NORDSON CORP
Form 10-Q
June 08, 2007

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

(Mark One)

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

For the quarterly period ended April 30, 2007

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer 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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: Common Shares without par value as of April 30, 2007: 33,677,554

Nordson Corporation

Table of Contents

Table of Contents

Nordson Corporation

Part I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

Condensed Consolidated Statements of Income

	Three Months Ended		Six Months Ended	
	April 30, 2007	April 30, 2006	April 30, 2007	April 30, 2006
(In thousands, except for per share data)				
Sales	$241,293	$227,840	$445,168	$425,191
Operating costs and expenses:				
Cost of sales	109,419	97,150	195,633	180,486
Selling and administrative expenses	97,442	90,594	186,837	172,984
Severance and restructuring costs	55	942	55	2,175
	206,916	188,686	382,525	355,645
Operating profit	34,377	39,154	62,643	69,546
Other income (expense):				
Interest expense	(5,222)	(3,313)	(9,403)	(6,804)
Interest and investment income	219	280	586	464
Other net	2,779	17	1,710	(688)
	(2,224)	(3,016)	(7,107)	(7,028)
Income before income taxes	32,153	36,138	55,536	62,518
Income taxes	11,173	12,092	18,999	20,919
Income from continuing operations	20,980	24,046	36,537	41,599
Loss from discontinued operations, net of income tax benefit of $973 for the three months ended April 30, 2006 and $1,656 for the six months ended April 30, 2006		(2,115)		(3,601)
Net income	$ 20,980	$ 21,931	$ 36,537	$ 37,998
Average common shares	33,572	33,437	33,475	33,215
Incremental common shares attributable to outstanding stock options, nonvested stock, and deferred stock-based compensation	574	921	655	883
Average common shares and common share equivalents	34,146	34,358	34,130	34,098

Basic earnings per share from continuing operations	$	0.62	$	0.72	$	1.09	$	1.25
Basic loss per share from discontinued operations				(0.06)				(0.11)
Total	$	0.62	$	0.66	$	1.09	$	1.14
Diluted earnings per share from continuing operations	$	0.61	$	0.70	$	1.07	$	1.22
Diluted loss per share from discontinued operations				(0.06)				(0.11)
Total	$	0.61	$	0.64	$	1.07	$	1.11
Dividends per share	$	0.175	$	0.165	$	0.35	$	0.33

See accompanying notes.

Table of Contents

Nordson Corporation
Condensed Consolidated Balance Sheet

(In thousands)	April 30, 2007	October 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	$ 28,057	$ 48,859
Marketable securities	10	9
Receivables	206,389	190,459
Inventories	112,723	83,688
Deferred income taxes	20,586	19,287
Prepaid expenses	8,127	5,002
Total current assets	375,892	347,304
Property, plant and equipment net	117,424	105,415
Goodwill net	562,318	331,915
Other intangible assets net	51,212	8,806
Deferred income taxes		9,961
Other assets	20,180	19,489
	$1,127,026	$ 822,890
Liabilities and shareholders equity		
Current liabilities:		
Notes payable	$ 256,729	$ 15,898
Accounts payable	40,077	38,680
Current maturities of long-term debt	54,290	54,290
Other current liabilities	126,803	132,457
Total current liabilities	477,899	241,325
Long-term debt	47,130	47,130
Deferred income taxes	6,383	
Other liabilities	119,684	103,907
Shareholders equity:		
Common shares	12,253	12,253
Capital in excess of stated value	219,031	210,690
Retained earnings	705,838	681,018
Accumulated other comprehensive loss	(1,601)	(12,518)
Common shares in treasury, at cost	(459,591)	(460,915)
Total shareholders equity	475,930	430,528
	$1,127,026	$ 822,890

See accompanying notes.

Table of Contents

Nordson Corporation
Condensed Consolidated Statement of Cash Flows

Six Months Ended	April 30, 2007	April 30, 2006
(In thousands)		
Cash flows from operating activities:		
Net income	$ 36,537	$ 37,998
Less: Loss from discontinued operations		(3,601)
Income from continuing operations	36,537	41,599
Depreciation and amortization	12,729	11,198
Tax benefit from the exercise of stock options	(3,112)	(6,189)
Changes in operating assets and liabilities	(10,375)	(6,109)
Other	11,811	3,435
Net cash used by discontinued operations		(4,188)
Net cash provided by operating activities	47,590	39,746
Cash flows from investing activities:		
Additions to property, plant and equipment	(19,219)	(7,603)
Proceeds from sale of property, plant and equipment	800	726
Purchases of business, net of cash acquired	(282,135)	
Proceeds from sale of marketable securities		200
Net cash used by discontinued operations		(77)
Net cash used in investing activities	(300,554)	(6,754)
Cash flows from financing activities:		
Net proceeds from short-term borrowings	269,336	8,554
Net repayment of short-term borrowings	(28,888)	(11,377)
Repayment of long-term debt		(8,000)
Repayment of capital lease obligations	(2,782)	(2,689)
Issuance of common shares	5,829	19,636
Purchase of treasury shares	(3,461)	(3,932)
Tax benefit from the exercise of stock options	3,112	6,189
Dividends paid	(11,717)	(10,963)
Net cash provided by (used in) financing activities	231,429	(2,582)
Effect of exchange rate changes on cash	733	1,014
Effect of change in fiscal year-end for certain international subsidiaries		1,252
Increase (decrease) in cash and cash equivalents	(20,802)	32,676
Cash and cash equivalents:		
Beginning of year	48,859	11,318
End of quarter	$ 28,057	$ 43,994

See accompanying notes.

Nordson Corporation
Notes to Condensed Consolidated Financial Statements
April 30, 2007

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 April 30, 2007 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 the Company s annual report on Form 10-K for the year ended October 31, 2006. Certain prior period amounts have been reclassified to conform to current period presentation.

2. Basis of Consolidation. The consolidated financial statements include the accounts of the Company and its majority-owned and controlled subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

   As discussed in Note 8, the Company sold its Fiber Systems Group on October 13, 2006, and its results of operations have been included in discontinued operations for 2006. Unless noted otherwise, disclosures reported in these financial statements and notes pertain to the Company s continuing operations.

3. Revenue recognition. Most of the Company s 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 transfer of ownership. Inconsequential installation or other services are those which 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 the Company. 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 in the accompanying balance sheets. The remaining revenues are recognized upon delivery.

4. Environmental Remediation Costs. The Company accrues 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.

Table of Contents

Nordson Corporation

6. Accounting Changes. In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154, Accounting Changes and Error Corrections. Statement No. 154 replaces Accounting Principles Board Opinion No. 20, Accounting Changes and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements, and changes the accounting for and reporting of a change in accounting principle. The Statement applies to all voluntary changes in accounting principle and to changes required by an accounting pronouncement when specific transition provisions are not provided. The Statement requires retrospective application to prior periods financial statements for changes in accounting principle, unless it is impracticable to determine the period specific or cumulative effect of the change. The Company adopted this statement in 2007, and the adoption had no effect on the Company s results of operations or financial position.

   In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, (FIN 48) an interpretation of FASB Statement No. 109, Accounting for Income Taxes. FIN 48 clarifies the accounting for uncertain income tax positions that are recognized in a company s financial statements. FIN 48 also provides guidance on financial statement classification, accounting for interest and penalties, accounting for interim periods and new disclosure requirements. The Company must adopt FIN 48 in fiscal 2008 and has not yet determined the impact of adoption on its results of operations or financial position.

   In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements. This Statement 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. The statement is effective for the Company s 2008 fiscal year, although early adoption is permitted. The Company has not yet determined the impact of adoption on its results of operations or financial position.

   In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R). This Statement requires an entity to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur in other comprehensive income. This Statement also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position. The requirement to recognize the funded status of a defined benefit postretirement plan and the disclosure requirements are effective for the Company as of October 31, 2007. The requirement to measure plan assets and benefit obligations as of the date of the employer s fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. The Company already complies with this requirement. As of October 31, 2006, the required adjustment to the Company s balance sheet would increase the liability for pension and postretirement benefits by approximately $38 million, decrease intangible assets by approximately $4 million and increase accumulated other comprehensive loss by approximately $22 million on an after-tax basis. Since plan assets and obligations are measured on an annual basis as of the end of the fiscal year, the actual impact on the Company s balance sheet will depend upon the factors affecting this measurement as of October 31, 2007. The adoption will not impact the consolidated results of operations or cash flows of the Company. The Company does not expect violations of any credit agreements as a result of adopting this new standard.

Nordson Corporation

In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements, (SAB 108). SAB 108 was issued in order to eliminate the diversity in practice surrounding how public companies quantify financial statement misstatements. SAB 108 requires that registrants quantify errors using both a balance sheet and income statement approach and evaluate whether either approach results in a misstated amount that, when all relevant quantitative and qualitative factors are considered, is material. SAB 108 must be implemented by the end of the Company s 2007 fiscal year.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 (FAS 159). This Statement permits entities to choose to measure many financial instruments and certain other items at fair value and report unrealized gains and losses on these instruments in earnings. The Company must adopt FAS 159 in fiscal 2009 and has not yet determined the impact of adoption on its results of operations or financial position.

7. Acquisitions. On December 14, 2006, the Company acquired 100 percent of the outstanding shares of Dage Holdings, Limited (Dage), a leading manufacturer of testing and inspection equipment used in the semiconductor and printed circuit board industries. Dage, headquartered in the United Kingdom, employs more than 200 people and had revenues of approximately $59 million during the 12-month period ending October 31, 2006. The purchase of Dage fits Nordson s strategy of acquiring companies with above-average growth in markets currently served by Nordson companies. Cash and existing lines of credit were used for the purchase.

The allocation of the purchase price and the estimated goodwill are shown in the table below.

Estimated fair market values:	
Assets acquired	$ 47,596
Liabilities assumed	(33,882)
Intangible assets subject to amortization	32,105
Intangible assets not subject to amortization	9,651
Goodwill	174,902
Purchase price	230,372
Less cash acquired	(3,222)
Net cash paid	$227,150

The intangible assets subject to amortization include customer relationships and patents and will be amortized over 10 to 15 years. The intangible assets not subject to amortization consist primarily of trademarks and trade names.

Table of Contents

Nordson Corporation

Pro Forma Financial Information

The following unaudited pro forma financial information for the three and six months ended April 30, 2007 and April 30, 2006 assumes the acquisition occurred as of the beginning of the respective periods, after giving effect to certain adjustments, including amortization of intangible assets, interest expense on acquisition debt and income tax effects. The pro forma results have been prepared for comparative purposes only and are not necessarily indicative of the results of operations which may occur in the future or that would have occurred had the acquisition of Dage been effected on the date indicated, nor are they necessarily indicative of the Company s future results of operations.

Three months ended	April 30, 2007	April 30, 2006
(In thousands, except for per share data)		
Sales	$241,293	$243,108
Net income from continuing operations	$ 20,980	$ 21,138
Basic earnings per share from continuing operations	$ 0.62	$ 0.63
Diluted earnings per share from continuing operations	$ 0.61	$ 0.61

Six months ended	April 30, 2007	April 30, 2006
(In thousands, except for per share data)		
Sales	$451,120	$453,401
Net income from continuing operations	$ 34,626	$ 35,582
Basic earnings per share from continuing operations	$ 1.03	$ 1.07
Diluted earnings per share from continuing operations	$ 1.01	$ 1.04

Other Acquisitions

On April 2, 2007, the Company acquired 100 percent of the partnership interest of PICO Dosiertechnik GmbH & Co. KG and 100 percent of the outstanding shares of PICO Dostec GmbH (PICO), a leading manufacturer of piezoelectric technology dispensing systems, which dispense adhesives and other performance materials at very high speeds in an extremely accurate manner. Pico s products are used predominately in the electronics, medical device, packaging, pharmaceutical, food, chemical and automotive industries. PICO, headquartered near Munich, Germany, employs 11 people. It will become part of Nordson s Asymtek subsidiary.

On April 30, 2007, the Company acquired 100 percent of the outstanding shares of YESTech, Inc., a leading provider of Automated Optical Inspection (AOI) and X-Ray inspection systems used in the production of printed circuit board assemblies and semiconductor packages. YESTech will be integrated into Nordson s Dage Holdings subsidiary, which manufacturers bond testing and digital X-Ray inspection systems. The addition of AOI systems will expand Nordson s test and measurement capabilities. YESTech, headquartered in San Clemente, California, employs 23 people.

PICO and YESTech had combined revenues of approximately $20 million in 2006. The combined purchase price was $57 million, subject to certain post-closing adjustments. Initial goodwill of $55 million associated with these acquisitions was recorded. The purchase price allocations are preliminary and a final determination of required purchase accounting adjustments will be made based upon independent appraisals of the fair value of related long-lived tangible and intangible assets, the determination of the fair value of certain other acquired assets and liabilities and the final determination of the related deferred tax assets and liabilities. Assuming these acquisitions had taken place at the beginning of 2006, proforma results for the three and six months ended April 30, 2007 and April 30, 2006 would not have been materially different.

Nordson Corporation

All 2007 acquisitions were accounted for as purchases, with the acquired assets and liabilities recorded at their estimated fair values at the dates of acquisition. Costs in excess of net assets acquired are included in goodwill. Operating results from the dates of acquisition are included in the Condensed Consolidated Statement of Income within the Advanced Technology Systems segment.

8. Discontinued Operations. On October 13, 2006, the Company entered into an agreement to sell its Fiber Systems Group to Saurer, Inc. In accordance with FASB Statement of Accounting Standards No. 144, the results of this business have been classified as discontinued operations. Accordingly, the revenues, costs and expenses, assets and liabilities, and cash flows of this business have been segregated in the Consolidated Statement of Income and Consolidated Statement of Cash Flows. Sales of the Fiber Systems Group were $3,990,000 and $4,091,000 in the three and six-month periods, respectively, ended April 30, 2006.

   In 2006, the Company recorded severance expense of $699,000 related to 27 employees of the Fiber Systems Group that were not hired by Saurer, Inc. Cash disbursements of $660,000 were made in the six months ended April 30, 2007. The remaining balance of $39,000 is expected to be paid in the third quarter of 2007.

9. Inventories. Inventories consisted of the following:

	April 30, 2007	October 31, 2006
(In thousands)		
Finished goods	$ 63,908	$ 41,757
Work-in-process	14,486	10,904
Raw materials and finished parts	52,141	47,392
	130,535	100,053
Obsolescence and valuation reserves	(9,979)	(7,499)
LIFO reserve	(7,833)	(8,866)
	$112,723	$ 83,688

10. Goodwill and Other Intangible Assets. Changes in the carrying amount of goodwill for the six months ended April 30, 2007 by operating segment are as follows:

	Adhesive Dispensing Systems	Advanced Technology Systems	Finishing and Coating Systems	Total
(In thousands)				
Balance at October 31, 2006	$30,771	$297,698	$ 3,446	$331,915
Acquisitions		229,783		229,783
Currency effect	381	180	59	620
Balance at April 30, 2007	$31,152	$527,661	$ 3,505	$562,318

Table of Contents

Nordson Corporation

Information regarding the Company s intangible assets subject to amortization is as follows:

	April 30, 2007		
	Carrying Amount	Accumulated Amortization	Net Book Value
(In thousands)			
Patent costs	$20,486	$ 2,471	$ 18,015
Customer relationships	15,043	453	14,590
Non-compete agreements	5,290	2,143	3,147
Core/developed technology	2,788	1,302	1,486
Other	5,112	4,912	200
Total	$48,719	$11,281	$ 37,438

	October 31, 2006		
	Carrying Amount	Accumulated Amortization	Net Book Value
(In thousands)			
Patent costs	$ 2,579	$1,857	$ 722
Non-compete agreements	4,086	1,908	2,178
Core/developed technology	2,788	1,217	1,571
Other	5,039	4,640	399
Total	$14,492	$9,622	$ 4,870

At April 30, 2007 and October 31, 2006, $3,936,000 of intangible assets related to a minimum pension liability for the Company s pension plans was not subject to amortization. At April 30, 2007, $9,838,000 of trademark intangible assets arising from the acquisition of Dage Holdings, Limited was not subject to amortization.

Amortization expense for the three months ended April 30, 2007 and April 30, 2006 was $835,000 and $262,000, respectively. Amortization expense for the six months ended April 30, 2007 and April 30, 2006 was $1,385,000 and $518,000, respectively.

Table of Contents

Nordson Corporation

11. Comprehensive income. Comprehensive income for the three and six-month periods ended April 30, 2007 and April 30, 2006 is as follows:

	Three Months Ended		Six Months Ended	
	April 30, 2007	April 30, 2006	April 30, 2007	April 30, 2006
(In thousands)				
Net income	$20,980	$ 21,931	$36,537	$ 37,998
Foreign currency translation adjustments	8,983	6,029	10,917	7,124
Comprehensive income	$29,963	$ 27,960	$47,454	$ 45,122

Accumulated other comprehensive loss at April 30, 2007 consisted of net foreign currency translation adjustment credits of $25,691,000 offset by $27,292,000 of minimum pension liability adjustments. Accumulated other comprehensive loss at April 30, 2006 consisted of net foreign currency translation adjustment credits of $13,205,000 offset by $31,964,000 of minimum pension liability adjustments.

Changes in accumulated other comprehensive loss for the first six months of 2007 and 2006 are as follows:

	April 30, 2007	April 30, 2006
(In thousands)		
Beginning balance	$ (12,518)	$ (25,883)
Current-period change	10,917	7,124
Ending balance	($1,601)	($18,759)

12. Stock-Based Compensation. The Company s long-term performance plan, approved by the Company s shareholders in 2004, provides for the granting of stock options, stock appreciation rights, nonvested 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 3.5 percent of the number of Common Shares outstanding as of the first day of the fiscal year.

Stock Options

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