase in gross profit as a percentage of revenues was attributable to an increase in production volume and improved pricing, along with higher than anticipated margins being achieved on various jobs.

*Process Control Systems*

Our Process Control Systems business segment recorded revenues of \$5.8 million in the second quarter of fiscal 2009, a decrease from \$6.2 million in the second quarter of fiscal 2008. Business segment gross profit, as a percentage of revenues, decreased to 32.4% in the second quarter of fiscal 2009 compared to 35.8% in the second quarter of fiscal 2008. This decrease was primarily attributable to the substantial completion of certain projects in early 2008.

For the six months ended March 31, 2009, our Process Control Systems business segment recorded revenues of \$12.4 million, up from \$12.3 million for the six months ended March 31, 2008. Business segment gross profit increased, as a percentage of revenues, to 34.0% for the first six months of fiscal 2009, compared to 33.3% for the first six months of fiscal 2008. This increase resulted from a favorable mix of jobs and achieving synergies and increased efficiencies through regionalization of operations.

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

*Consolidated Selling, General and Administrative Expenses*

Consolidated selling, general and administrative expenses decreased to 12.4% of revenues in the second quarter of fiscal 2009 compared to 13.1% of revenues in the second quarter of fiscal 2008. Selling, general and administrative expenses were \$20.3 million for the second quarter of fiscal 2009 compared to \$21.0 million for the second quarter of fiscal 2008. This decrease was primarily related to the timing of incentive compensation expense in the current year.

Selling, general and administrative expenses decreased as a percentage of revenues primarily due our ability to leverage our existing infrastructure to support our increased production volume.



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For the six months ended March 31, 2009, consolidated selling, general and administrative expenses decreased to 12.5% of revenues, compared to 13.4% of revenues for the six months ended March 31, 2008. Selling, general and administrative expenses were \$41.9 million for the first six months of fiscal 2009 compared to \$41.1 million for the first six months of fiscal 2008. As a percentage of revenues, selling, general and administrative expenses decreased primarily because we were able to leverage our existing infrastructure to support our increased production volume.

*Interest Expense and Income*

Interest expense was \$0.3 million and \$0.7 million for the three and six months ended March 31, 2009, respectively, a decrease of approximately \$0.5 million and \$0.9 million compared to the three and six months ended March 31, 2008, respectively. The decrease in interest expense was primarily due to lower interest rates and the lower amounts outstanding under our credit facility during the first half of fiscal 2009.

Interest income was approximately \$3,000 and \$60,000 for the three and six months ended March 31, 2009, respectively, compared to approximately \$86,000 and \$201,000 for the three and six months ended March 31, 2008, respectively. This decrease resulted from lower interest rates being earned on amounts invested.

*Provision for Income Taxes*

Our provision for income taxes reflects an effective tax rate on earnings before income taxes of 35.1% in the second quarter of fiscal 2009 compared to 35.8% in the second quarter of fiscal 2008. For the first six months of fiscal 2009, our effective tax rate was 35.1% compared to 36.1% for the first six months of fiscal 2008. The decrease in the effective tax rate resulted from our increased domestic taxable income and the benefit derived from the Domestic Production Activities Deduction. Our effective tax rate was also 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 accruals for uncertain tax positions are analyzed and adjusted quarterly as events occur to warrant such change. Adjustments to tax accruals are a component of the effective tax rate.

*Net Income*

In the second quarter of fiscal 2009, we generated net income of \$8.9 million, or \$0.77 per diluted share, compared to \$6.0 million, or \$0.53 per diluted share, in the second quarter of fiscal 2008. For the six months ended March 31, 2009, we recorded net income of \$16.7 million, or \$1.45 per diluted share, compared to \$9.6 million, or \$0.84 per diluted share, for the six months ended March 31, 2008. We generated higher revenues and improved gross profits for the Company as a whole, while leveraging our existing infrastructure to support our increased production volume.

*Backlog*

The order backlog at March 31, 2009 was \$486.5 million, compared to \$518.6 million at September 30, 2008 and \$536.5 million at the end of the second quarter of fiscal 2008. New orders placed during the second quarter of fiscal 2009 totaled \$154.3 million compared to \$196.2 million in the second quarter of fiscal 2008.

**Liquidity and Capital Resources**

Cash and cash equivalents increased to approximately \$60.1 million at March 31, 2009, as a result of cash flow provided by operations of approximately \$79.8 million for the first six months of fiscal 2009. As of March 31, 2009, current assets exceeded current liabilities by 1.9 times and our debt to total capitalization ratio was 6.3%. The approximately \$79.8 million of cash flow from operations resulted from our increased efforts to manage inventory and billings to customers. The cash flow generated from operations in the first six months of fiscal 2009 was used to repay the \$19.0 million outstanding on the US Revolver at September 30, 2008 and to finance our operational activities.

At March 31, 2009, we had cash and cash equivalents of \$60.1 million, compared to \$10.1 million at September 30, 2008. We have a \$71.0 million revolving credit facility in the U.S. and an additional £4.0 million (approximately \$5.7 million) revolving credit facility in the United Kingdom, both of which expire in December 2012. As of March 31, 2009, there was approximately \$2.1 million borrowed under these lines of credit. Total long-term debt and capital lease obligations, including current maturities, totaled \$14.6 million at March 31, 2009, compared to \$41.8 million at September 30, 2008. Letters of credit outstanding were \$15.9 million at

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