KEWAUNEE SCIENTIFIC CORP /DE/
Form 10-K
July 18, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended April 30, 2008 or

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

For the transition period from ______ to ______

Commission file number 0-5286

KEWAUNEE SCIENTIFIC CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**38-0715562**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**

2700 West Front Street Statesville, North Carolina	**28677-2927**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (704) 873-7202

Securities registered pursuant to Section 12(b) of the Act:

Common Stock $2.50 par value

(Title of Class)

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

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

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 x 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 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. No x

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 definition of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

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

The aggregate market value of shares of voting stock held by non-affiliates of the registrant was approximately $30,243,355, based on the last reported sale price of the registrant s Common Stock on October 31, 2007, the last business day of the registrant s most recently completed second fiscal quarter. Only shares beneficially owned by directors of the registrant (excluding shares subject to options) and each person owning more than 10% of the outstanding Common Stock of the registrant were excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of July 3, 2008, the registrant had outstanding 2,551,670 shares of Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE: Those portions of the Company s proxy statement for use in connection with Kewaunee Scientific Corporation s annual meeting of stockholders to be held on August 27, 2008, indicated in this report are incorporated by reference into Part III hereof.

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PART I

Item 1. Business

GENERAL

Our principal business is the design, manufacture, and installation of laboratory and technical furniture products. Laboratory furniture products include both steel and wood cabinetry, fume hoods, flexible systems, and worksurfaces. Technical furniture products include workstations, workbenches, computer enclosures, and network storage systems.

Our products are sold primarily through purchase orders and contracts submitted by customers through our dealers and commissioned agents and a national distributor, as well as through competitive bids submitted by us and our subsidiaries in India and Singapore. Products are sold principally to pharmaceutical, biotechnology, industrial, chemical, and commercial research laboratories, educational institutions, healthcare institutions, governmental entities, manufacturing facilities, and users of networking furniture. We consider the markets in which we compete to be highly competitive, with a significant amount of the business involving competitive public bidding.

It is common in the laboratory furniture industry for customer orders to require delivery at extended future dates, as products are frequently to be installed in buildings yet to be constructed. Changes or delays in building construction may cause delays in delivery of the orders and our recognition of the sale. Since prices are normally quoted on a firm basis in the industry, we bear the burden of possible increases in labor and material costs between quotation of an order and delivery of the product. The impact of such possible increases is considered when determining the sales price.

Our need for working capital and our credit practices are comparable to those of other companies manufacturing, selling, and installing similar products in similar markets. Since our products are used in building construction projects, in many cases payments for our laboratory products are received over longer periods of time than payments for many other types of manufactured products, thus requiring increased working capital. In addition, payment terms associated with certain projects provide for a retention amount until completion of the project, thus also increasing required working capital. On average, payments for our products are received during the quarter following shipment, with the exception of the retention amounts which are collected at the completion of the project.

The principal raw materials and products manufactured by others used by us in our products are cold-rolled carbon and stainless steel, hardwood lumber and plywood, paint, chemicals, resins, hardware, plumbing, and electrical fittings. Such materials and products are purchased from multiple suppliers and are typically readily available.

We hold various patents and patent rights, but do not consider that our success or growth is dependent upon our patents or patent rights. Our business is not dependent upon licenses, franchises, or concessions.

Our business is not generally cyclical, although sales are sometimes lower during our third quarter because of slower construction activity in certain areas of the country during the winter months. Our business is not dependent on any one or a few customers; however, sales to our national distributor, VWR International, LLC, represented 13 percent, 13 percent, and 14 percent of our total sales in fiscal years 2008, 2007, and 2006, respectively.

Our order backlog at April 30, 2008 was $58.7 million, as compared to $51.1 million at April 30, 2007 and $36.4 million at April 30, 2006. All but $8.3 million of the backlog at April 30, 2008 was scheduled for shipment during fiscal year 2009; however, it may reasonably be expected that delays in shipments will occur because of customer rescheduling or delay in completion of projects which involve the installation of our products. Based on scheduled shipment dates and past experience, we expect that more than 80 percent of our order backlog at April 30, 2008 will be shipped during fiscal year 2009.

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SEGMENT INFORMATION

See Note 9 of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K for information concerning our Domestic and International business segments.

COMPETITION

We consider the industries in which we compete to be highly competitive and believe that the principal competitive factors are price, product performance, and customer service. A significant portion of our business is based upon competitive public bidding.

RESEARCH AND DEVELOPMENT

The amount spent and expensed by us during the fiscal year ended April 30, 2008 on research and development activities related to new or re-designed products was $1,192,000. The amounts spent for similar purposes in the fiscal years ended April 30, 2007 and 2006 were $945,000 and $760,000, respectively.

ENVIRONMENTAL COMPLIANCE

In the last three fiscal years, compliance with federal, state, or local provisions enacted or adopted regulating the discharge of materials into the environment has had no material effect on us. There are no material capital expenditures anticipated for such purposes, and no material effect therefrom is anticipated on our earnings or competitive position.

EMPLOYEES

At April 30, 2008, we had 448 domestic employees and 121 international employees.

OTHER INFORMATION

Our Internet address is **www.kewaunee.com**. We make available, free of charge through this web site, our annual report to stockholders. Our Form 10-K and 10-Q financial reports may be obtained by stockholders by writing the Secretary of the Company, Kewaunee Scientific Corporation, P.O. Box 1842, Statesville, NC 28687-1842. The public may also obtain information on our reports, proxy, and information statements at the SEC Internet site **www.sec.gov**.

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Certain statements included and referenced in this report, including Management s Discussion and Analysis of Financial Condition and Results of Operations, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the Reform Act). Such forward-looking statements involve known and unknown risks, uncertainties, and other factors that could significantly impact results or achievements expressed or implied by such forward-looking statements. These factors include, but are not limited to, economic, competitive, governmental, and technological factors affecting our operations, markets, products, services, and prices, as well as prices for certain raw materials and energy. The cautionary statements made by us pursuant to the Reform Act herein and elsewhere should not be construed as exhaustive. We cannot always predict what factors would cause actual results to differ materially from those indicated by the forward-looking statements. In addition, readers are urged to consider statements that include the terms believes, belief, expects, plans, objectives, anticipat intends or the like to be uncertain and forward-looking.

EXECUTIVE OFFICERS OF THE REGISTRANT

Included in Part III, Item 10(b) of this Annual Report on Form 10-K.

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Item 1A. Risk Factors

You should carefully consider the following risks before you decide to buy shares of our common stock. If any of the following risks actually occur, our business, results of operations, or financial condition would likely suffer. In such case, the trading price of our common stock would decline, and you may lose all or part of the money you paid to buy our stock.

This and other public reports may contain forward-looking statements based on current expectations, assumptions, estimates, and projections about us and our industry. These forward-looking statements involve risks and uncertainties. Our actual results could differ materially from those forward-looking statements as a result of many factors, as more fully described below and elsewhere in our public reports. We do not undertake to update publicly any forward-looking statements for any reasons, even if new information becomes available or other events occur in the future.

If we fail to compete effectively, our revenue and profit margins could decline.

We face a variety of competition in all of the markets in which we participate. Competitive pricing, including price competition or the introduction of new products, could have material adverse effects on our revenues and profit margins.

Our ability to compete effectively depends to a significant extent on the specification or approval of our products by architects, engineers, and customers. If a significant segment of those communities were to decide that the design, materials, manufacturing, testing, or quality control of our products is inferior to that of any of our competitors, our sales and profits would be materially and adversely affected.

If we lose a large customer, our sales and profits would decline.

We have substantial sales to one large customer. That distributor accounted for 13% of our net sales in fiscal year 2008. Loss of all or a part of our sales to a large customer would have a material effect on our revenues and profits.

An increase in the price of raw materials and energy could negatively affect our sales and profits.

It is common in the laboratory furniture industry for customers to require delivery at extended future dates, as products are frequently to be installed in buildings yet to be constructed. Since prices are normally quoted on a firm basis in the industry, we bear the burden of possible increases in labor, material, and energy costs between the quotation of an order and the delivery of the products. Our principal raw materials are steel, including stainless steel, wood, and epoxy resin. Numerous factors beyond our control, such as general economic conditions, competition, worldwide demand, labor costs, energy costs, and import duties and other trade restrictions, influence prices for our raw materials. In addition, consolidation among domestic integrated steel producers, changes in supply and demand in steel markets, the weakening United States dollar, a reduction in steel imports, and other events have led to increased steel costs. The domestic steel market is heavily influenced by three major United States steel manufacturers. Worldwide demand for steel is strong. Prices for steel, epoxy resin, and energy increased significantly in fiscal year 2008, and early indications are that they will increase further in fiscal year 2009. We have not always been able, and in the future we might not be able, to increase our product prices in amounts that correspond to increases in costs of raw materials, without materially and adversely affecting our sales and profits. Where we are not able to increase our prices, increases in our raw material costs will adversely affect our profitability.

Our future growth may depend on our ability to penetrate new international markets.

International laws and regulations, construction customs, standards, techniques, and methods differ from those in the United States. Significant challenges of conducting business in foreign countries include, among other factors, local acceptance of our products, political instability, currency controls, changes in import and export regulations, changes in tariff and freight rates, and fluctuations in foreign exchange rates.

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Events outside our control may affect our operating results.

We have little control over the timing of our customer shipments. Shipments that we anticipate in one quarter may occur in another quarter, affecting both quarters results. Weather conditions, such as unseasonably warm, cold, or wet weather, can affect and sometimes delay projects. Political and economic events can also affect our revenues. When sales do not meet our expectations, our operating results will be reduced for the relevant quarters.

Our principal markets are in the laboratory building construction industry. This industry is subject to significant volatility due to various factors, none of which is within our control. Declines in construction activity or demand for our products could materially and adversely affect our business and financial condition.

We depend on key management and technical personnel, the loss of whom could harm our business.

We depend on certain key management and technical personnel. The loss of one or more key employees may materially and adversely affect us. Our success also depends on our ability to attract and retain additional highly qualified technical, marketing, and management personnel necessary for the maintenance and expansion of our activities. We might not be able to attract or retain such personnel.

Our stock price is likely to be volatile and could drop.

The trading price of our Common Stock could be subject to wide fluctuations in response to quarter-to-quarter variation in operating results, announcement of technological innovations or new products by us or our competitors, general conditions in the construction and construction materials industries, relatively low trading volume in our Common Stock, and other events or factors. In addition, in recent years, the stock market has experienced extreme price fluctuations. This volatility has had a substantial effect on the market prices of securities issued by many companies for reasons unrelated to the operating performance of those companies. Securities market fluctuations may adversely affect the market price of our Common Stock.

We are subject to a number of significant risks that might cause our actual results to vary materially from our forecasts, targets, or projections, including:

- Failing to anticipate, appropriately invest in and effectively manage the human, information technology, and logistical resources necessary to support our business, including managing the costs associated with such resources;

- Failing to generate sufficient future positive operating cash flows and, if necessary, secure adequate external financing to fund our growth; and

- Interruptions in service by common carriers that ship goods within our distribution channels.

Item 1B. Unresolved Staff Comments

None.

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Item 2. Properties

We own and operate three adjacent manufacturing facilities in Statesville, North Carolina. These facilities also house our corporate offices, as well as sales and marketing, administration, engineering and drafting personnel. These facilities together comprise approximately 382,000 square feet and are located on approximately 20 acres of land. In addition, at April 30, 2008, we leased our primary distribution facility and other warehouse facilities totaling 159,000 square feet in Statesville, North Carolina. We also lease and operate a manufacturing facility in Bangalore, India totaling approximately 16,000 square feet.

All of the facilities which we own are held free and clear of any encumbrances. We believe our facilities are suitable for their respective uses and are adequate for our current needs.

Item 3. Legal Proceedings

From time to time, we are involved in disputes and litigation relating to claims arising out of our operations in the ordinary course of business. Further, we are periodically subject to government audits and inspections. We believe that any such matters presently pending will not, individually or in the aggregate, have a material adverse effect on our results of operations or financial condition.

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

Not Applicable.

PART II

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

Our common stock is traded in the Nasdaq Global Market, under the symbol KEQU. The following table sets forth the quarterly high and low prices reported on the Nasdaq Global Market.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2008				
High	**$ 15.44**	**$ 18.50**	**$ 20.73**	**$ 20.04**
Low	**$ 10.64**	**$ 12.78**	**$ 12.50**	**$ 14.65**
Close	**$ 14.50**	**$ 15.57**	**$ 17.40**	**$ 15.60**
2007				
High	$ 9.10	$ 8.57	$ 11.47	$ 11.90
Low	$ 8.09	$ 7.38	$ 7.40	$ 9.64
Close	$ 8.79	$ 7.44	$ 9.78	$ 10.97

As of July 3, 2008, we estimate there were approximately 1,000 stockholders of our common shares, of which 214 were stockholders of record. We paid cash dividends of $0.28 per share for each of the fiscal years 2008, 2007, and 2006. The quarterly cash dividend was increased to eight cents per outstanding share in May 2008. We expect to pay dividends in the future in line with our actual and anticipated future operating results.

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PERFORMANCE GRAPH

The graph below sets forth a comparison of the Company s annual stockholder return with the annual stockholder return of (i) the Nasdaq Market Index, and (ii) an index of Nasdaq, non-financial companies with similar market capitalizations to the Company. The graph is based on an investment of $100 on May 1, 2003 (the first trading day of the Company s fiscal year beginning on that date) in the Company s common stock, assuming dividend reinvestment. The graph is not an indicator of the future performance of the Company. Thus, it should not be used to predict the future performance of the Company s stock. The graph and related data were furnished by Morningstar, Inc.

In addition to the Company, the Similar Market Capitalization Index is comprised of the following companies: Accentia Biopharmaceuticals, Inc.; Airspan Networks Inc.; Benihana Inc.; ClearOne Communications, Inc.; Emageon Inc.; FSI International, Inc.; GeoPharma, Inc.; Insweb Corporation; The Intergroup Corporation; Neurogen Corporation; Oculus Innovative Sciences, Inc.; Pokertek, Inc.; Sapiens International Corp N.V.; Somerset Hills Bancorp; Tarragon Corporation; Towerstream Corporation; WPCS International Incorporated; and Ziopharm Oncology, Inc. As it has in prior years, the Company used for an index companies with a market capitalization similar to that of the Company (the Peer Group). The Peer Group index was used because there exists no applicable published industry index or line-of-business index, and the Company does not believe it can reasonably identify a peer group of companies in its industry because the Company s primary competitors are either divisions of larger corporations or are privately owned.

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SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLAN

See Item 12 in this Form 10-K for a discussion of securities authorized for issuance under our equity compensation plans.

Item 6. Selected Financial Data

The following table sets forth our selected consolidated financial information for each of the years ended April 30, 2008, 2007, 2006, 2005, and 2004; this information is derived from our audited Consolidated Financial Statements, the most recent three years of which appear elsewhere herein. The data presented below should be read in conjunction with the Consolidated Financial Statements and related Notes thereto and Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere herein.

			Years Ended April 30		
$ and shares in thousands, except per share amounts	**2008**	**2007**	**2006**	**2005**	**2004**
OPERATING STATEMENT DATA:					
Net sales	**$ 89,510**	$ 81,441	$ 84,071	$ 73,481	$ 94,700
Costs of products sold	**70,338**	66,355	71,663	60,997	79,011
Gross profit	**19,172**	15,086	12,408	12,484	15,689
Other operating income			884		
Operating expenses	**13,559**	11,728	12,175	12,699	13,491
Operating earnings (loss)	**5,613**	3,358	1,117	(215)	2,198
Other income	**47**	53	50	2	319
Interest expense	**(294)**	(670)	(470)	(310)	(301)
Earnings (loss) before income taxes	**5,366**	2,741	697	(523)	2,216
Income tax expense (benefit)	**1,733**	902	288	(488)	621
Earnings (loss) before minority interests	**3,633**	1,839	409	(35)	1,595
Minority interests in subsidiaries	**(499)**	(299)	(216)	(112)	(133)
Net earnings (loss)	**$ 3,134**	$ 1,540	$ 193	$ (147)	$ 1,462
Weighted average shares outstanding:					
Basic	**2,530**	2,493	2,492	2,491	2,486
Diluted	**2,557**	2,495	2,493	2,495	2,497
PER SHARE DATA:					
Net earnings (loss):					
Basic	**$ 1.24**	$ 0.62	$ 0.08	$ (0.06)	$ 0.59
Diluted	**1.23**	0.62	0.08	(0.06)	0.59
Cash dividends	**0.28**	0.28	0.28	0.28	0.28
Year-end book value	**10.56**	9.64	10.25	10.43	10.77

			As of April 30		
$ in thousands	**2008**	**2007**	**2006**	**2005**	**2004**
BALANCE SHEET DATA:					
Current assets	**$ 33,182**	$ 28,514	$ 31,398	$ 26,780	$ 31,536
Current liabilities	**17,262**	16,183	20,373	16,399	18,919
Net working capital	**15,920**	12,331	11,025	10,381	12,617
Net property, plant and equipment	**11,825**	11,255	11,163	10,730	11,362
Total assets	**50,606**	45,240	50,472	46,212	50,461

Total borrowings/long-term debt	**5,027**	4,325	9,059	5,127	9,045
Stockholders equity	**26,947**	24,048	25,546	25,989	26,791
OTHER DATA:					
Capital expenditures	**$ 2,546**	$ 1,724	$ 1,886	$ 976	$ 1,619
Year-end stockholders of record	**214**	225	243	252	265
Year-end employees (domestic)	**448**	433	471	484	533

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this document constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the Reform Act). Such forward-looking statements involve known and unknown risks, uncertainties, and other factors that could significantly impact results or achievements expressed or implied by such forward-looking statements. These factors include, but are not limited to, economic, competitive, governmental, and technological factors affecting our operations, markets, products, services, and prices. The cautionary statements made pursuant to the Reform Act herein and elsewhere by us should not be construed as exhaustive. We cannot always predict what factors would cause actual results to differ materially from those indicated by the forward-looking statements. In addition, readers are urged to consider statements that include the terms believes, belief, expects, plans, objectives, anticipates, intends, or the like to be and forward-looking. Over time, our actual results, performance, or achievements will likely differ from the anticipated results, performance or achievements that are expressed or implied by our forward-looking statements, and such difference might be significant and harmful to our stockholders interest. Many important factors that could cause such a difference are described under the caption Risk Factors, in Item 1A of this Annual Report, which you should review carefully.

MANAGEMENT S DISCUSSION AND ANALYSIS

INTRODUCTION

We are a recognized leader in the design, manufacture, and installation of laboratory and technical furniture products. Laboratory furniture products include both steel and wood cabinetry, fume hoods, flexible systems, and worksurfaces. Technical furniture products include workstations, workbenches, computer enclosures, and network storage systems. Our headquarters and manufacturing facilities are located in Statesville, North Carolina. We also have subsidiaries in Singapore and Bangalore, India that serve the Asian and Middle East markets. Although only approximately 17.6% of our sales were through our international subsidiaries in fiscal year 2008, these sales are considered an important part of our long-term growth strategy.

Our products are primarily sold through purchase orders and contracts submitted by customers through our dealers and commissioned agents, a national distributor, and through competitive bids submitted by us and our subsidiaries. Products are sold principally to pharmaceutical, biotechnology, industrial, chemical, and commercial research laboratories, educational institutions, healthcare institutions, governmental entities, manufacturing facilities, and users of networking furniture. We consider the markets in which we compete to be highly competitive, with a significant amount of the business involving competitive public bidding.

It is common in the laboratory furniture industry for customer orders to require delivery at extended future dates, as products are frequently to be installed in buildings yet to be constructed. Changes or delays in building construction may cause delays in delivery of the orders and our recognition of the sale. Since prices are normally quoted on a firm basis in the industry, we bear the burden of possible increases in labor and material costs between quotation of an order and delivery of the product. The impact of such possible increases is considered when determining the sales price. The principal raw materials and products manufactured by others used in our products are cold-rolled carbon and stainless steel, hardwood lumbers and plywood, paint, chemicals, resins, hardware, plumbing and electrical fittings. Such materials and products are purchased from multiple suppliers and are typically readily available.

CRITICAL ACCOUNTING POLICIES

In the ordinary course of business, we have made a number of estimates and assumptions relating to the reporting of results of operations and financial position in the preparation of our consolidated financial statements in conformity with generally accepted accounting principles in the United States of America. Actual results could differ significantly from those estimates. We believe that the following discussion addresses our most critical accounting policies, which are those that are most important to the portrayal of our financial condition and results of operations, and require management s most difficult, subjective, and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

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Revenue Recognition

A portion of our product sales result from fixed-price construction contracts that involve a signed contract for a fixed price to provide our laboratory furniture and fume hoods for a construction project. We are usually in the role of a subcontractor, but in some cases may enter into a contract directly with the end-user of the products. Product sales resulting from fixed-price construction contracts are generated from multiple-element arrangements that require separate units of accounting and estimates regarding the fair value of individual elements. The Company has determined that its multiple-element arrangements that qualify as separate units of accounting are (1) product sales and (2) installation services. There is objective and reliable evidence of fair value for both the product sales and installation services, and allocation of arrangement consideration for each of these units is based on their relative fair values. Each of these elements represent individual units of accounting, as the delivered item has value to a customer on a stand-alone basis. The Company s products are regularly sold on a stand-alone basis to customers which provides vendor-specific objective evidence of fair value. The fair value of installation services is separately calculated using expected costs of installation services. Many times the value of installation services is calculated using price quotations from subcontractors to the Company, who perform installation services on a stand-alone basis. Assuming all other criteria for revenue recognition have been met, we recognize revenue for product sales at the date of shipment. Product sales resulting from purchase orders involve a purchase order received by us from our dealers or our stocking distributor. This category includes product sales for standard products, as well as products which require some customization. These sales are recognized under the terms of the purchase order which generally are freight on board (FOB) shipping point and do not include rights of return. Accordingly, sales are recognized at the time of shipment.

Allowance for Doubtful Accounts

Evaluation of the allowance for doubtful accounts involves management judgments and estimates. We evaluate the collectibility of our trade accounts receivable based on a number of factors. In circumstances where management is aware of a customer s inability to meet its financial obligations to us, or a project dispute makes it unlikely that all of the receivable owed by a customer will be collected, a specific reserve for bad debts is estimated and recorded, to reduce the recognized receivable to the estimated amount we believe will ultimately be collected. In addition to specific customer identification of potential bad debts, a general reserve for bad debts is estimated and recorded based on our recent past loss history and an overall assessment of past due trade accounts receivable amounts outstanding.

Inventories

Inventories are valued at the lower of cost or market. The cost of the majority of inventories is measured on the last in, first out (LIFO) method. The LIFO method allocates the most recent costs to cost of products sold, and, therefore, recognizes into operating results fluctuations in raw materials and other inventoriable costs more quickly than other methods. Other inventories consisted of foreign inventories and are measured at actual cost.

Pension Benefits

We sponsor pension plans covering all employees who met eligibility requirements as of April 30, 2005. In February 2005, our pension plans were amended as of April 30, 2005. No further benefits have been, or will be, earned under the plans subsequent to the amendment date, and no additional participants have been, or will be, added to the plans. Several statistical and other factors, which attempt to anticipate future events, are used in calculating the expense and liability related to the pension plans. These factors include assumptions about the discount rate used to calculate and determine benefit obligations and expected return on plan assets within certain guidelines. The actuarial assumptions used by us may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates, or longer or shorter life spans of participants. These differences may significantly affect the amount of pension income or expense recorded by us in future periods.

RESULTS OF OPERATIONS

Sales for fiscal year 2008 were $89.5 million, an increase of 10% from fiscal year 2007 sales of $81.4 million. Domestic Operations sales for the year were $73.8 million, an increase of 11% from the prior year. As reflected in the growth of our order backlog, the domestic and international marketplace for laboratory products continued to be healthy during the year, although very price competitive. International Operations sales for the year were $15.8 million, an increase of 6% over the prior year.

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Our order backlog was $58.7 million at April 30, 2008, as compared to $51.1 million at April 30, 2007, and $36.4 million at April 30, 2006. The increase in order backlog in fiscal year 2008 was due to a stronger volume of incoming orders, both domestic and international, throughout the year.

Sales for fiscal year 2007 were $81.4 million, a decrease of 3% from fiscal year 2006 sales of $84.1 million. Domestic Operations sales for fiscal year 2007 were $66.6 million, a decrease of 8% from the prior year. The decline in Domestic Operations sales resulted from lower demand for small and mid-sized projects, as the marketplace for larger laboratory projects continued to be healthy during the year. International Operations sales for fiscal year 2007 were $14.9 million, an increase of 23% over the prior year. The increase in International Operations sales resulted from a strengthening of sales representation in the Asian markets and a further expansion of manufacturing capabilities in India.

Gross profit represented 21.4%, 18.5%, and 14.8% of sales in fiscal years 2008, 2007, and 2006, respectively. The increase in gross profit margin in fiscal year 2008 from fiscal year 2007 was primarily due to improved manufacturing efficiencies related to capital projects completed in prior years, continued implementation of lean manufacturing techniques, and lower cost global supply sources for raw materials. The increase in the gross profit margin in fiscal year 2007 from fiscal year 2006 was primarily due to improved manufacturing costs, continuing success in identifying new lower cost global supply sources for raw materials and components, and other cost improvement activities.

Other operating income of $884,000 in fiscal year 2006 resulted from the sale of our former plant site in Lockhart, Texas.

Operating expenses were $13.6 million, $11.7 million, and $12.2 million in fiscal years 2008, 2007, and 2006, respectively, and 15.1%, 14.4%, and 14.5% of sales, respectively. The increase in operating expenses for fiscal year 2008 as compared to fiscal year 2007 was an increase of $339,000 in compensation earned under performance incentive plans, an increase of $335,000 in sales and marketing expenses, an increase of $93,000 in sales commissions due to the increase in sales, and Sarbanes-Oxley consulting costs of $216,000. The decrease in operating expenses for fiscal year 2007 as compared to fiscal year 2006 was primarily due to a reduction in sales and marketing expenses of $368,000 and a decline of $182,000 in sales commissions due to lower sales.

Other income was $47,000, $53,000, and $50,000 in fiscal years 2008, 2007, and 2006, respectively.

Interest expense was $294,000, $670,000, and $470,000 in fiscal years 2008, 2007, and 2006, respectively. The decrease in interest expense in fiscal year 2008 resulted primarily from lower levels of bank borrowings. The increased interest expense in fiscal year 2007 resulted primarily from higher interest rates paid and higher levels of bank borrowings and capital leases during the year.

Income tax expense of $1,733,000, or 32.3% of pretax earnings, was recorded in fiscal year 2008. Income tax expense of $902,000, or 32.9% of pretax earnings, was recorded in fiscal year 2007. The effective tax rate for fiscal year 2008 differs from the statutory rate as it was decreased by the impact of differing foreign tax rates, a reduction in the valuation allowance, and the impact of state and federal tax credits. The effective tax rate for fiscal year 2007 differs from the statutory rate as it was decreased by the impact of state and federal tax credits, partially offset by the impact of differing foreign tax rates. Income tax expense of $288,000, or 41.3% of pretax earnings, was recorded in fiscal year 2006. The impact of earned state and federal tax credits in fiscal year 2006 was offset by a valuation allowance established against earned but unused tax credits.

Minority interest related to our two subsidiaries that are not 100% owned by us were $499,000, $299,000, and $216,000, for fiscal years 2008, 2007, and 2006, respectively. The changes in minority interest for each year were due to changes in the levels of net income of the subsidiaries.

Net earnings in fiscal year 2008 were $3,134,000, or $1.23 per diluted share. Net earnings in fiscal year 2007 were $1,540,000, or $0.62 per diluted share. Net earnings in fiscal year 2006 were $193,000, or $0.08 per diluted share. Net earnings in fiscal year 2006 included a gain of $540,000 resulting from the sale of our former plant site in Lockhart, Texas.

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LIQUIDITY AND CAPITAL RESOURCES

Our principal sources of liquidity have historically been funds generated from operating activities, supplemented as needed by borrowings under our revolving credit facility. Additionally, certain machinery and equipment are financed by non-cancelable operating leases or capital leases. We believe that these sources of funds will be sufficient to support ongoing business requirements, including capital expenditures, through fiscal year 2009.

At April 30, 2008, we had advances of $4.6 million outstanding under our unsecured $12 million revolving credit facility. The credit facility matures in September 2010, and we intend to extend or replace it with a new facility prior to the maturity date, although there can be no assurance as to the availability or terms of any such extension or replacement. See Note 3 of the Notes to Consolidated Financial Statements included in Item 8 of this annual report for additional information concerning our credit facility.

During fiscal year 2003, we entered into a 10-year operating lease for a new distribution center in Statesville, North Carolina. During fiscal years 2007 and 2006, we entered into capital lease arrangements related to costs of $300,000 and $852,000, respectively, for a new enterprise resource planning (ERP) system that was implemented in the fourth quarter of fiscal year 2008. These lease arrangements, as well as most of our leases for machinery and equipment, provide us with renewal and purchase options and certain early cancellation rights.

The following table summarizes the obligated cash payments including interest, if applicable, for the above commitments as of April 30, 2008:

PAYMENTS DUE BY PERIOD

($ in thousands)

Contractual Obligations	Total	1 Year	2-3 Years	4-5 Years	After 5 years
Operating Leases	$ 5,660	$ 1,567	$ 2,366	$ 1,482	$ 245
Capital Leases	521	354	167		
Total Contractual Cash Obligations	$ 6,181	$ 1,921	$ 2,533	$ 1,482	$ 245

We do not have any off balance sheet arrangements at April 30, 2008.

Operating activities provided cash of $3.4 million in fiscal year 2008, primarily from operating earnings and an increase in accounts payable, partially offset by increases in accounts receivable and inventory, and a decrease in deferred revenue. Operating activities provided cash of $8.6 million in fiscal year 2007, primarily from operating earnings, a reduction in accounts receivable, and an increase in deferred revenue. Operating activities used cash of $258,000 in fiscal year 2006. The primary uses of cash during fiscal year 2006 were increases in inventory and accounts receivable balances, partially offset by cash provided from operating earnings and an increase in accounts payable. The majority of the April 30, 2008 accounts receivable balances are expected to be collected during the first quarter of fiscal year 2009, with the exception of retention amounts on fixed-price contracts which are collected when the entire construction project is completed and all retention funds are paid by the owner.

As discussed above, no further benefits have been, or will be, earned under our pension plans after April 30, 2005, and no additional participants have been, or will be, added to the plans. We did not make any contributions to the plans in fiscal years 2008, 2007, and 2006, and do not expect to make any contributions to the plans in fiscal year 2009.

Capital expenditures were $2.5 million, $1.7 million, and $1.9 million in fiscal years 2008, 2007, and 2006, respectively. Capital expenditures in fiscal year 2008 and 2007 were funded primarily from cash generated by operating activities. Capital expenditures in fiscal year 2006 were funded primarily from cash generated by the sale of our property in Lockhart, Texas. Capital assets related to the new ERP system in the amounts of $300,000 and $580,000 were funded under capital leases in fiscal years 2007 and 2006, respectively. Fiscal year 2009 capital expenditures are anticipated to be approximately $2.0 million and are expected to be funded primarily by cash from operating activities.

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Working capital increased to $15.9 million at April 30, 2008, from $12.3 million at April 30, 2007, and the ratio of current assets to current liabilities increased to 1.9-to-1 at April 30, 2008, from 1.8-to-1 at April 30, 2007. The increase in working capital for fiscal year 2008 was primarily due to increases in cash and cash equivalents, accounts receivable, and inventory.

We paid cash dividends of $0.28 per share for each of the fiscal years 2008, 2007, and 2006. The quarterly cash dividend was increased to eight cents per outstanding share in May 2008. We expect to pay dividends in the future in line with our actual and anticipated future operating results.

RECENT ACCOUNTING STANDARDS

Adoption of SEC Staff Accounting Bulletin (SAB) No. 108 In September 2006, the SEC staff released Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements (SAB 108). The Company adopted SAB No. 108 in fiscal year 2007, effective May 1, 2006. SAB 108 was issued in order to eliminate the diversity of practice surrounding how public companies quantify financial statement misstatements. Traditionally, there have been two widely-recognized methods of quantifying the effects of financial statement misstatements: the roll-over method and the iron curtain method. The roll-over method focuses primarily on the impact of a misstatement on the income statement, including the reversing effect of prior year misstatements, but its use can lead to the accumulation of misstatements in the balance sheet. The iron curtain method focuses primarily on the effect of correcting the period-end balance sheet with less emphasis on the reversing effects of prior year errors on the income statement.

In SAB 108, the SEC staff established an approach that required quantification of financial statement misstatements based on the effect of the misstatements on each of a company s consolidated financial statements and the related financial statement disclosures. This model is commonly referred to as a dual approach, because it requires quantification of errors under both the iron curtain and the roll-over methods. SAB 108 permitted public companies to initially apply its provisions either by (i) restating prior financial statements as if the dual approach had always been used, or (ii) recording the cumulative effect of initially applying the dual approach as adjustments to the carrying values of assets and liabilities as of May 1, 2006 with an offsetting adjustment recorded to the opening balance of retained earnings.

During fiscal years 1998 through 2006, the Company overstated deferred income tax assets by a cumulative total amount of $421,000. Subsequent to the years in which the overstatements occurred, the Company discovered the errors and determined they were not material to the Company s consolidated financial statements for the years in which they occurred. The Company elected to apply SAB 108 to correct the errors using the cumulative effect transition method.

The following table summarizes the effects on the related account balances of applying the guidance in SAB 108 as of May 1, 2006:

		Origination Period of Misstatement	
	Adjustment	Fiscal Years ended April 30	
$ in thousands	at May 1, 2006	2006	2005 and Prior
Decrease in deferred income tax assets	$ 421	$ 45	$ 376
Decrease in net income		45	376
Decrease in retained earnings	$ 421		

New Accounting Standards In September 2006, the FASB issued SFAS No. 157, Fair Value Measurement (SFAS 157), which establishes a single authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair-value measurements in both annual and interim reports. SFAS 157 applies only to fair-value measurements that are already required or permitted by other accounting standards and is expected to increase the consistency of those measurements. SFAS 157 is effective for fair-value measures already required or permitted by other standards for financial statements issued for fiscal years beginning after November 15, 2007 and will be effective for the Company in fiscal year 2009. The Company has not yet determined the effect, if any, that the adoption of this standard will have on its consolidated financial position or results of operations.

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In February 2007, the FASB issued SFAS No. 159, the Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159), which allows measurement of specified financial instruments, warranty and insurance contracts at fair value on a contract by contract basis, with changes in fair value recognized in earnings in each period. SFAS 159 is effective at the beginning of the fiscal year that begins after November 15, 2007, and will be effective for the Company in fiscal year 2009. The Company has not yet determined the effect, if any, that the adoption of this standard will have on its consolidated financial position or results of operations.

In December 2007, the FASB issued SFAS 141R Business Combinations (SFAS 141R), which requires most identifiable assets, liabilities, non-controlling interests, and goodwill acquired in business combinations to be recorded at full fair value. SFAS 141R also requires that the direct costs of acquisitions be expensed as incurred, and that the estimated fair value of contingent consideration be recorded at the date of purchase, with changes in the estimated fair value recorded in the income statement. SFAS No. 141R is effective for fiscal years beginning after December 15, 2008, and will be effective for the Company in fiscal year 2010. The Company has not yet determined the effect, if any, that the adoption of this standard will have on its consolidated financial position or results of operations.

The FASB issued Statement No. 160, Non-controlling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 in December 2007. The statement establishes accounting and reporting standards for a non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a non-controlling interest should be classified as a separate component of equity. Among other items, it also changes how income attributable to the parent and the non-controlling interest are presented on the consolidated income statement. The statement is effective for fiscal years beginning on or after December 15, 2008, and will be effective for the Company in fiscal year 2010. The Company has not yet determined the effect, if any, that the adoption of this standard will have on its consolidated financial position or results of operations.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 (FAS 161). FAS 161 amends and expands disclosures about derivative instruments and hedging activities. FAS 161 required qualitative disclosures about the objectives and strategies of derivative instruments, quantitative disclosures about the fair value amounts of and gains and losses on derivative instruments, and disclosures of credit-risk-related contingent features in hedging activities. FAS 161 is effective for fiscal years beginning after November 15, 2008 and will be effective for the Company in fiscal year 2010. Early adoption is prohibited; however, presentation and disclosure requirements must be retrospectively applied to comparative financial statements. The Company has not yet determined the effect, if any, that the adoption of this standard will have on its consolidated financial position or results of operations.

OUTLOOK

While our ability to predict future demand for our products continues to be limited given, among other general economic factors affecting the Company and our markets, the Company s role as subcontractor or supplier to dealers for subcontractors, we expect fiscal year 2009 to be profitable. In addition to general economic factors affecting the Company and our markets, demand for our products is also dependent upon the number of laboratory construction projects planned and/or current progress in projects already under construction. Our earnings are also impacted by increased costs of raw materials, including stainless steel, wood, and epoxy resin, and whether we are able to increase product prices to customers in amounts that correspond to such increases without materially and adversely affecting sales. Additionally, since prices are normally quoted on a firm basis in the industry, we bear the burden of possible increases in labor and material costs between the quotation of an order and delivery of a product.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk in the area of interest rates. This exposure is associated with advances outstanding under our bank line of credit, and certain lease obligations for production machinery, all of which are priced on a floating rate basis. Advances outstanding under the bank line of credit were $4.6 million at April 30, 2008. We believe that our exposure to market risk is not material.

Item 8. Financial Statements and Supplementary Data

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Report of Independent Registered Public Accounting Firm Cherry, Bekaert & Holland, L.L.P.	18
Consolidated Statements of Operations Years ended April 30, 2008, 2007 and 2006	19
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All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and, therefore, have been omitted.

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REPORT OF MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

TO THE STOCKHOLDERS AND BOARD OF DIRECTORS

OF KEWAUNEE SCIENTIFIC CORPORATION

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States.

The 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 consolidated financial statements in accordance with accounting principles generally accepted in the United states, 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 consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, 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.

Management conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, Management concluded the Company maintained effective internal control over financial reporting as of April 30, 2008.

/s/ William A. Shumaker
President
Chief Executive Officer

/s/ D. Michael Parker
Senior Vice President, Finance
Chief Financial Officer
July 12, 2008

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE SHAREHOLDERS AND BOARD OF DIRECTORS

OF KEWAUNEE SCIENTIFIC CORPORATION

We have audited the accompanying consolidated balance sheets of Kewaunee Scientific Corporation and subsidiaries (the Company) as of April 30, 2008 and 2007, and the related consolidated statements of operations, stockholders equity and cash flows for each of the three years in the period ended April 30, 2008. Our audits also included the financial statement schedule listed in the index at Item 15(a). These consolidated financial statements and the schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements and the schedule based on our 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of April 30, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended April 30, 2008, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule when considered in relation to the consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in the notes to the consolidated financial statements, the Company has adopted Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 as of May 1, 2007. In addition, as discussed in the notes, the Company: (1) effective April 30, 2007, began to recognize the funded status of its benefit plan in its consolidated balance sheet to conform to Statement of Financial Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an Amendment of FASB Statements No. 87, 88, 106, and 132(R), and (2) effective April 30, 2007, the Company adopted the dual method of evaluating errors, as required by Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements.

We were not engaged to examine management s assertion about the effectiveness of the Company s internal control over financial reporting as of April 30, 2008 included in the accompanying Report of Management on Internal Control Over Financial Reporting, and, accordingly, we do not express an opinion thereon.

/s/ CHERRY, BEKAERT & HOLLAND, L.L.P.
Charlotte, North Carolina
July 12, 2008

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CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended April 30 **Kewaunee Scientific Corporation**

$ and shares in thousands, except per share amounts	**2008**	**2007**	**2006**
Net sales	**$ 89,510**	$ 81,441	$ 84,071
Costs of products sold	**70,338**	66,355	71,663
Gross profit	**19,172**	15,086	12,408
Other operating income			884
Operating expenses	**13,559**	11,728	12,175
Operating earnings	**5,613**	3,358	1,117
Other income	**47**	53	50
Interest expense	**(294)**	(670)	(470)
Earnings before income taxes	**5,366**	2,741	697
Income tax expense	**1,733**	902	288
Earnings before minority interests	**3,633**	1,839	409
Minority interests in subsidiaries	**(499)**	(299)	(216)
Net earnings	**$ 3,134**	$ 1,540	$ 193
Net earnings per share			
Basic	**$ 1.24**	$ 0.62	$ 0.08
Diluted	**$ 1.23**	$ 0.62	$ 0.08
Weighted average number of Common shares outstanding			
Basic	**2,530**	2,493	2,492
Diluted	**2,557**	2,495	2,493

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

Kewaunee Scientific Corporation

$ in thousands, except per share amounts	**Common Stock**	**Additional Paid-in Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Income (Loss)**	**Treasury Stock**	**Total Stockholders Equity**
Balance at April 30, 2005	$ 6,550	$ 144	$ 20,031	$ 54	$ (790)	$ 25,989
Net earnings			193			193
Cash dividends declared, $.28 per share			(698)			(698)
Stock options exercised, 500 shares					3	3
Foreign currency translation adjustments				57		57
Change in fair value of cash flow hedge, net of tax				2		2
Balance at April 30, 2006	6,550	144	19,526	113	(787)	25,546
Net earnings			1,540			1,540
Cash dividends declared, $.28 per share			(698)			(698)
Stock options exercised, 2,500 shares		11			16	27
Foreign currency translation adjustments				166		166
Cumulative effect of adoption of SAB No. 108			(421)			(421)
Adoption of SFAS No. 158, net of tax				(2,112)		(2,112)
Balance at April 30, 2007	6,550	155	19,947	(1,833)	(771)	24,048
Net earnings			**3,134**			**3,134**
Cash dividends declared, $.28 per share			**(708)**			**(708)**
Stock options exercised, 56,400 shares		**309**			**347**	**656**
Stock options granted, 36,100 shares		**25**				**25**
Foreign currency translation adjustments				**64**		**64**
Unrecognized actuarial loss, SFAS No. 158, net of tax				**(272)**		**(272)**
Balance at April 30, 2008	**$ 6,550**	**$ 489**	**$ 22,373**	**$ (2,041)**	**$ (424)**	**$ 26,947**

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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CONSOLIDATED BALANCE SHEETS

April 30 **Kewaunee Scientific Corporation**

$ and shares in thousands, except per share amounts	**2008**	**2007**
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 3,784**	$ 2,231
Restricted cash	**480**	372
Receivables, less allowance: $274 (2008); $262 (2007)	**20,087**	19,061
Inventories	**6,984**	5,869
Deferred income taxes	**407**	297
Prepaid expenses and other current assets	**1,440**	684
Total Current Assets	**33,182**	28,514
Property, Plant and Equipment, Net	**11,825**	11,255
Other Assets		
Prepaid pension cost	**1,936**	1,911
Deferred income taxes		129
Other	**3,663**	3,431
Total Other Assets	**5,599**	5,471
Total Assets	**$ 50,606**	$ 45,240
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Short-term borrowings	**$ 4,551**	$ 3,489
Current obligations under capital leases	**323**	360
Accounts payable	**8,929**	8,437
Employee compensation and amounts withheld	**2,026**	1,416
Deferred revenue	**667**	1,672
Other accrued expenses	**766**	809
Total Current Liabilities	**17,262**	16,183
Obligations under capital leases	**153**	476
Deferred income taxes	**921**	
Accrued employee benefit plan costs	**3,555**	3,351
Minority interest in subsidiaries	**1,768**	1,182
Total Liabilities	**23,659**	21,192
Commitments and Contingencies (Note 7)		
Stockholders Equity		
Common stock, $2.50 par value, Authorized- 5,000 shares; Issued- 2,620 shares; Outstanding-2,551 shares (2008) 2,495 shares (2007)	**6,550**	6,550
Additional paid-in-capital	**489**	155
Retained earnings	**22,373**	19,947
Accumulated other comprehensive income (loss)	**(2,041)**	(1,833)
Common stock in treasury, at cost: 56 shares (2008); 125 shares (2007)	**(424)**	(771)

Total Stockholders Equity	**26,947**	24,048
Total Liabilities and Stockholders Equity	**$ 50,606**	$ 45,240

The accompanying Notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended April 30 **Kewaunee Scientific Corporation**

$ in thousands	**2008**	**2007**	**2006**
Cash Flows from Operating Activities			
Net earnings	**$ 3,134**	$ 1,540	$ 193
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:			
Depreciation	**1,981**	1,952	2,027
Bad debt provision	**192**	136	288
Provision (benefit) for deferred income tax expense	**940**	541	(66)
Gain on disposal of property, plant and equipment			(884)
(Increase) decrease in prepaid income taxes	**(812)**		94
(Increase) decrease in receivables	**(1,218)**	4,002	(1,804)
Increase in inventories	**(1,115)**	(9)	(2,318)
Increase in prepaid pension cost	**(297)**	(382)	(167)
Increase (decrease) in accounts payable and other accrued expenses	**1,059**	(700)	3,345
(Decrease) increase in deferred revenue	**(1,005)**	1,137	(726)
Other, net	**532**	418	(240)
Net cash provided by (used in) operating activities	**3,391**	8,635	(258)
Cash Flows from Investing Activities			
Capital expenditures	**(2,546)**	(1,724)	(1,886)
Proceeds from sale of property, plant and equipment			2,500
(Increase) decrease in restricted cash	**(108)**	27	(20)
Net cash (used in) provided by investing activities	**(2,654)**	(1,697)	594
Cash Flows from Financing Activities			
Decrease in bank overdraft			(2,301)
Dividends paid	**(708)**	(698)	(698)
Net increase (decrease) in short-term borrowings	**1,062**	(4,727)	4,438
Payments on long-term debt			(931)
Payments of capital leases	**(360)**	(308)	(155)
Proceeds from exercise of stock options (including tax benefit)	**681**	27	3
Net cash provided by (used in) financing activities	**675**	(5,706)	356
Effect of exchange rate changes on cash	**141**	70	12
Increase in Cash and Cash Equivalents	**1,553**	1,302	704
Cash and Cash Equivalents at Beginning of Year	**2,231**	929	225
Cash and Cash Equivalents at End of Year	**$ 3,784**	$ 2,231	$ 929
Supplemental Disclosure of Cash Flow Information			
Interest paid	**$ 307**	$ 678	$ 388
Income taxes paid (refunded)	**1,109**	19	(145)
Purchase of fixed assets under capital leases		300	580

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies

Kewaunee Scientific Corporation (the Company) is a manufacturer of laboratory and technical furniture, including steel and wood laboratory cabinetry, fume hoods, flexible systems, worksurfaces, workstations, workbenches, and computer enclosures. The Company s sales are made through purchase orders and contracts submitted by customers, dealers and agents, a national stocking distributor, competitive bids submitted by the Company, and its subsidiaries located in Singapore and Bangalore, India. The majority of the Company s products are sold to customers located in North America, primarily within the United States. The Company s laboratory products are used in chemistry, physics, biology, and other general science laboratories in the pharmaceutical, biotechnology, industrial, chemical, commercial, educational, government, and health care markets. Technical products are used in facilities manufacturing computers and light electronics, and by users of computer and networking furniture.

Principles of Consolidation The Company s consolidated financial statements include the accounts of Kewaunee Scientific Corporation and its three international subsidiaries. A brief description of each subsidiary, along with the amount of the Company s controlling financial interests, is as follows: (1) Kewaunee Labway Asia Pte. Ltd., a dealer for the Company s products in Singapore, is 51% owned by the Company; (2) Kewaunee Labway India Pvt. Ltd., a dealer for the Company s products in Bangalore, India, is 95% owned by Kewaunee Labway Asia; and (3) Kewaunee Scientific Corporation India Pvt. Ltd. in Bangalore, India, a manufacturing and assembly operation, is 100% owned by the Company. All intercompany balances, transactions, and profits have been eliminated. Included in the consolidated financial statements are net assets of $4,172,000 and $2,031,000 at April 30, 2008 and 2007, respectively, of the Company s subsidiaries. Net sales by the Company s subsidiaries in the amount of $15,742,000, $14,856,000, and $12,044,000 were included in the consolidated statements of operations for fiscal years 2008, 2007, and 2006, respectively.

Cash and Cash Equivalents Cash and cash equivalents consist of cash on hand and highly liquid investments with original maturities of three months or less. During the years ended April 30, 2008 and 2007, the Company had cash deposits in excess of FDIC insured limits. The Company has not experienced any losses from such deposits.

Restricted Cash Restricted cash includes bank deposits of a subsidiary used for performance guarantees against customer orders.

Allowance for Doubtful Accounts The Company evaluates the collectibility of its trade accounts receivable based on a number of factors. In circumstances where management is aware of a customer s inability to meet its financial obligations to the Company, or a project dispute makes it unlikely that all of the receivable owed by a customer will be collected, a specific reserve for bad debts is estimated and recorded, to reduce the recognized receivable to the estimated amount the Company believes will ultimately be collected. In addition to specific customer identification of potential bad debts, a general reserve for bad debts is estimated and recorded based on the customer s recent past loss history and an overall assessment of past due trade accounts receivable amounts outstanding. Accounts are written off when it is clearly established that the receivable is a bad debt. Recoveries of receivables previously written off are recorded when received.

Inventories Inventories are valued at the lower of cost or market. The cost of the majority of inventories is measured on the last in, first out (LIFO) method. The LIFO method allocates the most recent costs to cost of products sold; and, therefore, recognizes into operating results fluctuations in costs of raw materials more quickly than other methods. Other inventories consisted of foreign inventories and are measured at actual cost.

Property, Plant and Equipment Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is determined for financial reporting purposes principally on the straight-line method over the estimated useful lives of the individual assets or, for leaseholds, over the terms of the related leases, if shorter. Property, plant and equipment consisted of the following at April 30:

$ in thousands	**2008**	**2007**	**Useful Life**
Land	**$ 41**	$ 41	
Building and improvements	**10,044**	9,932	10-40 years
Machinery and equipment	**29,101**	27,123	5-10 years
Total	**39,186**	37,096	
Less accumulated depreciation	**(27,361)**	(25,841)	

Net property, plant and equipment	**$ 11,825**	$ 11,255

Management reviews the carrying value of property, plant and equipment for impairment whenever changes in circumstances or events indicate that such carrying value may not be recoverable. If projected undiscounted cash flows are not sufficient to recover the carrying value of the potentially impaired asset, the carrying value is reduced to estimated fair value. At April 30, 2008 and 2007, equipment financed under capital leases with a cost of $1,320,000 was included in machinery and equipment.

Other Assets Other assets at April 30, 2008 and 2007 include $3,509,000 and $3,284,000, respectively, of assets held in a trust account for non-qualified benefit plans and $154,000 and $147,000, respectively, of cash surrender values of life insurance policies.

Use of Estimates The presentation of consolidated financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates. Significant estimates impacting the accompanying consolidated financial statements include the allowance for uncollectible accounts receivable, inventory valuation, and pension liabilities.

Fair Value of Financial Instruments Financial instruments include cash and cash equivalents, mutual funds, cash surrender value of life insurance policies, capital lease obligations, long-term debt, and short-term borrowings. Management believes the carrying value of these assets and liabilities approximate their fair value.

Revenue Recognition Product sales and installation revenue are recognized when all of the following criteria have been met: (1) products have been shipped, or customers have purchased and accepted title to the goods, but because of construction delays, have requested that the Company temporarily store the finished goods on the customer s behalf; service revenue for installation of products sold is recognized as the installation services are performed, (2) persuasive evidence of an arrangement exists, (3) the price to the customer is fixed, and (4) collectability is reasonably assured.

Deferred revenue consists of customer deposits and advance billings of the Company s products where sales have not yet been recognized. Accounts receivable includes retainage in the amounts of $1,109,000 and $1,689,000 at April 30, 2008 and 2007, respectively. Shipping and handling costs are included in cost of sales. Because of the nature and quality of the Company s products, any warranty issues are determined in a relatively short period after the sale and are infrequent in nature, and as such, warranty costs are expensed as incurred.

Product sales resulting from fixed-price construction contracts involve a signed contract for a fixed price to provide the Company s laboratory furniture and fume hoods for a construction project. The Company is usually in the role of a subcontractor, but in some cases may enter into a contract directly with the end-user of the products, and arrangements normally do not contain a general right of return relative to the delivered items. Product sales resulting from fixed-price construction contracts are generated from multiple-element arrangements that require separate units of accounting and estimates regarding the fair value of individual elements. The Company has determined that its multiple-element arrangements that qualify as separate units of accounting are (1) product sales and (2) installation services. There is objective and reliable evidence of fair value for both the product sales and installation services, and allocation of arrangement consideration for each of these units is based on their relative fair values. Each of these elements represent individual units of accounting, as the delivered item has value to a customer on a stand-alone basis. The Company s products are regularly sold on a stand-alone basis to customers which provides vendor-specific objective evidence of fair value. The fair value of installation services is separately calculated using expected costs of installation services. Many times the value of installation services is calculated using price quotations from subcontractors to the Company who performs installation services on a stand-alone basis.

Product sales resulting from purchase orders involve a purchase order received by the Company from its dealers or its stocking distributor. This category includes product sales for standard products, as well as products which require some customization. Any customization requirements are approved by the customer prior to manufacture of the customized product. Sales from purchase orders are recognized under the terms of the purchase order which generally are freight on board (FOB) shipping point and do not include rights of return. Accordingly, sales are recognized at the time of shipment.

Credit Concentration Credit risk is generally not concentrated with any one customer or industry, although the Company does enter into large contracts with individual customers from time to time. The Company performs credit evaluations of its customers. Revenues from the Company s national stocking distributor, VWR International, LLC, represented 13%, 13%, and 14% of the Company s total sales in fiscal years 2008, 2007, and 2006, respectively.

Income Taxes The Company uses the liability method in measuring the provision for income taxes and recognizing deferred tax assets and liabilities on the balance sheet. The Company records a valuation allowance to reduce the deferred tax assets to the amount that is more likely than not to be realized.

The Company adopted Financial Accounting Standards Board (FASB) Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109 as of May 1, 2007. FIN 48 clarifies the financial statement recognition threshold and measurement attribute of a tax position taken or expected to be taken in a tax return in accordance with Statement No. 109, Accounting for Income Taxes. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transition. Under FIN 48, the Company applies a more-likely-than-not recognition threshold for all tax uncertainties. FIN 48 only allows the recognition of those tax benefits that have a greater than 50% likelihood of being sustained upon examination by the taxing authorities. There was no impact on the Company s consolidated financial position or results of operations from the adoption of FIN 48.

Advertising Costs Advertising costs are expensed as incurred, and include trade shows, training materials, sales samples, and other related expenses. Advertising costs for the years ended April 30, 2008, 2007, and 2006 were $300,000, $208,000, and $282,000, respectively.

Derivative Financial Instruments The Company records derivatives on the balance sheet at fair value and establishes criteria for designation and effectiveness of hedging relationships. The nature of the Company s business activities involves the management of various financial and market risks, including those related to changes in interest rates. The Company employs derivative financial instruments, such as interest rate swap contracts, to mitigate certain of those risks. The Company does not enter into derivative instruments for speculative purposes. There were no derivative financial instruments as of April 30, 2008 and 2007.

Foreign Currency Translation The financial statements of subsidiaries located outside the United States are measured using the local currency as the functional currency. Assets and liabilities of the Company s foreign subsidiaries are translated into United States dollars at year-end exchange rates. Sales, expenses, and cash flows are translated at weighed average exchange rates for each period. Net translation gains or losses are included in other comprehensive income, a separate component of stockholders equity. The Company does not provide for U.S. income taxes on foreign currency translation adjustments, since it does not provide for such taxes on undistributed earnings of foreign subsidiaries. Gains and losses from foreign currency transactions of these subsidiaries are included in net earnings.

Earnings Per Share Basic earnings per share is based on the weighted average number of common shares outstanding during the year. Diluted earnings per share reflects the assumed exercise and conversion of outstanding options under the Company s stock option plans, except when options have an antidilutive effect. Options to purchase 27,500 shares of common stock at a price of $12.00 and 151,600 shares at prices of $9.10 to $12.00 were outstanding at April 30, 2007 and 2006, respectively, but were not included in the computation of diluted EPS because the option exercise prices were greater than the average market price of the common shares at that date, and, accordingly, such options would have an antidilutive effect. The following is a reconciliation of basic to diluted weighted average common shares outstanding (in thousands):

	2008	2007	2006
Weighted average common shares outstanding			
Basic	**2,530**	2,493	2,492
Dilutive effect of stock options	**27**	2	1
Weighted average common shares outstanding diluted	**2,557**	2,495	2,493

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Accounting for Stock Options Prior to May 1, 2006, the Company accounted for its stock-based compensation using the intrinsic value method of Accounting Principles Bulletin (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. The Company provided proforma disclosure in accordance with SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure, as if the fair-value method of SFAS No. 123, Accounting for Stock-Based Compensation, had been applied to stock-based compensation. In accordance with APB Opinion No. 25, no stock-based compensation cost was reflected in the Company s prior year net income for grants of stock options to employees because the Company granted stock options with an exercise price equal to the market value of the stock on the date of grant. The Company did not grant any stock options during fiscal years 2003 through 2007.

If the Company had used the fair-value based accounting method for stock compensation expense prescribed by SFAS Nos. 123 and 148 for the fiscal year ended April 30, 2006, the Company s net earnings would have been reduced to the pro forma amounts set forth below:

$ in thousands, except per share amounts	**2006**
Net earnings as reported	$ 193
Pro forma compensation cost	
Net earnings pro forma	$ 193
Net earnings per share Basic	
As reported	$ 0.08
Pro forma	0.08
Net earnings per share Diluted	
As reported	$ 0.08
Pro forma	0.08

Effective May 1, 2006, the Company adopted the fair-value recognition provisions of SFAS No. 123(R), Share-Based Payment, using the modified prospective transition method and, therefore, has not restated results for prior periods. Under this transition method, the Company recorded stock-based compensation expense for the fiscal year ended April 30, 2007 of $1,000 for all stock-based compensation awards granted prior to, but not yet vested as of, April 30, 2007, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123.

The Company granted stock options on 36,100 shares during fiscal year 2008 (See Note 5).

Reclassifications Certain 2007 and 2006 amounts have been reclassified to conform with the 2008 presentation in the consolidated statements of cash flows.

Adoption of SEC Staff Accounting Bulletin (SAB) No. 108 In September 2006, the SEC staff released Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements (SAB 108). The Company adopted SAB No. 108 in fiscal year 2007, effective May 1, 2006. SAB 108 was issued in order to eliminate the diversity of practice surrounding how public companies quantify financial statement misstatements. Traditionally, there have been two widely-recognized methods of quantifying the effects of financial statement misstatements: the roll-over method and the iron curtain method. The roll-over method focuses primarily on the impact of a misstatement on the income statement, including the reversing effect of prior year misstatements, but its use can lead to the accumulation of misstatements in the balance sheet. The iron curtain method focuses primarily on the effect of correcting the period-end balance sheet with less emphasis on the reversing effects of prior year errors on the income statement.

In SAB 108, the SEC staff established an approach that required quantification of financial statement misstatements based on the effect of the misstatements on each of the Company s consolidated financial statements and the related financial statement disclosures. This model is commonly referred to as a dual approach because it requires quantification of errors under both the iron curtain and the roll-over methods. SAB 108 permitted public companies to initially apply its provisions either by (i) restating prior financial statements as if the dual approach had always been used or (ii) recording the cumulative effect of initially applying the dual approach as adjustments to the carrying values of assets and liabilities as of May 1, 2006, with an offsetting adjustment recorded to the opening balance of retained earnings.

During fiscal years 1998 through 2006, the Company overstated deferred income tax assets by a cumulative total amount of $421,000. Subsequent to the years in which the overstatements occurred, the Company discovered the errors and determined they were not material to the Company s consolidated financial statements for the years in which they occurred. The Company elected to apply SAB 108 to correct the errors using the cumulative effect transition method.

The following table summarizes the effects on the related account balances of applying the guidance in SAB 108 as of May 1, 2006:

		Origination Period of Misstatement Fiscal Years ended April 30	
$ in thousands	**Adjustment at May 1, 2006**	**2006**	**2005 and Prior**
Decrease in deferred income tax assets	$ 421	$ 45	$ 376
Decrease in net income		$ 45	$ 376
Decrease in retained earnings	$ 421		

New Accounting Standards In September 2006, the FASB issued SFAS No. 157, Fair Value Measurement (SFAS 157), which establishes a single authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair-value measurements in both annual and interim reports. SFAS 157 applies only to fair-value measurements that are already required or permitted by other accounting standards and is expected to increase the consistency of those measurements. SFAS 157 is effective for fair-value measures already required or permitted by other standards for financial statements issued for fiscal years beginning after November 15, 2007 and will be effective for the Company in fiscal year 2009. The Company has not yet determined the effect, if any, that the adoption of this standard will have on its consolidated financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, the Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159), which allows measurement of specified financial instruments, warranty, and insurance contracts at fair value on a contract by contract basis, with changes in fair value recognized in earnings in each period. SFAS 159 is effective at the beginning of the fiscal year that begins after November 15, 2007, and will be effective for the Company in fiscal year 2009. The Company has not yet determined the effect, if any, that the adoption of this standard will have on its consolidated financial position or results of operations.

In December 2007, the FASB issued SFAS 141R Business Combinations (SFAS 141R), which requires most identifiable assets, liabilities, non-controlling interests, and goodwill acquired in business combinations to be recorded at full fair value. SFAS 141R also requires that the direct costs of acquisitions be expensed as incurred, and that the estimated fair value of contingent consideration be recorded at the date of purchase, with changes in the estimated fair value recorded in the income statement. SFAS No. 141R is effective for fiscal years beginning after December 15, 2008, and will be effective for the Company in fiscal year 2010. The Company has not yet determined the effect, if any, that the adoption of this standard will have on its consolidated financial position or results of operations.

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The FASB issued Statement No. 160, Non-controlling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 in December 2007. The statement establishes accounting and reporting standards for a non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a non-controlling interest should be classified as a separate component of equity. Among other items, it also changes how income attributable to the parent and the non-controlling interest are presented on the consolidated income statement. The statement is effective for fiscal years beginning on or after December 15, 2008, and will be effective for the Company in fiscal year 2010. The Company has not yet determined the effect, if any, that the adoption of this standard will have on its consolidated financial position or results of operations.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities an Amendment of FASB Statement No. 133 (FAS 161). FAS 161 amends and expands disclosures about derivative instruments and hedging activities. FAS 161 required qualitative disclosures about the objectives and strategies of derivative instruments, quantitative disclosures about the fair value amounts of and gains and losses on derivative instruments, and disclosures of credit-risk-related contingent features in hedging activities. FAS 161 is effective for fiscal years beginning after November 15, 2008 and will be effective for the Company in fiscal year 2010. Early adoption is prohibited; however, presentation and disclosure requirements must be retrospectively applied to comparative financial statements. The Company has not yet determined the effect, if any, that the adoption of this standard will have on its consolidated financial position or results of operations.

Note 2 Inventories

Inventories consisted of the following at April 30:

$ in thousands	**2008**	**2007**
Finished goods	**$ 1,920**	$ 1,243
Work-in-process	**1,099**	1,257
Materials and components	**3,965**	3,369
Total inventories	**$ 6,984**	$ 5,869

If inventories had been determined using the first-in, first-out (FIFO) method at April 30, 2008 and 2007, reported inventories would have been $1.9 million and $2.0 million greater, respectively. During fiscal years 2008 and 2007, the levels of inventories were reduced and the current year LIFO index was less than 100% due to lower material costs. This reduction resulted in a liquidation of LIFO inventory quantities carried at higher costs prevailing in prior years as compared with the cost of fiscal years 2008 and 2007 purchases, the effect of which decreased the cost of sales by $10,000 and $413,000, respectively.

Note 3 Long-term Debt and Other Credit Arrangements

In December 2007, the Company entered into a new $12 million unsecured revolving credit facility that expires in September 2010, replacing a similar credit facility with another bank. There were advances of $4,551,000 outstanding under the facility as of April 30, 2008. Monthly interest payments are payable under the facility calculated at the LIBOR Market Index Rate plus a variable rate ranging from 1.45% to 2.05% based on certain financial ratio calculations. The borrowing rate at April 30, 2008 was 4.31%, including a variable rate adjustment of 1.45%. In fiscal year 2007, the monthly interest payments were payable under the facility calculated at the lower of (1) the LIBOR Market Index Rate plus 1.75%, or (2) the lender s Prime Rate minus 1.00%. The borrowing rate was 7.07% at April 30, 2007. The new credit facility includes financial covenants with respect to certain ratios, including (a) debt-to-net worth, (b) fixed charge coverage, and (c) asset coverage. At April 30, 2008, the Company was in compliance with all of the financial covenants.

In fiscal years 2007 and 2006, the Company entered into several lease arrangements to fund a new Enterprise Resource Planning (ERP) system that were classified as capital leases for accounting purposes. The lease arrangements were primarily for software costs and have a term of 44 months. Scheduled lease payments, including interest, are $354,000 for fiscal year 2009.

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Note 4 Income Taxes

Income tax expense consisted of the following:

$ in thousands	2008	2007	2006
Current tax expense (benefit):			
Federal	**$ 148**	$ (72)	$ 219
State and local	**39**	(4)	(215)
Foreign	**446**	437	350
Total current tax expense	**633**	361	354
Deferred tax expense (benefit):			
Federal	**1,002**	438	(307)
State and local	**116**	108	259
Foreign	**(18)**	(5)	(18)
Total deferred tax expense (benefit)	**1,100**	541	(66)
Net income tax expense	**$ 1,733**	$ 902	$ 288

The reasons for the differences between the above net income tax expense and the amounts computed by applying the statutory federal income tax rates to earnings before income taxes are as follows:

$ in thousands	2008	2007	2006
Income tax expense at statutory rate	**$ 1,824**	$ 834	$ 237
State and local taxes, net of federal income tax benefit (expense)	**193**	57	(59)
Tax credits	**(77)**	(45)	(52)
Effects of differing US and foreign tax rates	**(140)**	57	(26)
(Decrease) increase in valuation allowance	**(93)**	11	88
Other items, net	**26**	(12)	100
Net income tax expense	**$ 1,733**	$ 902	$ 288

Significant items comprising deferred tax assets and liabilities as of April 30 were as follows:

$ in thousands	2008	2007
Deferred tax assets:		
Accrued employee benefit expenses	**$ 107**	$ 87
Allowance for doubtful accounts	**102**	98
Inventory reserves and capitalized costs	**28**	89
Deferred compensation	**1,326**	1,250
Net operating loss carryforwards	**15**	221
Tax credits	**710**	982
Prepaid pension (SFAS No. 158 adjustment)	**1,418**	1,257
Other	**59**	33
Total deferred tax assets	**3,765**	4,017

Deferred tax liabilities:		
Book basis in excess of tax basis of property, plant and equipment	**(2,130)**	(1,517)
Prepaid pension	**(2,140)**	(1,969)
Other	**(1)**	(37)
Total deferred tax liabilities	**(4,271)**	(3,523)
Less: valuation allowance	**(8)**	(69)
Net deferred tax assets (liabilities)	**$ (514)**	$ 425

At April 30, 2008, the Company had state loss carryforwards in the amount of $340,000 expiring at various times, primarily beginning in 2018. The Company also had federal tax credit carryforwards in the amount of $104,000 expiring beginning in 2020 and state tax credit carryforwards in the amount of $606,000, net of federal benefit, expiring beginning in 2008. Due to the expiration schedule of the state credits and a review of future taxable income required to utilize such credits before their expiration, a valuation allowance in the amount of $8,000 was recorded at April 30, 2008 to reflect the potential expiration of a portion of the credits in future years.

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Note 5 Stock Options and Share-Based Compensation

During fiscal year 1992, the stockholders approved the 1991 Key Employee Stock Option Plan, and the plan was subsequently amended to increase the number of shares available for options under the plan to 230,000. During fiscal year 2001, the stockholders approved the 2000 Key Employee Stock Option Plan, which allowed the Company to grant options on 100,000 shares of the Company s common stock. Under both plans, options are granted at not less than the fair market value at the date of grant and options are exercisable in such installments, for such terms (up to 10 years), and at such times, as the Board of Directors may determine at the time of the grant. At April 30, 2008, there were no shares available for future grants under the 1991 plan, and there were 5,000 shares available for future grants under the 2000 plan. No options were granted in fiscal years 2007 and 2006.

During fiscal year 2008, the Company granted stock options on 36,100 shares. The Company recorded stock-based compensation expense in accordance with SFAS No. 123(R). In order to determine the fair value of stock options on the date of grant, the Company applied the Black-Scholes option pricing model. Inherent in the model are assumptions related to expected stock-price volatility, option life, risk-free interest rate, and dividend yield. The fair value of each option granted was estimated using the Black-Scholes model with the following assumptions:

Weighted average expected stock price volatility	29.66%
Expected option life SAB 107 Safe Harbor election	6.25 years
Average risk-free interest rate	4.48%
Average dividend yield	2.73%
Estimated fair value of each option	$ 4.12

The stock-based compensation expense is recorded over the vesting period (4 years) for the options granted, net of tax. The Company recorded $16,000 compensation expense net of $9,000 income tax benefit in fiscal year 2008. The remaining compensation expense of $82,000, net of $42,000 income tax benefit, will be recorded over the remaining vesting period.

The Company utilized treasury stock to satisfy stock options exercised during fiscal years 2008, 2007, and 2006. Stock option activity and weighted average exercise price is summarized as follows:

	2008		**2007**		**2006**	
	Options	**Price**	**Options**	**Price**	**Options**	**Price**
Outstanding at beginning of year	**157,350**	**$ 10.03**	166,600	$ 9.99	177,100	$ 9.93
Granted	**36,100**	**14.90**				
Canceled	**(500)**	**8.13**	(6,750)	9.78	(10,000)	9.27
Exercised	**(56,400)**	**9.61**	(2,500)	8.13	(500)	2.75
Outstanding at end of year	**136,550**	**11.50**	157,350	10.03	166,600	9.99
Exercisable at end of year	**100,450**	**10.28**	157,350	10.03	159,780	10.03

The options outstanding and exercisable and the weighted average exercise price within the following price ranges at April 30, 2008 are as follows:

Exercise price range	$ 9.10-$10.375	$ 12.00-$14.90
Options outstanding	79,450	57,100
Weighted average exercise price	$ 9.82	$ 13.83
Weighted average remaining contractual life (years)	2.80	6.02
Options exercisable	79,450	21,000

Weighted average exercise price	$	9.82	$	12.00

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Note 6 Accumulated Other Comprehensive Income

The Company s other comprehensive income (loss) consists of unrealized gains and losses on the translation of the assets, liabilities, and equity of its foreign subsidiaries, unrecognized gains and losses on cash flow hedges (consisting of interest rate swaps), and additional minimum pension liability adjustments, net of income taxes. The before tax income (loss), related income tax effect, and accumulated balances are as follows:

$ in thousands	Foreign Currency Translation Adjustment	Unrecognized Gains (Losses) On Cash Flow Hedge	Minimum Pension Liability Adjustment	Accumulated Other Comprehensive Income (Loss)
Balance at April 30, 2005	$ 56	$ (2)	$	$ 54
Other comprehensive income	57	2		59
Balance at April 30, 2006	113			113
Other comprehensive income	166			166
Adoption of SFAS No. 158			(3,369)	(3,369)
Income tax effect of SFAS No 158			1,257	1,257
Balance at April 30, 2007	279		(2,112)	(1,833)
Other comprehensive income	**64**			**64**
Unrecognized actuarial loss, SFAS No. 158			**(433)**	**(433)**
Income tax effect of SFAS No 158			**161**	**161**
Balance at April 30, 2008	**$ 343**		**$ (2,384)**	**$ (2,041)**

The Company s total comprehensive income for fiscal years 2008, 2007, and 2006 is summarized as follows:

$ in thousands	2008	2007	2006
Net earnings	**$ 3,134**	$ 1,540	$ 193
Other comprehensive income	**64**	166	59
Total comprehensive income	**$ 3,198**	$ 1,706	$ 252

Note 7 Commitments and Contingencies

The Company entered into a 10-year operating lease for a new distribution center in fiscal year 2003. During fiscal years 2007 and 2006, the Company entered into several leases related to a new Enterprise Resource Planning System (ERP) that were classified as capital leases. The Company also leases some of its machinery and equipment under non-cancelable operating leases. Most of these leases provide the Company with renewal and purchase options, and most leases of machinery and equipment have certain early cancellation rights. Rent expense for these operating leases was $1,923,000, $1,892,000, and $1,637,000 in fiscal years 2008, 2007, and 2006, respectively. Future minimum payments under the above non-cancelable lease arrangements for the years ended April 30 are as follows:

$ in thousands	Operating	Capital
2009	$ 1,567	