

KEWAUNEE SCIENTIFIC CORP /DE/

Form 10-Q

September 11, 2015

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended July 31, 2015

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 No

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

As of September 7, 2015, the registrant had outstanding 2,678,305 shares of Common Stock.

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Part 1. Financial Information

Item 1. Financial Statements*Kewaunee Scientific Corporation*

Consolidated Statements of Operations

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

	Three months ended July 31	
	2015	2014
Net Sales	\$ 31,089	\$ 30,534
Costs of products sold	25,246	24,386
Gross profit	5,843	6,148
Operating expenses	4,319	4,348
Operating earnings	1,524	1,800
Other income	102	126
Interest expense	(92)	(81)
Earnings before income taxes	1,534	1,845
Income tax expense	571	585
Net earnings	963	1,260
Less: net earnings attributable to the noncontrolling interest	23	26
Net earnings attributable to Kewaunee Scientific Corporation	\$ 940	\$ 1,234
Net earnings per share attributable to Kewaunee Scientific Corporation stockholders		
Basic	\$ 0.36	\$ 0.47
Diluted	\$ 0.35	\$ 0.47
Weighted average number of common shares outstanding		
Basic	2,630	2,620
Diluted	2,659	2,651

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Comprehensive Income

*(Unaudited)**(in thousands)*

	Three months ended July 31	
	2015	2014
Net earnings	\$ 963	\$ 1,260
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	(19)	10
Change in fair value of cash flow hedge	12	13
Other comprehensive income (loss)	(7)	23
Comprehensive income, net of tax	956	1,283
Less: comprehensive income attributable to the noncontrolling interest	23	26
Comprehensive income attributable to Kewaunee Scientific Corporation	\$ 933	\$ 1,257

See accompanying notes to consolidated financial statements.

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Consolidated Statement of Stockholders Equity

*(Unaudited)**(in thousands)*

	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity
<i>\$ in thousands, except per share amounts</i>						
Balance at April 30, 2015	\$ 6,583	\$ 1,841	\$ (53)	\$ 34,385	\$ (7,880)	\$ 34,876
Net earnings attributable to Kewaunee Scientific Corporation				940		940
Other comprehensive income (loss)					(7)	(7)
Cash dividends paid, \$0.12 per share				(316)		(316)
Stock based compensation		47				47
Balance at July 31, 2015	\$ 6,583	\$ 1,888	\$ (53)	\$ 35,009	\$ (7,887)	\$ 35,540

See accompanying notes to consolidated financial statements.

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Consolidated Balance Sheets

(\$ and shares in thousands, except share amounts)

	July 31, 2015 (Unaudited)	April 30, 2015
<u>Assets</u>		
Current Assets:		
Cash and cash equivalents	\$ 2,899	\$ 3,044
Restricted cash	1,964	2,276
Receivables, less allowance: \$180; \$171, on each respective date	28,117	29,106
Inventories	13,970	12,745
Deferred income taxes	845	856
Prepaid expenses and other current assets	1,676	735
Total Current Assets	49,471	48,762
Property, plant and equipment, at cost	48,639	48,167
Accumulated depreciation	(34,265)	(33,644)
Net Property, Plant and Equipment	14,374	14,523
Deferred income taxes	2,489	2,468
Other	3,742	3,737
Total Other Assets	6,231	6,205
Total Assets	\$ 70,076	\$ 69,490
<u>Liabilities and Equity</u>		
Current Liabilities:		
Short-term borrowings and interest rate swaps	\$ 4,901	\$ 4,955
Current portion of long-term debt	421	421
Accounts payable	11,760	11,232
Employee compensation and amounts withheld	1,557	1,882
Deferred revenue	602	216
Other accrued expenses	1,707	2,349
Total Current Liabilities	20,948	21,055
Long-term debt	3,665	3,771
Accrued pension and deferred compensation costs	9,655	9,465
Total Liabilities	34,268	34,291
Commitments and Contingencies		
Equity:		

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Common Stock, \$2.50 par value, Authorized 5,000 shares; Issued 2,633 shares; Outstanding 2,630 shares, on each date	6,583	6,583
Additional paid-in-capital	1,888	1,841
Retained earnings	35,009	34,385
Accumulated other comprehensive loss	(7,887)	(7,880)
Common stock in treasury, at cost, 3 shares, on each date	(53)	(53)
Total Kewaunee Scientific Corporation Stockholders Equity	35,540	34,876
Noncontrolling interest	268	323
Total Equity	35,808	35,199
Total Liabilities and Equity	\$ 70,076	\$ 69,490

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Cash Flows

*(Unaudited)**(in thousands)*

	Three months ended July 31	
	2015	2014
<i>Cash flows from operating activities:</i>		
Net earnings	\$ 963	\$ 1,260
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation	621	628
Bad debt provision		26
Stock based compensation expense	47	58
Provision for deferred income tax expense	(10)	(15)
Change in assets and liabilities:		
Decrease (increase) in receivables	989	(2,262)
Increase in inventories	(1,225)	(275)
Increase in accounts payable and other accrued expenses	449	877
Increase in deferred revenue	386	146
Other, net	(699)	(638)
Net cash provided by (used in) operating activities	1,521	(195)
<i>Cash flows from investing activities:</i>		
Capital expenditures	(472)	(541)
Decrease (increase) in restricted cash	312	(1,968)
Net cash used in investing activities	(160)	(2,509)
<i>Cash flows from financing activities:</i>		
Dividends paid	(316)	(288)
Dividends paid to noncontrolling interest in subsidiaries	(75)	
(Decrease) increase in short-term borrowings and interest rate swaps	(54)	2,064
Payments on long-term debt	(106)	(105)
Payment toward purchase of noncontrolling interest in subsidiary	(888)	(888)
Net cash (used in) provided by financing activities	(1,439)	783
Effect of exchange rate changes on cash	(67)	41
<i>Decrease in cash and cash equivalents</i>	(145)	(1,880)
<i>Cash and cash equivalents, beginning of period</i>	3,044	6,248
<i>Cash and cash equivalents, end of period</i>	\$ 2,899	\$ 4,368

See accompanying notes to consolidated financial statements.

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Kewaunee Scientific Corporation

Notes to Consolidated Financial Statements

(unaudited)

A. Financial Information

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

These interim consolidated financial statements include all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of these financial statements and should be read in conjunction with the consolidated financial statements and notes included in the Company's 2015 Annual Report to Stockholders. The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full year. The consolidated balance sheet as of April 30, 2015 included in this interim period filing has been derived from the audited financial statements at that date, but does not include all of the information and related notes required by generally accepted accounting principles (GAAP) for complete financial statements.

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

B. Earnings Per Share

Basic earnings per share is based on the weighted average number of common shares outstanding during the three month period. 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 anti-dilutive effect. Options to purchase 29,276 shares were not included in the computation of diluted earnings per share for the three month period ended July 31, 2015, because the option exercise prices were greater than the average market price of the common shares during the quarter, and accordingly, such options would have an antidilutive effect. Options to purchase 36,200 shares were not included in the computation of diluted earnings per share for the three month period ended July 31, 2014, because the effect would be anti-dilutive.

C. Inventories

Inventories consisted of the following (in thousands):

	July 31, 2015	April 30, 2015
Finished products	\$ 3,611	\$ 2,936
Work in process	1,634	1,422
Raw materials	8,725	8,387

\$ 13,970 \$ 12,745

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

D. Segment Information

The following table provides financial information by business segments for the three months ended July 31, 2015 and 2014 (in thousands):

	Americas	International	Corporate	Total
Three months ended July 31, 2015				
Revenues from external customers	\$ 24,315	\$ 6,774	\$	\$ 31,089
Intersegment revenues	286	521	(807)	
Earnings (loss) before income taxes	1,833	765	(1,064)	1,534
Three months ended July 31, 2014				
Revenues from external customers	\$ 24,248	\$ 6,286	\$	\$ 30,534
Intersegment revenues	124	532	(656)	
Earnings (loss) before income taxes	2,203	704	(1,062)	1,845

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The Company has non-contributory defined benefit pension plans. 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 Company did not make any contributions to the plans during the three months ended July 31, 2015 and 2014. The Company expects to make contributions of \$60,000 to the plans during fiscal year 2016.

Pension expense consisted of the following (in thousands):

	Three months ended July 31, 2015	Three months ended July 31, 2014
Service cost	\$ -0-	\$ -0-
Interest cost	230	222
Expected return on plan assets	(344)	(325)
Recognition of net loss	294	234