

KEWAUNEE SCIENTIFIC CORP /DE/

Form 10-Q

December 12, 2008

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended October 31, 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)

<b>Delaware</b> (State or other jurisdiction of incorporation or organization)	<b>38-0715562</b> (IRS Employer Identification No.)
<b>2700 West Front Street</b>	
<b>Statesville, North Carolina</b> (Address of principal executive offices)	<b>28677-2927</b> (Zip Code)
<b>Registrant's telephone number, including area code: (704) 873-7202</b>	

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

Indicate by check mark whether the registrant 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  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

As of December 5, 2008, the registrant had outstanding 2,556,202 shares of Common Stock.

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**KEWAUNEE SCIENTIFIC CORPORATION**

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## Part 1. Financial Information

## Item 1. Financial Statements

*Kewaunee Scientific Corporation*

## Consolidated Statements of Operations

*(Unaudited)**(in thousands, except per share data)*

	Three months ended October 31		Six months ended October 31	
	2008	2007	2008	2007
Net Sales	\$ 27,732	\$ 24,727	\$ 53,127	\$ 45,511
Costs of products sold	21,713	19,174	41,757	35,695
Gross profit	6,019	5,553	11,370	9,816
Operating expenses	3,858	3,370	7,444	6,518
Operating earnings	2,161	2,183	3,926	3,298
Other income (expense)	(1)	1	(39)	4
Interest expense	(93)	(106)	(182)	(216)
Earnings before income taxes	2,067	2,078	3,705	3,086
Income Tax expense	566	658	1,107	970
Earnings before minority interests	1,501	1,420	2,598	2,116
Minority interests in subsidiaries	37	208	153	230
Net earnings	\$ 1,464	\$ 1,212	\$ 2,445	\$ 1,886
Net earnings per share				
Basic	\$ 0.57	\$ 0.48	\$ 0.96	\$ 0.75
Diluted	\$ 0.57	\$ 0.47	\$ 0.95	\$ 0.74
Weighted average number of common shares outstanding (in thousands)				
Basic	2,555	2,522	2,553	2,512
Diluted	2,562	2,554	2,566	2,538

*See accompanying notes to consolidated financial statements.*

**Table of Contents***Kewaunee Scientific Corporation*

## Consolidated Balance Sheets

*(in thousands)*

	October 31, 2008 (Unaudited)	April 30, 2008
<b><u>Assets</u></b>		
Current assets:		
Cash and cash equivalents	\$ 2,282	\$ 3,784
Restricted cash	408	480
Receivables, less allowance	25,508	20,087
Inventories	6,866	6,984
Deferred income taxes	400	407
Prepaid expenses and other current assets	1,019	1,440
<b>Total current assets</b>	<b>36,483</b>	<b>33,182</b>
Property, plant and equipment, at cost	39,983	39,186
Accumulated depreciation	(28,307)	(27,361)
<b>Net property, plant and equipment</b>	<b>11,676</b>	<b>11,825</b>
Prepaid pension cost	2,084	1,936
Other	3,025	3,663
<b>Total other assets</b>	<b>5,109</b>	<b>5,599</b>
<b>Total Assets</b>	<b>\$ 53,268</b>	<b>\$ 50,606</b>
<b><u>Liabilities and Stockholders' Equity</u></b>		
Current liabilities:		
Short-term borrowings	\$ 4,966	\$ 4,551
Current obligations under capital leases	314	323
Accounts payable	8,687	8,929
Employee compensation and amounts withheld	1,751	2,026
Deferred revenue	1,374	667
Other accrued expenses	1,981	766
<b>Total current liabilities</b>	<b>19,073</b>	<b>17,262</b>
Obligations under capital leases	277	153
Deferred income tax	912	921
Accrued employee benefit plan costs	2,960	3,555
Minority interests in subsidiaries	1,708	1,768
<b>Total Liabilities</b>	<b>24,930</b>	<b>23,659</b>
Stockholders' equity:		
Common Stock	6,550	6,550
Additional paid-in-capital	635	489
Retained earnings	24,410	22,373

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Accumulated other comprehensive loss	(2,765)	(2,041)
Common stock in treasury, at cost	(492)	(424)
<b>Total stockholders' equity</b>	<b>28,338</b>	<b>26,947</b>
Total Liabilities and Stockholders' Equity	\$ 53,268	\$ 50,606

*See accompanying notes to consolidated financial statements.*

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## Consolidated Statements of Cash Flows

*(Unaudited)**(in thousands)*

	<b>Six months ended October 31</b>	
	<b>2008</b>	<b>2007</b>
<b><i>Cash flows from operating activities:</i></b>		
Net earnings	\$ 2,445	\$ 1,886
Adjustments to reconcile net earnings to net cash (used) by operating activities:		
Depreciation	1,135	974
Provision for bad debts	116	147
Provision for deferred income tax (benefit) expense	(2)	1
Decrease in prepaid income taxes	812	
Increase in receivables	(5,537)	(1,255)
Decrease (increase) in inventories	118	(552)
Increase in prepaid pension cost	(148)	(229)
Increase in accounts payable and other accrued expenses	698	1,351
Increase (decrease) in deferred revenue	707	(793)
Other, net	(847)	107
Net cash (used) provided by operating activities	(503)	1,637
<b><i>Cash flows from investing activities:</i></b>		
Capital expenditures	(679)	(1,135)
Decrease (increase) in restricted cash	72	(73)
Net cash used in investing activities	(607)	(1,208)
<b><i>Cash flows from financing activities:</i></b>		
Dividends paid	(408)	(351)
Increase (decrease) in short-term borrowings	415	(1,153)
Payments on capital leases	(192)	(175)
Purchase of treasury stock	(198)	
Proceeds from exercise of stock options	276	307
Net cash used in financing activities	(107)	(1,372)
Effect of exchange rate changes on cash	(285)	63
<b><i>Decrease in cash and cash equivalents</i></b>	<b>(1,502)</b>	<b>(880)</b>
<b><i>Cash and cash equivalents, beginning of period</i></b>	<b>3,784</b>	<b>2,231</b>
<b><i>Cash and cash equivalents, end of period</i></b>	<b>\$ 2,282</b>	<b>\$ 1,351</b>

*See accompanying notes to consolidated financial statements*

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## Kewaunee Scientific Corporation

## Notes to Consolidated Financial Statements

(unaudited)

**A. Financial Information**

The unaudited interim consolidated financial statements of Kewaunee Scientific Corporation (the Company or Kewaunee) have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the Commission). Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted, although the Company believes that the disclosures are adequate to make the information presented not misleading.

These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company's 2008 Annual Report to Stockholders. The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full year.

The preparation of the consolidated financial statements requires management to make certain estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates.

**B. Inventories**

Inventories consisted of the following (in thousands):

	<b>October 31, 2008</b>	<b>April 30, 2008</b>
Finished products	\$ 2,213	\$ 1,920
Work in process	1,503	1,099
Raw materials	3,150	3,965
	<b>\$ 6,866</b>	<b>\$ 6,984</b>

For interim reporting, LIFO inventories are computed based on year-to-date quantities and interim changes in price levels. Changes in quantities and price levels are reflected in the interim consolidated financial statements in the period in which they occur.



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A reconciliation of net earnings and total comprehensive income for the three and six months ended October 31, 2008 and 2007 is as follows (in thousands):

	<b>Three months ended October 31, 2008</b>	<b>Three months ended October 31, 2007</b>
Net earnings	\$ 1,464	\$ 1,212
Change in cumulative foreign currency translation adjustments	(588)	117
<b>Total comprehensive income</b>	<b>\$ 876</b>	<b>\$ 1,329</b>

	<b>Six months ended October 31, 2008</b>	<b>Six months ended October 31, 2007</b>
Net earnings	\$ 2,445	\$ 1,886
Change in cumulative foreign currency translation adjustments	(724)	170
<b>Total comprehensive income</b>	<b>\$ 1,721</b>	<b>\$ 2,056</b>

Assets and liabilities for the Company's foreign subsidiaries are translated at exchange rates prevailing on the balance sheet date. Revenues and expenses are translated at weighted average exchange rates prevailing during the period and any resulting translation adjustments are reported separately in stockholders' equity.

**D. Segment Information**

The following table provides financial information by business segments for the three and six months ended October 31, 2008 and 2007 (in thousands):

**Domestic  
Operations**