NORDSON CORP
Form 10-Q
September 08, 2010

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

(Mark One)

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

For the quarterly period ended July 31, 2010

OR

o **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 0-7977

NORDSON CORPORATION

(Exact name of registrant as specified in its charter)

Ohio	**34-0590250**
(State of incorporation)	(I.R.S. Employer Identification No.)
28601 Clemens Road **Westlake, Ohio**	**44145**
(Address of principal executive offices)	(Zip Code)

(440) 892-1580

(Telephone Number)

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

Common Shares with no par value

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

None

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, and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

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 þ No o

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, large accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if smaller reporting company)	Smaller reporting company o

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

As of July 31, 2010, there were 33,957,125 shares of Nordson Corporation common shares outstanding.

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Part I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

Condensed Consolidated Statements of Income

	Three Months Ended		Nine Months Ended	
	July 31, 2010	July 31, 2009	July 31, 2010	July 31, 2009
(In thousands, except for per share data)				
Sales	$279,121	$206,273	$751,369	$581,721
Operating costs and expenses:				
Cost of sales	113,320	84,536	300,026	249,864
Selling and administrative expenses	97,759	83,582	288,339	248,930
Severance and restructuring costs	347	977	1,449	14,095
	211,426	169,095	589,814	512,889
Operating profit	67,695	37,178	161,555	68,832
Other income (expense):				
Interest expense	(1,580)	(1,732)	(4,661)	(6,176)
Interest and investment income	170	93	649	367
Other net	177	77	700	7,277
	(1,233)	(1,562)	(3,312)	1,468
Income before income taxes	66,462	35,616	158,243	70,300
Income taxes	11,133	11,637	43,751	21,322
Net income	$ 55,329	$ 23,979	$114,492	$ 48,978
Average common shares	34,047	33,562	33,808	33,547
Incremental common shares attributable to outstanding stock options, nonvested stock, and deferred stock-based compensation	337	48	419	28
Average common shares and common share equivalents	34,384	33,610	34,227	33,575
Basic earnings per share	$ 1.63	$ 0.71	$ 3.39	$ 1.46
Diluted earnings per share	$ 1.61	$ 0.71	$ 3.35	$ 1.46
Dividends declared per share	$ 0.19	$ 0.1825	$ 0.57	$ 0.5475

See accompanying notes.

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Nordson Corporation
Condensed Consolidated Balance Sheet

	July 31, 2010	October 31, 2009
(In thousands)		
Assets		
Current assets:		
Cash and cash equivalents	$ 48,042	$ 18,781
Marketable securities	973	43
Receivables	225,240	191,201
Inventories	119,557	97,636
Deferred income taxes	32,681	29,756
Prepaid expenses and other current assets	6,916	9,254
Total current assets	433,409	346,671
Property, plant and equipment net	113,012	118,291
Goodwill	346,101	341,762
Intangible assets net	43,388	42,144
Deferred income taxes		18,119
Other assets	26,884	23,687
	$ 962,794	$ 890,674
Liabilities and shareholders equity		
Current liabilities:		
Notes payable	$ 2,071	$ 1,287
Accounts payable	37,065	33,368
Income taxes payable	19,009	12,347
Accrued liabilities	100,611	92,285
Customer advanced payments	13,661	8,807
Current maturities of long-term debt	14,260	4,290
Current obligations under capital leases	3,991	4,038
Total current liabilities	190,668	156,422
Long-term debt	152,000	152,260
Other liabilities	164,846	212,016
Shareholders equity:		
Common shares	12,253	12,253
Capital in excess of stated value	253,964	241,494
Retained earnings	751,264	656,086
Accumulated other comprehensive loss	(75,284)	(55,470)
Common shares in treasury, at cost	(486,917)	(484,387)
Total shareholders equity	455,280	369,976

	$ 962,794	$ 890,674

See accompanying notes.

Nordson Corporation
Condensed Consolidated Statement of Cash Flows

Nine Months Ended	July 31, 2010	July 31, 2009
(In thousands)		
Cash flows from operating activities:		
Net income	$114,492	$ 48,978
Depreciation and amortization	22,345	24,201
Non-cash stock compensation	6,644	(1,876)
Deferred income taxes	19,306	2,033
Other non-cash expense	1,157	1,816
(Gain)/loss on sale of property, plant and equipment	(91)	(4,693)
Tax benefit from the exercise of stock options	(6,104)	(30)
Changes in operating assets and liabilities	(91,220)	48,848
Net cash provided by operating activities	66,529	119,277
Cash flows from investing activities:		
Additions to property, plant and equipment	(7,812)	(9,713)
Proceeds from sale of property, plant and equipment	237	8,543
Sale of product lines	(881)	
Purchase of business, net of cash acquired	(18,492)	
Proceeds from sale of (purchases of) marketable securities	(937)	5
Net cash used in investing activities	(27,885)	(1,165)
Cash flows from financing activities:		
Proceeds from short-term borrowings	7,253	591
Repayment of short-term borrowings	(6,122)	(40,905)
Proceeds from long-term debt	101,000	46,200
Repayment of long-term debt	(91,290)	(87,490)
Repayment of capital lease obligations	(3,848)	(4,498)
Issuance of common shares	10,804	461
Purchase of treasury shares	(13,611)	(6,979)
Tax benefit from the exercise of stock options	6,104	30
Dividends paid	(19,315)	(18,361)
Net cash used in financing activities	(9,025)	(110,951)
Effect of exchange rate changes on cash	(358)	1,606
Increase in cash and cash equivalents	29,261	8,767
Cash and cash equivalents:		
Beginning of year	18,781	11,755
End of quarter	$ 48,042	$ 20,522

See accompanying notes.

Nordson Corporation
Notes to Condensed Consolidated Financial Statements

July 31, 2010

NOTE REGARDING AMOUNTS

In this quarterly report, all amounts related to United States dollars and foreign currency and to the number of Nordson Corporation s common shares, except for per share earnings and dividend amounts, are expressed in thousands.

1. Basis of presentation. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended July 31, 2010 are not necessarily indicative of the results that may be expected for the full fiscal year. For further information, refer to the consolidated financial statements and footnotes included in our annual report on Form 10-K for the year ended October 31, 2009.
2. Basis of consolidation. The consolidated financial statements include the accounts of Nordson Corporation and its majority-owned and controlled subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.
3. Revenue recognition. Most of our revenues are recognized upon shipment, provided that persuasive evidence of an arrangement exists, the sales price is fixed or determinable, collectibility is reasonably assured, and title and risk of loss have passed to the customer. Revenues from contracts with multiple element arrangements, such as those including installation or other services, are recognized as each element is earned based on objective evidence of the relative fair value of each element. If the installation or other services are inconsequential to the functionality of the delivered product, the entire amount of revenue is recognized upon satisfaction of the criteria noted above. Inconsequential installation or other services are those that can generally be completed in a short period of time, at insignificant cost, and the skills required to complete these installations are not unique to us. If installation or other services are essential to the functionality of the delivered product, revenues attributable to these obligations are deferred until completed. Amounts received in excess of revenue recognized are included as deferred revenue within accrued liabilities in the accompanying balance sheets.
4. Environmental remediation costs. We accrue for losses associated with environmental remediation obligations when such losses are probable and reasonably estimable. Accruals for estimated losses from environmental remediation obligations generally are recognized no later than completion of the remedial feasibility study. Such accruals are adjusted as further information develops or circumstances change. Costs for future expenditures for environmental remediation obligations are not discounted to their present value. Recoveries of environmental remediation costs from other parties are recognized as assets when their receipt is deemed probable.
5. Use of estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. Actual amounts could differ from these estimates.

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6. Earnings per share. Basic earnings per share are computed based on the weighted-average number of common shares outstanding during each year, while diluted earnings per share are based on the weighted-average number of common shares and common share equivalents outstanding. Common share equivalents consist of shares issuable upon exercise of stock options computed using the treasury stock method, as well as nonvested (restricted) stock and deferred stock-based compensation. Options whose exercise price is higher than the average market price are excluded from the calculation of diluted earnings per share because the effect would be anti-dilutive. For the three months ended July 31, 2010, no options were excluded for the calculation of earnings per share. For the nine months ended July 31, 2010, there were 12 options excluded from the calculation. For the three and nine months ended July 31, 2009, there were 590 and 806 options excluded from the calculation, respectively.
7. Recently issued accounting standards. In September 2006, the FASB issued a standard regarding fair value measurements. This standard provides a common definition of fair value and establishes a framework to make the measurement of fair value in generally accepted accounting principles more consistent and comparable. It also requires expanded disclosures to provide information about the extent to which fair value is used to measure assets and liabilities, the methods and assumptions used to measure fair value, and the effect of fair value measures on earnings. In February 2008, the FASB issued an update that permitted a one-year deferral of the original standard for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). We adopted the non-deferred portion of the standard as of November 1, 2008 and the deferred portion of the standard as of November 1, 2009. The adoptions did not impact our results of operations or financial position.

   In December 2007, the FASB issued a standard that provides greater consistency in the accounting and financial reporting of business combinations. The standard requires the acquiring entity in a business combination to recognize all assets acquired and liabilities assumed in the transaction, establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed, and requires the acquirer to disclose the nature and financial effect of the business combination. We adopted this standard as of November 1, 2009, and the adoption did not have a material impact on our results of operations or financial position. The future impact will depend on the nature and significance of future acquisitions.

   In December 2007, the FASB issued a pronouncement that establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. We adopted this pronouncement as of November 1, 2009. The impact of adoption will depend on future transactions. To date, there was no impact of the adoption on our results of operations or financial position.

   In October 2009, the FASB issued authoritative guidance on multiple-deliverable revenue arrangements that addresses the unit of accounting for arrangements involving multiple deliverables. The guidance also addresses how arrangement consideration should be allocated to separate units of accounting, when applicable, and expands the disclosure requirements for multiple-deliverable arrangements. We must adopt this standard in fiscal year 2011 and have not yet determined the impact of adoption on our results of operations or financial position.

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8. Divestiture. On June 30, 2010, we entered into an agreement to sell our graphic arts and lamps product lines to Baldwin Technology Company, Inc. These product lines were reported in the Advanced Technology Systems segment. This divestiture did not qualify for discontinued operations treatment, because it was not a component of an entity, as its operations and cash flows were not clearly distinguished from the rest of the entity. During the three months ended July 31, 2010, we recognized a pretax loss on disposition of $31, which is reflected in selling and administrative expenses in the Consolidated Statement of Income. In the current fiscal year, results of operations and net assets of the divested product lines were immaterial to our consolidated results of operations, financial position and cash flows. In the fourth quarter of fiscal year 2009, we recognized a pre-tax impairment charge of $14,101, including $12,129 of goodwill impairment, in order to write the carrying amount of the assets held for sale down to the estimated fair value less costs to sell. The tax benefit related to the write-off of our tax basis in the investment in these product lines is disclosed in note 19.
9. Inventories. At July 31, 2010 and October 31, 2009, inventories consisted of the following:

	July 31, 2010	October 31, 2009
Finished goods	$ 72,866	$ 63,289
Work-in-process	19,818	11,607
Raw materials and finished parts	51,363	46,263
	144,047	121,159
Obsolescence and valuation reserves	(16,551)	(15,740)
LIFO reserve	(7,939)	(7,783)
	$119,557	$ 97,636

10. Goodwill and intangible assets. Changes in the carrying amount of goodwill for the nine months ended July 31, 2010 by operating segment are as follows:

	Adhesive Dispensing Systems	Advanced Technology Systems	Industrial Coating Systems	Total
Balance at October 31, 2009:				
Goodwill	$33,850	$ 537,085	$ 3,616	$ 574,551
Accumulated impairment losses		(229,173)	(3,616)	(232,789)
	33,850	307,912		341,762
Acquisitions		6,018		6,018
Currency effect	(675)	(1,004)		(1,679)
Balance at July 31, 2010:				
Goodwill	33,175	542,099	3,616	578,890
Accumulated impairment losses		(229,173)	(3,616)	(232,789)
	$33,175	$ 312,926	$	$ 346,101

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Information regarding our intangible assets subject to amortization is as follows:

	July 31, 2010		
	Carrying Amount	Accumulated Amortization	Net Book Value
Patent costs	$20,235	$ 6,350	$ 13,885
Customer relationships	29,653	7,406	22,247
Non-compete agreements	5,876	4,538	1,338
Core/developed technology	2,788	2,065	723
Trade name	1,633	328	1,305
Other	1,433	581	852
Total	$61,618	$21,268	$ 40,350

	October 31, 2009		
	Carrying Amount	Accumulated Amortization	Net Book Value
Patent costs	$20,983	$ 5,242	$ 15,741
Customer relationships	25,402	5,689	19,713
Non-compete agreements	5,935	4,223	1,712
Core/developed technology	2,788	1,888	900
Trade name	890		890
Other	638	620	18
Total	$56,636	$17,662	$ 38,974

At July 31, 2010 and October 31, 2009, $3,038 and $3,170, respectively, of trademark and trade name intangible assets were not subject to amortization.

Amortization expense for the three months ended July 31, 2010 and July 31, 2009 was $1,862 and $1,296, respectively. Amortization expense for the nine months ended July 31, 2010 and July 31, 2009 was $4,895 and $3,791, respectively.

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11. Comprehensive income. Comprehensive income for the three months ended July 31, 2010 and July 31, 2009 is as follows:

	Three Months Ended	
	July 31, 2010	July 31, 2009
Net income	$55,329	$23,979
Foreign currency translation adjustments	(126)	27,165
Amortization of prior service cost and net actuarial losses	1,158	166
Comprehensive income	$56,361	$51,310

Comprehensive income for the nine months ended July 31, 2010 and July 31, 2009 is as follows:

	Nine Months Ended	
	July 31, 2010	July 31, 2009
Net income	$114,492	$48,978
Foreign currency translation adjustments	(27,044)	29,889
Remeasurement of supplemental pension liability	(2,746)	(3,457)
Settlement loss	5,014	1,018
Amortization of prior service cost and net actuarial losses	4,962	457
Comprehensive income	$ 94,678	$76,885

Accumulated other comprehensive loss at July 31, 2010 consisted of pension and postretirement benefit plan adjustments of $89,079 offset by $13,795 of net foreign currency translation adjustment credits. Accumulated other comprehensive loss at July 31, 2009 consisted of pension and postretirement benefit plan adjustments of $43,377 offset by $30,488 of net foreign currency translation adjustment credits.

Changes in accumulated other comprehensive income (loss) for the nine months ended July 31, 2010 and 2009 are as follows:

	July 31, 2010	July 31, 2009
Beginning balance	$(55,470)	$(40,795)
Current-period change	(19,814)	27,907
Ending balance	$(75,284)	$(12,888)

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12. Stock-based compensation. The amended and restated 2004 long-term performance plan, approved by our shareholders in 2008, provides for the granting of stock options, stock appreciation rights, nonvested (restricted) stock, stock purchase rights, stock equivalent units, cash awards and other stock or performance-based incentives. The number of common shares available for grant of awards is 2.5 percent of the number of common shares outstanding as of the first day of each fiscal year.

Stock Options

Nonqualified or incentive stock options may be granted to our employees and directors. Generally, options granted to employees may be exercised beginning one year from the date of grant at a rate not exceeding 25 percent per year for executive officers and 20 percent per year for other employees and expire 10 years from the date of grant. Vesting accelerates upon the occurrence of events that involve or may result in a change of control. Option exercises are satisfied through the issuance of treasury shares on a first-in first-out basis.

We recognized compensation expense related to stock options of $562 in the three months ended July 31, 2010, and $768 in the three months ended July 31, 2009. Amounts for the nine months ended July 31, 2010 and July 31, 2009, were $1,676 and $2,265, respectively.

The following table summarizes activity related to stock options for the nine months ended July 31, 2010:

	Number of Options	Weighted-Average Exercise Price Per Share	Aggregate Intrinsic Value	Weighted Average Remaining Term
Outstanding at October 31, 2009	1,799	$ 35.30		
Granted	183	$ 55.82		
Exercised	(518)	$ 30.79		
Forfeited or expired	(175)	$ 37.97		
Outstanding at July 31, 2010	1,289	$ 39.67	$ 30,123	6.1 years
Vested or expected to vest at July 31, 2010	1,245	$ 39.50	$ 29,315	6.0 years
Exercisable at July 31, 2010	805	$ 36.86	$ 21,070	4.7 years

At July 31, 2010, there was $5,787 of total unrecognized compensation cost related to nonvested stock options. That cost is expected to be amortized over a weighted average period of approximately 2.1 years.

The fair value of each option grant was estimated at the date of grant using the Black-Scholes option-pricing model with the following assumptions:

Nine months ended	July 31, 2010	July 31, 2009

Expected volatility	.429-.442	.404-.408
Expected dividend yield	1.35-1.40%	1.36%
Risk-free interest rate	2.27-3.18%	1.58-1.76%
Expected life of the option (in years)	5.4-6.3	5.4-6.2

The weighted-average expected volatility used to value options granted in fiscal years 2010 and 2009 was .436 and .405, respectively. The weighted-average dividend yield used to value the fiscal year 2010 options was 1.39%.

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