KEWAUNEE SCIENTIFIC CORP /DE/
Form 10-K
July 18, 2014
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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, 2014 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:

Title of Each Class	**Name of Exchange on which registered**
Common Stock $2.50 par value	**NASDAQ Global Market**

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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) 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. 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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act: (Check one):

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

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

The aggregate market value of shares of voting stock held by non-affiliates of the registrant was approximately $39,915,849 based on the last reported sale price of the registrant s Common Stock on October 31, 2013, 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 10, 2014, the registrant had outstanding 2,622,897 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, 2014, indicated in this report are incorporated by reference into Part III hereof.

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PART I

Item 1. Business

GENERAL

Kewaunee Scientific Corporation was founded in 1906, incorporated in Michigan in 1941, became publicly-held in 1968, and was reincorporated in Delaware in 1970. Our principal business is the design, manufacture, and installation of laboratory, healthcare, and technical furniture products. Laboratory furniture products include both steel and wood cabinetry, fume hoods, adaptable modular systems, moveable workstations, biological safety cabinets, and epoxy resin worksurfaces and sinks. Healthcare furniture products include laminate casework, storage systems, and related products for healthcare applications. Technical furniture products include column systems, slotted-post systems, pedestal systems, and stand-alone benches.

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 Singapore, India and China. 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 and healthcare furniture industries 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 and 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.

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 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.

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, concessions, trademarks, royalty agreements, or labor contracts.

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 stocking distributor represented approximately 9%, 11% and 12% of net sales in each of fiscal years 2014, 2013 and 2012, respectively, and revenue for two of the Company s domestic dealers represented in the aggregate approximately 24%, 14% and 2% of the Company s total sales in fiscal years 2014, 2013, and 2012, respectively.

Our order backlog at April 30, 2014 was $89.0 million, as compared to $80.2 million at April 30, 2013 and $86.2 million at April 30, 2012. Based on scheduled shipment dates and past experience, we estimate that more than 70 percent of our order backlog at April 30, 2014 will be shipped during fiscal year 2015. 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.

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.

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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, 2014 on research and development activities related to new or redesigned products was $842,000. The amounts spent for similar purposes in the fiscal years ended April 30, 2013 and 2012 were $872,000 and $941,000, 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 is no material capital expenditure anticipated for such purposes, and accordingly, such regulation is not expected to have a material effect on our earnings or competitive position.

EMPLOYEES

At April 30, 2014, we had 483 domestic and 136 international full-time 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**. The reference to our website does not constitute incorporation by reference of any information contained at that site.

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, including those more fully described below and elsewhere in our public reports. We do not undertake to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

Disruptions in the financial markets have created uncertainty and deteriorating economic conditions may adversely affect our customers and our business.

The financial markets in the United States, Europe and Asia continue to be volatile. The tightening of credit in financial markets, continuation or worsening of the current economic conditions, a prolonged global, national or regional economic recession or other similar events could have a material adverse effect on the demand for our products and on our sales, pricing and profitability. We are unable to predict the likely duration of these adverse economic conditions and the impact these events may have on our operations and the laboratory furniture industry in general.

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 our national stocking distributor and two of our domestic dealers. The combined sales to these three customers accounted for approximately 33% of our net sales in fiscal year 2014. 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 and healthcare furniture industries 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. 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.

Events outside our control may affect our operating results.

We have little control over the timing of shipping customer orders, as customers required delivery dates are subject to change by the customer. Construction delays and customer changes to product designs are among the factors that may delay the start of manufacturing and shipments of orders. 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 also 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 other risks that might also cause our actual results to vary materially from our forecasts, targets, or projections, including:

- Failing to anticipate the need for, 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 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 413,000 square feet and are located on approximately 20 acres of land. In addition, at April 30, 2014, we leased our primary distribution facility and other warehouse facilities totaling 251,000 square feet in Statesville, North Carolina. In Bangalore, India we also lease and operate a manufacturing facility comprising 55,000 square feet, a warehouse facility comprising 11,000 square feet and a facility comprising 7,000 square feet that houses sales and administrative offices. In Suzhou, China we also lease and operate a facility totaling 11,000 square feet. 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. Mine Safety Disclosures

Not Applicable.

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PART II

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

Our common stock is traded on 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 for our stock over the last two fiscal years.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2014				
High	**$ 13.83**	**$ 17.80**	**$ 18.40**	**$ 17.02**
Low	**$ 11.08**	**$ 13.34**	**$ 14.81**	**$ 15.87**
Close	**$ 13.40**	**$ 17.36**	**$ 16.54**	**$ 16.82**
2013				
High	$ 13.45	$ 13.40	$ 12.96	$ 13.18
Low	$ 7.90	$ 11.03	$ 11.00	$ 12.27
Close	$ 11.85	$ 11.25	$ 12.37	$ 13.05

As of July 10, 2014, we estimate there were approximately 1,000 holders of our common shares, of which 175 were stockholders of record. We paid cash dividends per share of $0.44 for fiscal years 2014, and $0.40 for fiscal years 2013 and 2012, respectively. We expect to pay dividends in the future in line with our actual and anticipated future operating results.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

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

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Item 6. Selected Financial Data

The following tables set forth selected historical consolidated financial and other data for the periods indicated. The consolidated financial data should be read in conjunction with Item 8, Financial Statements and Supplementary Data, and with Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations.

	Years Ended April 30				
$ and shares in thousands, except per share amounts	**2014**	2013	2012	2011	2010
OPERATING STATEMENT DATA:					
Net sales	**$ 111,166**	$ 117,121	$ 102,847	$ 100,003	$ 99,093
Costs of products sold	**89,134**	94,863	83,691	80,719	77,690
Gross profit	**22,032**	22,258	19,156	19,284	21,403
Operating expenses	**16,068**	16,981	16,443	16,127	15,576
Operating earnings	**5,964**	5,277	2,713	3,157	5,827
Other income	**395**	306	271	4	1
Interest expense	**(373)**	(362)	(445)	(199)	(157)
Earnings before income taxes	**5,896**	5,221	2,539	2,962	5,671
Income tax expense	**1,983**	1,540	739	864	1,921
Net earnings	**4,003**	3,681	1,800	2,098	3,750
Less: net earnings attributable to noncontrolling interest	**108**	637	769	248	178
Net earnings attributable to Kewaunee Scientific Corporation	**$ 3,895**	$ 3,044	$ 1,031	$ 1,850	$ 3,572
Weighted average shares outstanding:					
Basic	**2,608**	2,587	2,579	2,575	2,564
Diluted	**2,634**	2,600	2,580	2,585	2,575
PER SHARE DATA:					
Net earnings attributable to Kewaunee Scientific Corporation					
Basic	**$ 1.49**	$ 1.18	$ 0.40	$ 0.72	$ 1.39
Diluted	**$ 1.48**	$ 1.17	$ 0.40	$ 0.72	$ 1.39
Cash dividends	**$ 0.44**	$ 0.40	$ 0.40	$ 0.40	$ 0.38
Year-end book value	**$ 12.97**	$ 12.22	$ 11.44	$ 12.21	$ 11.83

	As of April 30				
$ in thousands	**2014**	2013	2012	2011	2010
BALANCE SHEET DATA:					
Current assets	**$ 43,353**	$ 47,230	$ 42,823	$ 42,379	$ 38,582
Current liabilities	**16,163**	22,115	19,465	20,264	18,497
Net working capital	**27,190**	25,115	23,358	22,115	20,085
Net property, plant and equipment	**14,570**	15,098	15,346	16,575	13,815
Total assets	**62,717**	68,742	63,361	63,058	56,621
Total borrowings/long-term debt	**7,763**	10,464	10,519	10,574	5,073
Kewaunee Scientific Corporation Stockholders equity	**$ 33,959**	$ 31,676	$ 29,511	$ 31,491	$ 30,433
OTHER DATA:					
Capital expenditures	**$ 2,021**	$ 2,405	$ 1,435	$ 5,247	$ 4,239
Year-end stockholders of record	**175**	180	198	206	208

Year-end employees (domestic)	**483**	456	440	475	462

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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). All statements other than statements of historical fact included in this Annual Report, including statements regarding the Company s future financial condition, results of operations, business operations and business prospects, are forward-looking statements. Words such as anticipate, estimate, expect, project, intend, plan, predict, believe and similar words, expressions and variations of these wo expressions are intended to identify forward-looking statements. Such forward-looking statements are subject to known and unknown risks, uncertainties, assumptions, and other important factors that could significantly impact results or achievements expressed or implied by such forward-looking statements. Such factors, risks, uncertainties and assumptions include, but are not limited to, competitive and general economic conditions, both domestically and internationally; changes in customer demands; technological changes in our operations or in our industry; dependence on customers required delivery schedules; risks related to fluctuations in the Company s operating results from quarter to quarter; risks related to international operations, including foreign currency fluctuations; changes in the legal and regulatory environment; changes in raw materials and commodity costs; and acts of terrorism, war, governmental action, natural disasters and other Force Majeure events. 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. 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

Kewaunee Scientific Corporation is a recognized leader in the design, manufacture and installation of laboratory, healthcare and technical furniture products. The Company s corporate headquarters are located in Statesville, North Carolina. The Company s manufacturing facilities are located in Statesville and Bangalore, India. The Company has subsidiaries in Singapore, India and China that serve the Asian and Middle East markets. Kewaunee Scientific s website is located at **www.kewaunee.com**.

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 and healthcare furniture industries 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. In these instances, 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. Our contract 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 represents 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, these 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 collectability 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

The majority of inventories are valued at the lower of cost or market under 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 inventory costs more quickly than other methods. Inventories at our international subsidiaries are measured on the first-in, first-out (FIFO) method.

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 2014 were $111.2 million, a decrease of 5% from fiscal year 2013 sales of $117.1 million. Domestic Operations sales for fiscal year 2014 were $91.8 million, a decrease of 2% from fiscal year 2013 sales of $93.5 million. The decrease in domestic sales was due to the Company s successful strategy to improve product mix and margins by selling more laboratory projects through its dealer network (instead of directly to the customer), with the Company only providing manufactured products and the dealers providing related project management, installation, and other service activities. International Operations sales for fiscal year 2014 were $19.4 million, a decrease of 18% from fiscal year 2013 sales of $23.6 million. The decrease in

international sales was due to a delay in the required ship date for a large order. Sales for fiscal year 2013 were $117.1 million, an increase of 13.9% from fiscal year 2012 sales of $102.8 million. Domestic Operations sales for fiscal year 2013 were $93.5 million, an increase of 11.4% from fiscal year 2012 sales of $84.0 million. The increase in Domestic Operations sales was due to increased activity for mid-sized projects and several large direct projects. International Operations sales for fiscal year 2013 were $23.6 million, an increase of 25% from fiscal year 2012 sales of $18.9 million. The increase in International Operations sales was due to the shipment of several large international orders.

Our order backlog was $89.0 million at April 30, 2014, as compared to $80.2 million at April 30, 2013 and $86.2 million at April 30, 2012.

Gross profit represented 19.8%, 19.0% and 18.6% of sales in fiscal years 2014, 2013 and 2012, respectively. The increase in gross profit margin for fiscal year 2014 was primarily due to a more favorable product sales mix. The increase in gross profit margin for fiscal year 2013 was primarily due to cost savings initiatives and a more favorable product mix.

Operating expenses were $16.1 million, $17.0 million and $16.4 million in fiscal years 2014, 2013 and 2012, respectively, and 14.5%, 14.5% and 16.0% of sales, respectively. The decrease in operating expenses in fiscal year 2014 as compared to fiscal year 2013 includes a decline of $425,000 in corporate salary and benefit costs. The increase in fiscal year 2013 as compared to fiscal year 2012 resulted primarily from higher pension expense of $442,000 and $519,000 in expense related to compensation earned under performance incentive plans. These increases were partially offset by decreases in bad debt expenses of $180,000 and sales and marketing expenses of $317,000.

Other income was $395,000, $306,000 and $271,000 in fiscal years 2014, 2013 and 2012, respectively. The increase in other income in fiscal years 2014 and 2013 was primarily due to increases in interest income earned from cash on hand at the international subsidiaries.

Interest expense was $373,000, $362,000 and $445,000 in fiscal years 2014, 2013 and 2012, respectively. Interest expense in fiscal year 2014 was flat as compared to fiscal year 2013. The decrease in interest expense for fiscal year 2013 was primarily due to lower levels of bank borrowings and the increase in fiscal year 2012 was due to higher levels of borrowings.

Income tax expense was $1,983,000, $1,540,000, and $739,000 in fiscal years 2014, 2013 and 2012, respectively, or 33.1%, 29.5% and 29.1% of pretax earnings, respectively. The effective tax rate for each of these years is lower than the statutory rate due to the favorable impact of tax rates for the Company s international subsidiaries and the impact of state and federal tax credits. The increase in the effective tax rate for fiscal year 2014 was primarily due to increased earnings in tax jurisdictions with higher effective tax rates.

Net earnings attributable to the noncontrolling interest related to our subsidiaries that are not 100% owned by the Company were $108,000, $637,000, and $769,000 for fiscal years 2014, 2013 and 2012, respectively. The decrease in fiscal year 2014 from fiscal year 2013 is primarily related to the purchase in the first quarter of the year of the noncontrolling interest in Kewaunee Labway Asia Pte. Ltd., the Company s principal international subsidiary, increasing the Company s ownership to 100%. The changes from fiscal year 2013 to fiscal year 2012 in the net earnings attributable to the noncontrolling interest were directly attributable to changes in the levels of net income of the subsidiaries.

Net earnings in fiscal year 2014 were $3,895,000, or $1.48 per diluted share. Net earnings in fiscal year 2013 were $3,044,000, or $1.17 per diluted share, and net earnings in fiscal year 2012 were $1,031,000, or $0.40 per diluted share.

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. We believe that these sources of funds will be sufficient to support ongoing business requirements, including capital expenditures, through fiscal year 2015.

At April 30, 2014, we had advances of $2.9 million and standby letters of credit aggregating $4.3 million outstanding under our unsecured $20 million revolving credit facility. 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. We did not have any off balance sheet arrangements at April 30, 2014.

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The following table summarizes the cash payment obligations for our lease arrangements, long-term debt, and other non-current liabilities as of April 30, 2014:

PAYMENTS DUE BY PERIOD

($ in thousands)

Contractual Obligations	Total	1 Year	2-3 Years	4-5 Years	After 5 years
Operating Leases	$ 6,860	$ 1,982	$ 2,856	$ 1,653	$ 369
Long-term Debt	4,613	421	842	2,079	1,271
Purchase of noncontrolling interest	1,775	887	888		
Total Contractual Cash Obligations	$ 13,248	$ 3,290	$ 4,586	$ 3,732	$ 1,640

Operating activities provided cash of $8.1 million in fiscal year 2014, primarily from operating earnings and decreases in accounts receivable and inventory, partially offset by decreases in accounts payable and other accrued expenses. Operating activities provided cash of $3.8 million in fiscal year 2013, primarily from earnings and an increase in accounts payable and other accrued expenses, partially offset by increases in accounts receivable and inventory. Operating activities provided cash of $6.9 million in fiscal year 2012, primarily from operating earnings and a decrease in accounts receivable, partially offset by an increase in the provision for deferred income taxes and an increase in inventory.

The Company s financing activities used cash of $5,549,000 during fiscal year 2014 for payment of $1,780,000 toward the purchase of the noncontrolling interest in a subsidiary, repayment of short-term borrowings of $3,847,000, cash dividends of $1,122,000 paid to stockholders, and cash dividends of $38,000 paid to minority interest holders. This was partially offset by a net increase in long-term debt of $1,146,000 in conjunction with the replacement of the Company s long-term debt with a new lender. See Note 3 and Note 10 of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report for additional information concerning our credit facility and the purchase of the noncontrolling interest in our subsidiary. The Company s financing activities used cash of $1,718,000 during fiscal year 2013, primarily for cash dividends of $1,035,000 paid to stockholders, and cash dividends of $744,000 paid to minority interest holders. The Company s financing activities used cash during fiscal year 2012 of $1,086,000 primarily for the payment of cash dividends.

The majority of the April 30, 2014 accounts receivable balances are expected to be collected during the first quarter of fiscal year 2015, 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 anticipate that no contributions will be made to the plans in fiscal year 2015. We made contributions of $300,000 and $1,000,000 to the plans in fiscal years 2014 and 2013, respectively.

Capital expenditures were $2.0 million, $2.4 million and $1.4 million in fiscal years 2014, 2013 and 2012, respectively. Capital expenditures in fiscal year 2014 were funded primarily from operations. Fiscal year 2015 capital expenditures are anticipated to be approximately $2.3 million, with the majority of these expenditures for manufacturing equipment. The fiscal year 2015 expenditures are expected to be funded primarily by operating activities, supplemented as needed by borrowings under our revolving credit facility.

Working capital was $27.2 million at April 30, 2014, up from $25.1 million at April 30, 2013, and the ratio of current assets to current liabilities was 2.7-to-1.0 at April 30, 2014 and 2.1-to-1.0 at April 30, 2013. The increase in working capital for fiscal year 2014 was primarily due to cash provided by operating activities.

We paid cash dividends of $0.44 per share in fiscal year 2014. We paid cash dividends of $0.40 per share in fiscal years 2013 and 2012. We expect to pay dividends in the future in line with our actual and anticipated future operating results.

RECENT ACCOUNTING STANDARDS

New Accounting Standards In February 2013, the FASB issued ASU 2013-02, Comprehensive Income (Topic 220) Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. This guidance adds new disclosure requirements for items reclassified out of

accumulated other comprehensive income (AOCI), including changes in AOCI balances by component

and significant items reclassified out of AOCI. This guidance does not amend any existing requirements for reporting net income or AOCI in the financial statements. The Company adopted this standard effective May 1, 2014. The adoption of this standard did not have a significant impact on the Company s consolidated financial position or results of operations.

In March 2013, the FASB issued ASU 2013-05 Foreign Currency Matters (Topic 830) Parent s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity. This guidance issued amendments to address the accounting for the cumulative translation adjustment when a parent entity sells or transfers either a subsidiary or group of assets within a foreign entity. The Company will adopt this standard in fiscal year 2015. The Company does not expect the adoption of this standard to have a significant impact on the Company s consolidated financial position or results of operations.

In July 2013, the FASB issued ASU No. 2013-11 Income Taxes (Topic 740) Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. This guidance requires that companies net their unrecognized tax benefits against all same-jurisdiction net operating losses or tax credits carryforwards that would be used to settle the position with a tax authority. This standard is effective for annual reporting periods beginning on or after December 15, 2013 and interim periods within those annual periods. The Company will adopt this standard in fiscal year 2015. The Company does not expect the adoption of this standard to have a significant impact on the Company s consolidated financial position or results of operations.

In May 2014, the FASB issued ASU 2014-9 Revenue from Contracts with Customers (Topic 606). This guidance requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance is effective for annual reporting periods beginning after December 15, 2016 and early adoption is not permitted. The Company will adopt this standard in fiscal year 2018. The Company has not yet determined the effect, if any, that the adoption of this standard will have on the Company s financial position or results of operations.

OUTLOOK

Our ability to predict future demand for our products continues to be limited given our role as subcontractor or supplier to dealers for subcontractors. 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 fluctuations in prevailing pricing for projects in the laboratory construction marketplace and 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. We are also unable to predict the timing and strength of the global economic recovery and its short-term and long-term impact on our operations and the markets in which we compete.

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 $2.9 million at April 30, 2014. In May 2013, the Company entered into an interest rate swap agreement whereby the interest rate payable by the Company on $3,450,000 of outstanding long-term debt was effectively converted to a fixed interest rate of 4.875% for the period beginning May 1, 2013 and ending August 1, 2017. In May 2013, the Company entered into an interest rate swap agreement whereby the interest rate payable by the Company on $2,600,000 of outstanding long-term debt was effectively converted to a fixed interest rate of 4.37% for the period beginning August 1, 2017 and ending May 1, 2020. In May 2013, the Company entered into an interest rate swap agreement whereby the interest rate payable by the Company on $1,218,000 of outstanding long-term debt was effectively converted to a fixed interest rate of 3.07% for the period beginning November 3, 2014 and ending May 1, 2020. We believe that our exposure to market risk is not material.

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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* (2013) 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, 2014.

/s/ David M. Rausch
President and Chief Executive Officer

/s/ D. Michael Parker
Senior Vice President, Finance
Chief Financial Officer
July 17, 2014

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE SHAREHOLDERS AND BOARD OF DIRECTORS

OF KEWAUNEE SCIENTIFIC CORPORATION

STATESVILLE, NORTH CAROLINA

We have audited the accompanying consolidated balance sheets of Kewaunee Scientific Corporation and subsidiaries (the Company) as of April 30, 2014 and 2013, and the related consolidated statements of operations, comprehensive income (loss), stockholders equity and cash flows for each of the three years in the period ended April 30, 2014. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements 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 consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as 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, 2014 and 2013, and the consolidated results of their operations and their cash flows for each of the three years in the period ended April 30, 2014, in conformity with accounting principles generally accepted in the United States of America.

/s/ CHERRY BEKAERT LLP
Charlotte, North Carolina
July 17, 2014

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CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended April 30	**Kewaunee Scientific Corporation**		
$ and shares in thousands, except per share amounts	**2014**	2013	2012
Net sales	**$ 111,166**	$ 117,121	$ 102,847
Costs of products sold	**89,134**	94,863	83,691
Gross profit	**22,032**	22,258	19,156
Operating expenses	**16,068**	16,981	16,443
Operating earnings	**5,964**	5,277	2,713
Other income	**395**	306	271
Interest expense	**(373)**	(362)	(445)
Earnings before income taxes	**5,986**	5,221	2,539
Income tax expense	**1,983**	1,540	739
Net earnings	**4,003**	3,681	1,800
Less: net earnings attributable to the noncontrolling interest	**108**	637	769
Net earnings attributable to Kewaunee Scientific Corporation	**$ 3,895**	$ 3,044	$ 1,031
Net earnings per share attributable to Kewaunee Scientific Corporation stockholders			
Basic	**$ 1.49**	$ 1.18	$ 0.40
Diluted	**$ 1.48**	$ 1.17	$ 0.40
Weighted average number of common shares outstanding			
Basic	**2,608**	2,587	2,579
Diluted	**2,634**	2,600	2,580

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

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Years Ended April 30	**Kewaunee Scientific Corporation**		
$ in thousands	**2014**	2013	2012
Net earnings	**$ 4,003**	$ 3,681	$ 1,800
Other comprehensive income (loss), net of tax			
Foreign currency translation adjustments	**(321)**	84	(466)
Change in unrecognized actuarial loss on pension obligations	**1,292**	(256)	(1,682)
Change in fair value of cash flow hedge	**83**	21	(98)
Comprehensive income (loss), net of tax	**5,057**	3,530	(446)
Less comprehensive income attributable to the noncontrolling interest	**108**	637	769
Total comprehensive income (loss) attributable to Kewaunee Scientific Corporation	**$ 4,949**	$ 2,893	$ (1,215)

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**	**Treasury Stock**	**Retained Earnings**	**Accumulated Other Comprehensive Income (Loss)**	**Total Stockholders Equity**
Balance at April 30, 2011	$ 6,550	$ 1,091	$ (438)	$ 29,218	$ (4,930)	$ 31,491
Net earnings				1,031		1,031
Other comprehensive loss					(2,246)	(2,246)
Cash dividends declared, $.40 per share				(1,031)		(1,031)
Stock options exercised, 14,500 shares		(11)	152			141
Stock based compensation		261				261
Purchase of treasury stock, 13,306 shares			(136)			(136)
Balance at April 30, 2012	6,550	1,341	(422)	29,218	(7,176)	29,511
Net earnings				3,044		3,044
Other comprehensive loss					(151)	(151)
Cash dividends declared, $0.40 per share				(1,071)		(1,071)
Stock options exercised, 26,750 shares		(1)	286			285
Stock based compensation		227				227
Purchase of treasury stock, 13,752 shares			(169)			(169)
Balance at April 30, 2013	6,550	1,567	(305)	31,191	(7,327)	31,676
Purchase of noncontrolling interest (Note 10)				**(1,874)**		**(1,874)**
Net earnings				**3,895**		**3,895**
Other comprehensive income					**1,054**	**1,054**
Cash dividends declared, $0.44 per share				**(1,122)**		**(1,122)**
Stock options exercised, 97,250 shares	**7**	**(163)**	**1,405**			**1,249**
Stock based compensation		**238**				**238**
Purchase of treasury stock, 69,773 shares			**(1,157)**			**(1,157)**
Balance at April 30, 2014	**$ 6,557**	**$ 1,642**	**$ (57)**	**$ 32,090**	**$ (6,273)**	**$ 33,959**

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	**2014**	2013
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 6,248**	$ 5,811
Restricted cash	**368**	691
Receivables, less allowance: $229 (2014); $194 (2013)	**23,473**	25,884
Inventories	**11,938**	13,203
Deferred income taxes	**646**	654
Prepaid expenses and other current assets	**680**	987
Total Current Assets	**43,353**	47,230
Property, Plant and Equipment, Net	**14,570**	15,098
Other Assets		
Deferred income taxes	**1,385**	2,241
Other	**3,409**	4,173
Total Other Assets	**4,794**	6,414
Total Assets	**$ 62,717**	$ 68,742
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Short-term borrowings and interest rate swaps	**$ 3,150**	$ 6,997
Current portion of long-term debt	**421**	200
Accounts payable	**8,542**	10,406
Employee compensation and amounts withheld	**2,000**	2,076
Deferred revenue	**137**	488
Other accrued expenses	**1,913**	1,948
Total Current Liabilities	**16,163**	22,115
Long-term debt	**4,192**	3,267
Accrued pension and deferred compensation costs	**7,250**	9,667
Other non-current liabilities	**888**	
Total Liabilities	**28,493**	35,049
Commitments and Contingencies (Note 7)		
Stockholders Equity		
Common stock, $2.50 par value, Authorized - 5,000 shares; Issued - 2,623 shares; Outstanding - 2,619 shares (2014); 2,592 shares (2013)	**6,557**	6,550
Additional paid-in-capital	**1,642**	1,567
Retained earnings	**32,090**	31,191
Accumulated other comprehensive loss	**(6,273)**	(7,327)
Common stock in treasury, at cost: 4 shares (2014); 27 shares (2013)	**(57)**	(305)
Total Kewaunee Scientific Corporation Stockholders Equity	**33,959**	31,676

Noncontrolling Interest	**265**	2,017
Total Equity	**34,224**	33,693
Total Liabilities and Stockholders Equity	**$ 62,717**	$ 68,742

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended April 30	**Kewaunee Scientific Corporation**		
$ in thousands	**2014**	2013	2012
Cash Flows from Operating Activities			
Net earnings	**$ 4,003**	$ 3,681	$ 1,800
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation	**2,549**	2,653	2,664
Bad debt provision	**116**	34	214
Non-cash stock option expense	**238**	239	261
Provision (benefit) for deferred income tax expense	**864**	(526)	(1,539)
Change in assets and liabilities:			
Decrease (increase) in receivables	**2,295**	(2,674)	4,663
Decrease (increase) in inventories	**1,265**	(1,443)	(1,294)
(Decrease) increase in accounts payable and other accrued expenses	**(2,862)**	2,604	(459)
Decrease in deferred revenue	**(351)**	(874)	(521)
Other, net	**(48)**	133	1,134
Net cash provided by operating activities	**8,069**	3,827	6,923
Cash Flows from Investing Activities			
Capital expenditures	**(2,021)**	(2,405)	(1,435)
Decrease (increase) in restricted cash	**323**	13	(151)
Net cash used in investing activities	**(1,698)**	(2,392)	(1,586)
Cash Flows from Financing Activities			
Dividends paid	**(1,122)**	(1,035)	(1,031)
Dividends paid to noncontrolling interest in subsidiaries	**(38)**	(744)	
(Decrease) increase in short-term borrowings and interest rate swaps	**(3,847)**	181	228
Proceeds from long-term debt	**5,000**		
Payments on capital leases		(36)	(83)
Payment toward purchase of noncontrolling interest in subsidiary	**(1,780)**		
Payments on long-term debt	**(3,854)**	(200)	(200)
Net proceeds from exercise of stock options (including tax benefit)	**92**	116	
Net cash used in financing activities	**(5,549)**	(1,718)	(1,086)
Effect of exchange rate changes on cash, net	**(385)**	(94)	(465)
Increase (Decrease) in Cash and Cash Equivalents	**437**	(377)	3,786
Cash and Cash Equivalents at Beginning of Year	**5,811**	6,188	2,402
Cash and Cash Equivalents at End of Year	**$ 6,248**	$ 5,811	$ 6,188
Supplemental Disclosure of Cash Flow Information			
Interest paid	**$ 413**	$ 374	$ 444
Income taxes paid	**$ 2,585**	$ 1,722	$ 418
Purchase of noncontrolling interest in subsidiary Other accrued expenses and other non-current liabilities	**$ 1,775**		

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies

Kewaunee Scientific Corporation and subsidiaries (collectively the Company) design, manufacture, and install laboratory, healthcare, and technical furniture products. Laboratory furniture products include both steel and wood cabinetry, fume hoods, adaptable modular systems, moveable workstations, biological safety cabinets, and epoxy resin worksurfaces and sinks. Healthcare furniture products include laminate casework, storage systems, and related products for healthcare applications. Technical furniture products include column systems, slotted-post systems, pedestal systems, and stand-alone benches. The Company s sales are made through purchase orders and contracts submitted by customers, dealers and agents, a national stocking distributor, and competitive bids submitted by the Company and its subsidiaries located in Singapore, India, and China. 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. Laminate casework is used in educational, healthcare and industrial applications.

Principles of Consolidation The Company s consolidated financial statements include the accounts of Kewaunee Scientific Corporation and its five 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 100% owned by the Company; (2) Kewaunee Labway India Pvt. Ltd., a dealer for the Company s products in Bangalore, India, is 90% owned by the Company; (3) Kewaunee Scientific Corporation India Pvt. Ltd. in Bangalore, India, a manufacturing and assembly operation, is 100% owned by the Company; (4) Kewaunee Scientific Corporation Singapore Pte. Ltd., a holding company in Singapore, is 100% owned by the Company; and (5) Kewaunee Scientific (Suzhou) Co., Ltd. in Suzhou, China 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 $8,864,000 and $11,189,000 at April 30, 2014 and 2013, respectively, of the Company s subsidiaries. Net sales by the Company s subsidiaries in the amount of $19,416,000, $23,602,000 and $18,876,000 were included in the consolidated statements of operations for fiscal years 2014, 2013 and 2012, 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, 2014 and 2013, 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 collectability 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 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. The activity in the allowance for doubtful accounts for each of the three years ended April 30 was:

$ in thousands	**2014**	2013	2012
Balance at beginning of year	**$ 194**	$ 311	$ 250
Bad debt provision	**116**	34	214
Doubtful accounts written off (net)	**(81)**	(151)	(153)
Balance at end of year	**$ 229**	$ 194	$ 311

Inventories The majority of inventories are valued at the lower of cost or market under the last-in, first-out (LIFO) double extension 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. Inventories at our international subsidiaries are measured on the first-in, first-out (FIFO) method.

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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	**2014**	2013	Useful Life
Land	$ 41	$ 41	N/A
Building and improvements	15,221	14,921	10-40 years
Machinery and equipment	31,129	30,147	5-10 years
Total	46,391	45,109	
Less accumulated depreciation	(31,821)	(30,011)	
Net property, plant and equipment	$ 14,570	$ 15,098	

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. There were no impairments in fiscal years 2014, 2013 and 2012.

Other Assets Other assets at April 30, 2014 and 2013 included $3,313,000 and $4,077,000, respectively, of assets held in a trust account for non-qualified benefit plans and $88,000 and $96,000, respectively, of cash surrender values of life insurance policies. Life insurance policies are recorded at the amount that could be realized under the insurance contract as of the date of the Company s consolidated balance sheet with the change in cash surrender or contract value being recorded as income or expense during each period.

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 A financial instrument is defined as cash equivalents, evidence of an ownership interest in an entity, or a contract that creates a contractual obligation or right to deliver or receive cash or another financial instrument from another party. The Company s financial instruments consist primarily of cash and equivalents, mutual funds, cash surrender value of life insurance policies and short-term borrowings. The carrying value of these assets and liabilities approximate their fair value.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The standard also expands disclosures about instruments measured at fair value and establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value as follows:

Level 1	Quoted prices in active markets for identical assets or liabilities as of the reporting date.
Level 2	Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities as of the reporting date.
Level 3	Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following tables summarize the Company s fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring and nonrecurring basis as of April 30, 2014 and 2013 (in thousands):

	2014			
Financial Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Trading securities held in deferred compensation plan (1)	**$ 3,313**	**$**	**$**	**$ 3,313**
Cash surrender value of life insurance policies (1)		**88**		**88**
Total	**$ 3,313**	**$ 88**	**$**	**$ 3,401**
Financial Liabilities				
Deferred compensation plans (2)	**$**	**$ 3,681**	**$**	**$ 3,681**
Interest rate swap derivative		**211**		**211**
Total	**$**	**$ 3,892**	**$**	**$ 3,892**

	2013			
Financial Assets	Level 1	Level 2	Level 3	Total
Trading securities held in deferred compensation plan (1)	$ 4,077	$	$	$ 4,077
Cash surrender value of life insurance policies (1)		96		96
Total	$ 4,077	$ 96	$	$ 4,173
Financial Liabilities				
Deferred compensation plans (2)	$	$ 4,399	$	$ 4,399
Interest rate swap derivative		344		344
Total	$	$ 4,743	$	$ 4,743

(1) The Company maintains an executive compensation plan which includes investment assets in a rabbi trust. These assets consist of marketable securities, which are valued using quoted market prices multiplied by the number of shares owned, and life insurance policies, which are valued at their cash surrender value.

(2) The deferred compensation plan liability is equal to the individual participants account balances under the plan.

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 $2,490,000 and $2,659,000 at April 30, 2014 and 2013, 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 immaterial to the Company s consolidated financial position and results of operations and 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. In these instances, 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. Contract 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 perform 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, these 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 represented approximately 9%, 11% and 12% of the Company s total sales in fiscal years 2014, 2013 and 2012, respectively. Revenue for two of the Company s domestic dealers represented in the aggregate approximately 24%, 14% and 2% of the Company s total sales in fiscal years 2014, 2013, and 2012, respectively. Accounts receivable for two domestic customers represented approximately 22% and 8% of the Company s total accounts receivable as of April 30, 2014 and 2013, respectively.

Income Taxes In accordance with ASC 740, 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. ASC 740 clarifies the financial statement recognition threshold and measurement attribute of a tax position taken or expected to be taken in a tax return. Under ASC 740, the Company applies a more-likely-than-not recognition threshold for all tax uncertainties. ASC 740 only allows the recognition of those tax benefits that have a greater than 50% likelihood of being sustained upon examination by the taxing authorities. The Company did not have any significant uncertain tax positions at April 30, 2014 and 2013.

Research and Development Costs Research and development costs are charged to expense in the periods incurred. Expenditures for research and development costs were $842,000, $872,000 and $941,000 for the fiscal years ended April 30, 2014, 2013 and 2012, respectively.

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, 2014, 2013 and 2012 were $377,000, $395,000 and $344,000, 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 does not enter into derivative instruments for speculative purposes. In May 2013, the Company entered into an interest rate swap agreement whereby the interest rate payable by the Company on $3,450,000 of outstanding long-term debt was effectively converted to a fixed interest rate of 4.875% for the period beginning May 1, 2013 and ending August 1, 2017. In May 2013, the Company entered into an interest rate swap agreement whereby the interest rate payable by the Company on $2,600,000 of outstanding long-term debt was effectively converted to a fixed interest rate of 4.37% for the period beginning August 1, 2017 and ending May 1, 2020. In May 2013, the Company entered into an interest rate swap agreement whereby the interest rate payable by the Company on $1,218,000 of outstanding long-term debt was effectively converted to a fixed interest rate of 3.07% for the period beginning November 3, 2014 and ending May 1, 2020. The Company entered into these interest rate swap arrangements to mitigate future interest rate risk associated with its long-term debt and has designated these as cash flow hedges. (See Note 3.)

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 fiscal year-end exchange rates. Sales, expenses, and cash flows are translated at weighted 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 taxes on undistributed earnings of foreign subsidiaries. Gains and losses from foreign currency transactions of these subsidiaries are included in net earnings.

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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. There were no antidilutive options outstanding at April 30, 2014. Options to purchase 72,850 and 253,050 shares at April 30, 2013 and 2012, respectively, were not included in the computation of diluted earnings per share 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:

Shares in thousands	**2014**	2013	2012
Weighted average common shares outstanding			
Basic	**2,608**	2,587	2,579
Dilutive effect of stock options	**26**	13	1
Weighted average common shares outstanding diluted	**2,634**	2,600	2,580

Accounting for Stock Options Compensation costs related to stock options granted by the Company are charged against income during their vesting period, under ASC 718, Compensation Stock Compensation . The Company granted stock options for 46,600, 40,000, and 55,000 shares during fiscal years 2014, 2013 and 2012, respectively. (See Note 5.)

New Accounting Standards In February 2013, the FASB issued ASU 2013-02, Comprehensive Income (Topic 220) Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. This guidance adds new disclosure requirements for items reclassified out of accumulated other comprehensive income (AOCI), including changes in AOCI balances by component and significant items reclassified out of AOCI. This guidance does not amend any existing requirements for reporting net income or AOCI in the financial statements. The Company adopted this standard effective May 1, 2014. The adoption of this standard did not have a significant impact on the Company s consolidated financial position or results of operations.

In March 2013, the FASB issued ASU 2013-05 Foreign Currency Matters (Topic 830) Parent s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity. This guidance issued amendments to address the accounting for the cumulative translation adjustment when a parent entity sells or transfers either a subsidiary or group of assets within a foreign entity. The Company will adopt this standard in fiscal year 2015. The Company does not expect the adoption of this standard to have a significant impact on the Company s consolidated financial position or results of operations.

In July 2013, the FASB issued ASU No. 2013-11 Income Taxes (Topic 740) Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. This guidance requires that companies net their unrecognized tax benefits against all same-jurisdiction net operating losses or tax credits carryforwards that would be used to settle the position with a tax authority. This standard is effective for annual reporting periods beginning on or after December 15, 2013 and interim periods within those annual periods. The Company will adopt this standard in fiscal year 2015. The Company does not expect the adoption of this standard to have a significant impact on the Company s consolidated financial position or results of operations.

In May 2014, the FASB issued ASU 2014-9 Revenue from Contracts with Customers (Topic 606). This guidance requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance is effective for annual reporting periods beginning after December 15, 2016 and early adoption is not permitted. The Company will adopt this standard in fiscal year 2018. The Company has not yet determined the effect, if any, that the adoption of this standard will have on the Company s financial position or results of operations.

Note 2 Inventories

Inventories consisted of the following at April 30:

$ in thousands	**2014**	2013

Finished goods	**$ 2,909**	$ 4,052
Work-in-process	**1,550**	1,678
Materials and components	**7,479**	7,473
Total inventories	**$ 11,938**	$ 13,203

At April 30, 2014 and 2013, the Company s international subsidiaries inventories were $1,684,000 and $2,077,000, respectively, measured using the first-in, first-out (FIFO) method. If all of the Company s inventories had been determined using the FIFO method at April 30, 2014 and 2013, reported inventories would have been $1.2 million and $1.3 million greater, respectively. During fiscal years 2014 and 2013, the LIFO index was lower than 100% due to lower prices for certain raw materials. This decrease resulted in the liquidation of LIFO inventory quantities carried at higher costs prevailing in prior years as compared to the cost of purchases in the current fiscal year, the effect of which decreased the cost of sales by $137,000 and $273,000, respectively.

Note 3 Long-term Debt and Other Credit Arrangements

On May 6, 2013, the Company entered into a credit and security agreement (the Loan Agreement) with a new lender consisting of (1) a $20 million revolving credit facility which matures on May 1, 2016 (Line of Credit), (2) a term loan in the amount of $3,450,000 which matures on May 1, 2020 (Term Loan A) and (3) a term loan in the amount of $1,550,000 which matures on May 1, 2020 (Term Loan B and together with Term Loan A, the Term Loans). The Loan Agreement provided funds to refinance all existing indebtedness to the Company s previous lender and for working capital and other general corporate purposes. In addition, it provides a sub-line for the issuance of up to $4.7 million of letters of credit.

At April 30, 2014, there were advances of $2.9 million outstanding under the Line of Credit, and the borrowing rate at that date was 1.75%. Monthly interest payments under the Line of Credit were payable at the Daily One Month LIBOR interest rate plus 1.5% per annum. Payments are due under Term Loan A in consecutive equal monthly principal payments in the amount of $17,000 until August 1, 2017, and then in consecutive equal monthly principal payments in the amount of $79,000 each, commencing on September 1, 2017 and continuing on the first business day of each month thereafter until May 1, 2020, and at that time, all principal, accrued unpaid interest and other charges outstanding under Term Loan A shall be due and payable in full. The interest rate on Term Loan A, after consideration of related interest rate swap agreements, is a fixed rate per annum equal to 4.875%, and effective August 1, 2017, such rate converts to a fixed rate per annum of 4.37%. Payments are due under Term Loan B in consecutive equal monthly principal payments in the amount of $18,000 until May 1, 2020, and at that time, all principal, accrued unpaid interest and other charges outstanding under Term Loan B shall be due and payable in full. The interest rate on Term Loan B, after consideration of the related interest rate swap agreement, is a variable rate per annum equal to Daily One Month LIBOR plus 1.575% per annum, and effective November 3, 2014, such rate converts to a fixed rate per annum of 3.07%. The interest rate on Term Loan B was 1.73% at April 30, 2014. Scheduled annual principal payments for the term loans are $421,000 for fiscal years 2015 through 2017 and $915,000, $1,164,000, and $1,271,000 for fiscal years 2018, 2019 and 2020, respectively.

The Loan Agreement 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, 2014, the Company was in compliance with all of the financial covenants and there was $12.8 million of unused and available credit under the revolving credit facility. At April 30, 2014, there were $4.3 million in letters of credit outstanding under the Loan Agreement to support bank guarantees issued by a foreign bank from time to time on behalf of the Company s subsidiaries in India to guarantee performance on customer orders. At April 30, 2014, there were foreign bank guarantees outstanding to customers in the amount of $1,784,000 and $576,000 with expiration dates in fiscal years 2015 and 2016, respectively.

On June 10, 2014, the Loan Agreement was amended to increase the allowable aggregate undrawn amount of all outstanding letters of credit under the Line of Credit from $4,700,000 to $8,510,000 with such allowable amount to be reduced to $6,510,000 on August 10, 2014.

At April 30, 2013, the Company had an unsecured revolving credit facility in the amount of $15 million with an expiration date of July 31, 2014. Monthly interest payments under the facility were payable calculated at the 30-day LIBOR Market Interest Rate plus a variable rate ranging from 1.575% to 2.175%. The borrowing rate at April 30, 2013 was 1.773%, including a variable rate adjustment of 1.575%. The credit facility included financial covenants with respect to certain ratios, including (a) debt-to-net worth, (b) fixed charge coverage, and (c) asset coverage. At April 30, 2013, the Company was in compliance with all of the financial covenants.

At April 30, 2013, there were advances of $6.7 million outstanding under the revolving credit facility, and the Company s Asia subsidiaries had standby letters of credit and bank guarantees in the aggregate amount of $2.1 million outstanding under the facility to guarantee performance on certain customer projects. At April 30, 2013, the Company had a $4 million seven-year term loan secured by the Company s real property and equipment located in Statesville, North Carolina. The term loan required monthly principal payments of $17,000, plus interest calculated at the 30-day LIBOR Market Index Rate plus 1.575%, with payment of the outstanding principal balance and any unpaid interest at the term loan maturity date. The interest rate on the term loan, after consideration of the related interest swap agreement, was a fixed rate per annum of 4.875%.

Amounts outstanding under the term loans were as follows as of April 30:

$ in thousands	2014	2013
Term loans payable	$ 4,613	$ 3,467
Less: current portion	(421)	(200)
Long-term debt	$ 4,192	$ 3,267

Note 4 Income Taxes

Income tax expense consisted of the following:

$ in thousands	2014	2013	2012
Current tax expense (benefit):			
Federal	$ 907	$ 941	$ 247
State and local	168	184	63
Foreign	917	791	838
Total current tax expense	1,992	1,916	1,148
Deferred tax expense (benefit):			
Federal	27	(346)	(338)
State and local	26	(24)	(12)
Foreign	(62)	(6)	(59)
Total deferred tax expense (benefit)	(9)	(376)	(409)
Net income tax expense	$ 1,983	$ 1,540	$ 739

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	2014	2013	2012
Income tax expense at statutory rate	$ 2,035	$ 1,775	$ 863
State and local taxes, net of federal income tax benefit (expense)	165	128	3
Tax credits (state, net of federal benefit)	(134)	(118)	(76)
Effects of differing US and foreign tax rates	(30)	(106)	(61)
(Decrease) increase in valuation allowance	(9)	(14)	73
Other items, net	(44)	(125)	(63)
Net income tax expense	$ 1,983	$ 1,540	$ 739

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

$ in thousands	**2014**	2013
Deferred tax assets:		
Accrued employee benefit expenses	**$ 462**	$ 568
Allowance for doubtful accounts	**68**	52
Deferred compensation	**1,432**	1,688
Tax credits	**304**	336
Unrecognized actuarial loss, defined benefit plans	**3,486**	4,309
Other	**98**	86
Total deferred tax assets	**5,850**	7,039
Deferred tax liabilities:		
Book basis in excess of tax basis of property, plant and equipment	**(1,826)**	(1,953)
Prepaid pension	**(2,098)**	(2,260)
Other	**155**	128
Total deferred tax liabilities	**(3,769)**	(4,085)
Less: valuation allowance	**(50)**	(59)
Net deferred tax assets (liabilities)	**$ 2,031**	$ 2,895
Deferred tax assets classified in the balance sheet:		
Current	**$ 646**	$ 654
Non-current	**1,385**	2,241
Net deferred tax assets (liabilities)	**$ 2,031**	$ 2,895

At April 30, 2014, the Company had federal tax credit carryforwards in the amount of $40,000 expiring beginning in 2020 and state tax credit carryforwards in the amount of $264,000, net of federal benefit, expiring beginning in 2015. After a review of the expiration schedule of the tax credits and future taxable income required to utilize such credits before their expiration, a valuation allowance of $50,000 and $59,000 was recorded at April 30, 2014 and 2013, respectively.

Note 5 Stock Options and Share-Based Compensation

The stockholders approved the 2010 Stock Option Plan for Directors (2010 Plan) in fiscal year 2011 which allows the Company to grant options on an aggregate of 100,000 shares of the Company s common stock. Under this plan, each eligible director will be granted options to purchase 10,000 shares at the fair market value at the date of grant for a term of five years. These options will be exercisable in four equal installments, one-fourth becoming exercisable on the next August 1 following the date of grant, and one-fourth becoming exercisable on August 1 of each of the next three years. At April 30, 2014, there were 35,000 shares available for future grants under the 2010 Plan.

The stockholders approved the 2008 Key Employee Stock Option Plan (2008 Plan) in fiscal year 2009 which allows the Company to grant options on an aggregate of 300,000 shares of the Company s common stock. This plan replaced the Company s previous stock option plan, but certain unexercised options previously granted under the old plan remain outstanding. Under the plans, options were 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, 2014, there were 60,350 shares available for future grants under the 2008 Plan.

The Company recorded stock-based compensation expense in accordance with ASC 718. 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. For stock options granted during the fiscal years 2014, 2013 and

2012, the Company believes that its historical share option experience does not provide a reasonable basis upon which to estimate expected term. The stock options granted have the plain-vanilla characteristics as defined in SEC Staff Accounting Bulletin No. 107 (SAB 107). The Company utilized the Safe Harbor option Simplified Method to determine the expected term of these options in accordance with the guidance of SAB 107 for options granted. The Company intends to continue to utilize the Simplified Method for future grants in accordance with the guidance of SAB 110

until such time that the Company believes that its historical share option experience will provide a reasonable basis to estimate expected term. The fair value of the options granted as shown below was estimated using the Black-Scholes model with the following assumptions:

	2014		2013	2012	
	2008 Plan	**2010 Plan**	2008 Plan	2008 Plan	2010 Plan
Options granted	**36,600**	**10,000**	40,000	45,000	10,000
Weighted average expected stock price volatility	**50.58%**	**36.98%**	51.18%	48.51%	29.92%
Expected option life	**6.25 years**	**3.33 years**	6.25 years	6.25 years	2.42 years
Average risk-free interest rate	**1.80%**	**0.62%**	1.35%	2.74%	0.90%
Average dividend yield	**3.21%**	**3.33%**	4.34%	3.48%	3.38%
Estimated fair value of each option	**$5.84**	**$2.73**	$3.86	$3.06	$1.53

The stock-based compensation expense is recorded over the vesting period (4 years) for the options granted, net of tax. The Company recorded $238,000, $239,000 and $261,000 of compensation expense and $93,000, $93,000 and $100,000 deferred income tax benefit in fiscal years 2014, 2013 and 2012, respectively. The remaining compensation expense of $356,000 and deferred income tax benefit of $138,000 will be recorded over the remaining vesting periods.

The Company issued new shares of common stock and treasury stock to satisfy options exercised during fiscal year 2014. The Company utilized treasury stock to satisfy stock options exercised during fiscal years 2013 and 2012. Stock option activity and weighted average exercise price is summarized as follows:

	2014		2013		2012	
	Number of Shares	**Weighted Average Exercise Price**	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding at beginning of year	**295,550**	**$ 11.84**	298,050	$ 11.60	279,800	$ 11.94
Granted	**46,600**	**15.26**	40,000	11.78	55,000	8.90
Canceled	**(16,650)**	**10.10**	(15,750)	10.57	(22,250)	10.64
Exercised	**(97,250)**	**13.00**	(26,750)	9.86	(14,500)	9.39
Outstanding at end of year	**228,250**	**$ 12.17**	295,550	$ 11.84	298,050	$ 11.60
Exercisable at end of year	**113,175**	**$ 11.90**	157,250	$ 12.91	126,425	$ 13.00

The number of options outstanding, exercisable, and their weighted average exercise prices were within the following price ranges at April 30, 2014:

	Exercise Price Range	
	$ 8.59-$12.66	**$ 14.69-$15.85**
Options outstanding	**165,650**	**62,600**
Weighted average exercise price	**$ 10.95**	**$ 15.40**
Weighted average remaining contractual life	**5.24 years**	**7.09 years**
Aggregate intrinsic value	**$ 973,000**	**$ 89,000**
Options exercisable	**87,175**	**26,000**
Weighted average exercise price	**$ 11.04**	**$ 14.77**
Aggregate intrinsic value	**$ 504,000**	**$ 53,000**

Note 6 Accumulated Other Comprehensive Income (Loss)

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, changes in the fair value of its cash flow hedges, 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	Cash Flow Hedge	Foreign Currency Translation Adjustment	Minimum Pension Liability Adjustment	Total Accumulated Other Comprehensive Income (Loss)
Balance at April 30, 2011	$ (138)	$ 38	$ (4,830)	$ (4,930)
Foreign currency translation adjustment		(466)		(466)
Change in fair value of cash flow hedges	(157)			(157)
Change in unrecognized actuarial loss on pension obligations			(2,753)	(2,753)
Income tax effect	59		1,071	1,130
Balance at April 30, 2012	(236)	(428)	(6,512)	(7,176)
Foreign currency translation adjustment		84		84
Change in fair value of cash flow hedges	34			34
Change in unrecognized actuarial loss on pension obligations			(419)	(419)
Income tax effect	(13)		163	150
Balance at April 30, 2013	(215)	(344)	(6,768)	(7,327)
Foreign currency translation adjustment		**(321)**		**(321)**
Change in fair value of cash flow hedges	**133**			**133**
Change in unrecognized actuarial loss on pension obligations			**2,116**	**2,116**
Income tax effect	**(50)**		**(824)**	**(874)**
Balance at April 30, 2014	**$ (132)**	**$ (665)**	**$ (5,476)**	**$ (6,273)**

Note 7 Commitments and Contingencies

The Company leases both its primary distribution facility and warehouse facility under non-cancelable operating 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 $2,680,000, $2,288,000, and $2,425,000 in fiscal years 2014, 2013 and 2012, respectively. Future minimum payments under the above non-cancelable lease arrangements for the years ending April 30 are as follows:

$ in thousands	Operating
2015	$ 1,982
2016	1,553
2017	1,303
2018	1,011
2019	642
Thereafter	369
Total minimum lease payments	$ 6,860

The Company is involved in certain claims and legal proceedings in the normal course of business which management believes will not have a material adverse effect on the Company s consolidated financial condition or results of operations.

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Note 8 Retirement Benefits

Defined Benefit Plans

The Company has non-contributory defined benefit pension plans covering a significant number of salaried and hourly employees. These 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 will be added to the plans. The defined benefit plan for salaried employees provides pension benefits that are based on each employee s years of service and average annual compensation during the last 10 consecutive calendar years of employment as of April 30, 2005. The benefit plan for hourly employees provides benefits at stated amounts based on years of service as of April 30, 2005. The Company uses an April 30 measurement date for its defined benefit plans. The change in projected benefit obligations and the change in fair value of plan assets for the non-contributory defined benefit pension plans for each of the years ended April 30 are summarized as follows:

$ in thousands	**2014**	2013
Accumulated Benefit Obligation, April 30	**$ 19,857**	$ 20,683
Change in Projected Benefit Obligations		
Projected benefit obligations, beginning of year	**$ 20,683**	$ 19,061
Interest cost	**857**	906
Actuarial (gain) loss	**(737)**	1,610
Actual benefits paid	**(946)**	(894)
Projected benefit obligations, end of year	**19,857**	20,683
Change in Plan Assets		
Fair value of plan assets, beginning of year	**15,415**	14,007
Actual return on plan assets	**1,519**	1,302
Employer contributions	**300**	1,000
Actual benefits paid	**(946)**	(894)