

NORDSON CORP
Form 10-Q
March 12, 2007

Table of Contents

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

(Mark One)

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

For the quarterly period ended January 31, 2007

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 0-7977

NORDSON CORPORATION

(Exact name of registrant as specified in its charter)

Ohio

(State of incorporation)

34-0590250

(I.R.S. Employer Identification No.)

28601 Clemens Road

Westlake, Ohio

(Address of principal executive offices)

44145

(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 No

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

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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 January 31, 2007: 33,684,328

Nordson Corporation

Table of Contents

<u>PART I FINANCIAL INFORMATION</u>	3
<u>ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)</u>	3
<u>Condensed Consolidated Statements of Income</u>	3
<u>Condensed Consolidated Balance Sheet</u>	4
<u>Condensed Consolidated Statement of Cash Flows</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
<u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	18
<u>Results of Operations</u>	18
<u>Financial Condition</u>	20
<u>Critical Accounting Policies</u>	20
<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	21
<u>ITEM 4. CONTROLS AND PROCEDURES</u>	22
<u>PART II OTHER INFORMATION</u>	22
<u>ITEM 1. LEGAL PROCEEDINGS</u>	22
<u>ITEM 1A. RISK FACTORS</u>	23
<u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	23
<u>ITEM 6. EXHIBITS</u>	23
<u>SIGNATURES</u>	24
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	

Table of Contents**Nordson Corporation****Part I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)****Condensed Consolidated Statements of Income**

	January 31, 2007	January 31, 2006
Three months ended <i>(In thousands, except for per share data)</i>		
Sales	\$ 203,875	\$ 197,351
Operating costs and expenses:		
Cost of sales	86,214	83,336
Selling and administrative expenses	89,395	82,390
Severance and restructuring costs		1,233
	175,609	166,959
Operating profit	28,266	30,392
Other income (expense):		
Interest expense	(4,181)	(3,491)
Interest and investment income	367	184
Other net	(1,069)	(705)
	(4,883)	(4,012)
Income before income taxes	23,383	26,380
Income taxes	7,826	8,827
Income from continuing operations	15,557	17,553
Loss from discontinued operations, net of income tax benefit of \$683 for the three months ended January 31, 2006		(1,486)
Net income	\$ 15,557	\$ 16,067
Average common shares	33,383	33,002
Incremental common shares attributable to outstanding stock options, nonvested stock, and deferred stock-based compensation	734	845
Average common shares and common share equivalents	34,117	33,847
Basic earnings per share from continuing operations	\$ 0.47	\$ 0.53
Basic loss per share from discontinued operations		(0.04)

Edgar Filing: NORDSON CORP - Form 10-Q

Total	\$ 0.47	\$ 0.49
Diluted earnings per share from continuing operations	\$ 0.46	\$ 0.52
Diluted loss per share from discontinued operations		(0.05)
Total	\$ 0.46	\$ 0.47
Dividends per share	\$ 0.175	\$ 0.165

See accompanying notes.

Page 3

Table of Contents**Nordson Corporation
Condensed Consolidated Balance Sheet**

	January 31, 2007	October 31, 2006
<i>(In thousands)</i>		
Assets		
Current assets:		
Cash and cash equivalents	\$ 29,778	\$ 48,859
Marketable securities	9	9
Receivables	181,129	190,459
Inventories	114,096	83,688
Deferred income taxes	19,934	19,287
Prepaid expenses	7,848	5,002
Total current assets	352,794	347,304
Property, plant and equipment net	113,774	105,415
Goodwill net	505,988	331,915
Other intangible assets net	50,737	8,806
Deferred income taxes		9,961
Other assets	19,748	19,489
	\$ 1,043,041	\$ 822,890
Liabilities and shareholders equity		
Current liabilities:		
Notes payable	\$ 215,209	\$ 15,898
Accounts payable	39,303	38,680
Current maturities of long-term debt	54,290	54,290
Other current liabilities	111,757	132,457
Total current liabilities	420,559	241,325
Long-term debt	47,130	47,130
Deferred income taxes	6,718	
Other liabilities	117,921	103,907
Shareholders equity:		
Common shares	12,253	12,253
Capital in excess of stated value	217,098	210,690
Retained earnings	690,736	681,018
Accumulated other comprehensive loss	(10,584)	(12,518)
Common shares in treasury, at cost	(458,790)	(460,915)
Total shareholders equity	450,713	430,528
	\$ 1,043,041	\$ 822,890

See accompanying notes.

Table of Contents**Nordson Corporation
Condensed Consolidated Statement of Cash Flows**

Three months ended (In thousands)	January 31, 2007	January 31, 2006
Cash flows from operating activities:		
Net income	\$ 15,557	\$ 16,067
Less: Loss from discontinued operations		(1,486)
Income from continuing operations	15,557	17,553
Depreciation and amortization	6,093	5,518
Tax benefit from the exercise of stock options	(2,974)	(3,549)
Changes in operating assets and liabilities	(15,951)	1,225
Other	15,091	(1,928)
Net cash used by discontinued operations		(3,502)
Net cash provided by operating activities	17,816	15,317
Cash flows from investing activities:		
Additions to property, plant and equipment	(8,654)	(4,540)
Proceeds from sale of property, plant and equipment	704	76
Purchase of business, net of cash acquired	(226,935)	
Net cash used by discontinued operations		(67)
Net cash used in investing activities	(234,885)	(4,531)
Cash flows from financing activities:		
Net proceeds from (repayment of) short-term borrowings	199,274	(5,107)
Repayment of long-term debt		(8,000)
Repayment of capital lease obligations	(1,391)	(1,344)
Issuance of common shares	5,389	12,352
Purchase of treasury shares	(2,112)	(1,914)
Tax benefit from the exercise of stock options	2,974	3,549
Dividends paid	(5,839)	(5,455)
Net cash provided by (used in) financing activities	198,295	(5,919)
Effect of exchange rate changes on cash	(307)	440
Effect of change in fiscal year-end for certain international subsidiaries		1,252
Increase (decrease) in cash and cash equivalents	(19,081)	6,559
Cash and cash equivalents:		
Beginning of year	48,859	11,318
End of quarter	\$ 29,778	\$ 17,877

See accompanying notes.

Table of Contents

Nordson Corporation

Notes to Condensed Consolidated Financial Statements

January 31, 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 quarter ended January 31, 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.
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. 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. 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 of FIN 48 on its financial position or results of operations.

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 consolidated financial position or results of operations.

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.

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.

Table of Contents**Nordson Corporation**

7. **Acquisition.** On December 14, 2006, the Company acquired 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. The purchase price was approximately \$230 million, subject to certain post-closing adjustments. Cash and existing lines of credit were used for the purchase. The acquisition was accounted for as a purchase, with the acquired assets and liabilities recorded at their estimated fair values at the date of acquisition. The cost in excess of the net assets is included in goodwill. Operating results of Dage are included in the Consolidated Statement of Income from the date of acquisition in the Advanced Technology Systems segment.

The preliminary allocation of the purchase price and the estimated goodwill are shown in the table below. The purchase price allocation is preliminary and a final determination of required purchase accounting adjustments will be made upon the completion of an independent appraisal 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, the completion of integration plans and the final determination of the related deferred tax assets and liabilities.

Estimated fair market values:

Assets acquired	\$ 47,991
Liabilities assumed	(33,638)
Intangible assets subject to amortization	32,426
Intangible assets not subject to amortization	9,561
Goodwill	173,817
Purchase price	230,157
Less cash acquired	(3,222)
Net cash paid	\$226,935

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 months ended January 31, 2007 and January 31, 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 <i>(In thousands, except for per share data)</i>	January 31, 2007	January 31, 2006
Sales	\$ 209,827	\$ 210,293
Net income from continuing operations	\$ 13,646	\$ 14,444
Basic earnings per share from continuing operations	\$ 0.41	\$ 0.44
Diluted earnings per share from continuing operations	\$ 0.40	\$ 0.43

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 \$101,000 in the three months ended January 31, 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 \$508,000 were made in the three months ended January 31, 2007. The remaining balance of \$191,000 is expected to be paid in the second quarter of 2007.

9. **Inventories.** Inventories consisted of the following:

<i>(In thousands)</i>	January 31, 2007	October 31, 2006
Finished goods	\$ 64,976	\$ 41,757
Work-in-process	15,956	10,904
Raw materials and finished parts	50,530	47,392
	131,462	100,053
Obsolescence and other reserves	(9,542)	(7,499)
LIFO reserve	(7,824)	(8,866)
	\$ 114,096	\$ 83,688

Table of Contents**Nordson Corporation**

17. Goodwill and Other Intangible Assets. Changes in the carrying amount of goodwill for the three months ended January 31, 2007 by operating segment are as follows:

	Adhesive Dispensing Systems	Advanced Technology Systems	Finishing and Coating Systems	Total
<i>(In thousands)</i>				
Balance at October 31, 2006	\$30,771	\$297,698	\$ 3,446	\$331,915
Acquisition of Dage Holdings, Limited		173,817		173,817
Currency effect	115	112	29	256
Balance at January 31, 2007	\$30,886	\$471,627	\$ 3,475	\$505,988

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

	Carrying Amount	January 31, 2007 Accumulated Amortization	Net Book Value
<i>(In thousands)</i>			
Patent Costs	\$20,159	\$ 2,082	\$ 18,077
Customer Relationships	15,104	201	14,903
Non-Compete Agreements	4,092	2,006	2,086
Core/Developed Technology	2,788	1,243	1,545
Other	5,794	5,181	613
Total	\$47,937	\$10,713	\$ 37,224

	Carrying Amount	October 31, 2006 Accumulated Amortization	Net Book Value
<i>(In thousands)</i>			
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 January 31, 2007 and October 31, 2006, there were intangible assets of \$3,936,000 not subject to amortization related to a minimum pension liability for the Company's pension plans. At January 31, 2007, \$9,577,000 of trademark intangible assets arising from the acquisition of Dage Holdings, Limited were not subject to amortization.

Amortization expense for the three months ended January 31, 2007 and January 31, 2006 was \$550,000 and \$256,000, respectively.

Table of Contents**Nordson Corporation**

11. Comprehensive income. Comprehensive income for the three months ended January 31, 2007 and January 31, 2006 is as follows:

	January 31, 2007	January 31, 2006
<i>(In thousands)</i>		
Net income	\$ 15,557	\$ 16,067
Foreign currency translation adjustments	1,934	1,095
Comprehensive income	\$ 17,491	\$ 17,162

Accumulated other comprehensive loss at January 31, 2007 consisted of net foreign currency translation adjustment credits of \$16,708,000 offset by \$27,292,000 of minimum pension liability adjustments. At January 31, 2006 it consisted of net foreign currency translation adjustment credits of \$7,176,000 offset by \$31,964,000 of minimum pension liability adjustments. Activity for the three months ended January 31, 2007 and January 31, 2006 is as follows:

	January 31, 2007	January 31, 2006
<i>(In thousands)</i>		
Beginning balance	\$ (12,518)	\$ (25,883)
Current-period change	1,934	1,095
Ending balance	\$ (10,584)	\$ (24,788)

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 3.0 percent of the number of Common Shares outstanding as of the first day of each fiscal year, plus up to an additional 0.5 percent, consisting of shares available, but not granted, in prior years.

Table of Contents**Nordson Corporation**

Following is a summary of the Company's stock options for the three months ended January 31, 2007:

<i>(In thousands, except for per share data)</i>	Number of Options	Weighted-Average	Aggregate Intrinsic Value	Weighted Average Remaining Term
		Exercise Price Per Share		
Outstanding at October 31, 2006	2,623	\$ 28.80		
Granted	240	\$ 48.83		
Exercised	(427)	\$ 26.98		
Forfeited or expired	(40)	\$ 31.96		
Outstanding at January 31, 2007	2,396	\$ 31.07	\$ 49,474	6.2 years
Vested or expected to vest at January 31, 2007	2,332	\$ 30.81	\$ 48,764	6.1 years
Exercisable at January 31, 2007	1,650	\$ 27.22	\$ 40,436	5.2 years

As of January 31, 2007, there was \$8,105,000 of total unrecognized compensation cost related to nonvested stock options. That cost is expected to be amortized over a weighted average period of approximately 1.6 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:

Three months ended	January 31, 2007	January 31, 2006
Expected volatility	.276-.285	.276-.282
Expected dividend yield	1.56-1.63%	1.88-2.00%
Risk-free interest rate	4.44-4.57%	4.44-4.59%
Expected life of the option (in years)	5.6-7.6	5.6-8.8

The weighted-average expected volatility and weighted-average expected dividend yield used to value the 2007 options were .281 and 1.60%, respectively. The weighted-average expected volatility and weighted-average expected dividend yield used to value the 2006 options were .278 and 1.92%, respectively.

Historical information was the primary basis for the selection of the expected volatility, expected dividend yield and the expected lives of the options. The risk-free interest rate was selected based upon yields of U.S. Treasury issues with a term equal to the expected life of the option being valued.

The weighted average grant date fair value of stock options granted during the first three months of 2007 and 2006 was \$15.59 and \$11.81, respectively. The total intrinsic value of options exercised during the first three months of 2007 and 2006 was \$9,853,000 and \$12,501,000, respectively.

Cash received from the exercise of stock options was \$5,389,000 for the three months ended January 31, 2007 and \$12,352,000 for the three months ended January 31, 2006. The tax benefit realized from tax deductions from exercises was \$2,974,000 for the three months ended January 31, 2007 and \$3,549,000 for the three months ended January 31, 2006.

Table of Contents**Nordson Corporation****Nonvested Stock**

The Company may grant nonvested stock to employees and directors of the Company. These shares may not be disposed of for a designated period of time (currently six months to five years) defined at the date of grant and are to be returned to the Company if the recipient's employment terminates during the restriction period. As shares are issued, deferred stock-based compensation equivalent to the fair market value on the date of grant is charged to shareholders' equity and subsequently amortized over the restriction period. Tax benefits arising from the lapse of restrictions on the stock are recognized when realized and credited to capital in excess of stated value.

The following table summarizes activity related to nonvested stock during the three months ended January 31, 2007:

<i>(In thousands, except for per share data)</i>	Number of Shares	Weighted-Average Grant Date Fair Value
Nonvested shares at October 31, 2006	124	\$ 34.38
Granted	7	\$ 48.78
Vested	(9)	\$ 31.45
Forfeited	(3)	\$ 33.43
Nonvested at January 31, 2007	119	\$ 35.54

As of January 31, 2007, there was approximately \$1,992,000 of unrecognized compensation cost related to nonvested stock. The cost is expected to be amortized over a weighted average period of 1.5 years. The amount charged to expense related to nonvested stock was \$317,000 in the three months ended January 31, 2007 and \$458,000 in the three months ended January 31, 2006.

Directors Deferred Compensation

Non-employee directors may defer all or part of their fees until retirement. The fees may be deferred as cash or as stock equivalent units. Deferred cash amounts are recorded as liabilities, and deferred stock equivalent units are recorded as capital in excess of stated value. Additional stock equivalent units are earned when common stock dividends are declared.

The following is a summary of the activity during the three months ended January 31, 2007:

<i>(In thousands, except for per share data)</i>	Number of Shares	Weighted-Average Grant Date Fair Value
Outstanding at October 31, 2006	141	\$ 24.35
Granted	1	\$ 51.72
Dividend equivalents	1	\$ 50.48
Distributions	(4)	\$ 20.18
Outstanding at January 31, 2007	139	\$ 24.84

The amount charged to expense related to this plan was \$92,000 in the three months ended January 31, 2007, and \$80,000 in the three months ended January 31, 2006.

Table of Contents

Nordson Corporation

Long-Term Incentive Compensation Plan (LTIP)

Page 14

Table of Contents**Nordson Corporation**

14. **Non-recurring charges.** During 2005 and 2006, the Company recorded severance and restructuring costs related to actions taken in the adhesive dispensing segment and the finishing and coating segment. The following table summarizes activity in the severance and restructuring accruals during the three months ended January 31, 2007:

	Adhesive Dispensing Systems	Finishing and Coating Systems	Total
<i>(In thousands)</i>			
Accrual balance at October 31, 2006	\$ 31	\$ 49	\$ 80
Adjustments to accrual		(1)	(1)
Payments	(8)	(48)	(56)
Accrual balance at January 31, 2007	\$ 23	\$	\$ 23

15. **Operating segments.** The Company conducts business across three primary business segments: Adhesive Dispensing Systems, Advanced Technology Systems and Finishing and Coating Systems. The composition of segments and measure of segment profitability is consistent with that used by the Company's chief operating decision maker. The primary focus is operating profit, which equals sales less operating costs and expenses. Operating profit excludes interest income (expense), investment income (net) and other income (expense). Operating profit for the three months ended January 31, 2006 has been reclassified to reflect the allocation of stock option expense from Corporate to the business segments, in order to be consistent with 2007. Items below the operating income line of the Condensed Consolidated Statement of Income are not presented by segment, since they are excluded from the measure of segment profitability reviewed by the Company's chief operating decision maker. The accounting policies of the segments are generally the same as those described in Note 1, Significant Accounting Policies, of the Company's annual report on Form 10-K for the year ended October 31, 2006.

The Company's products are used around the world in the appliance, automotive, bookbinding, container, converting, electronics, food and beverage, furniture, medical, metal finishing, nonwovens, packaging, semiconductor, life sciences and other diverse industries. The Company sells its products primarily through a direct, geographically dispersed sales force.

The following table presents information about the Company's reportable segments:

	Adhesive Dispensing Systems	Advanced Technology Systems	Finishing and Coating Systems	Corporate	Total
<i>(In thousands)</i>					
Three months ended January 31, 2007					
Net external sales	\$ 114,378	\$ 59,681	\$ 29,816	\$	\$ 203,875
Operating profit	22,428	148	8,235	(2,545)	28,266

Edgar Filing: NORDSON CORP - Form 10-Q

Three months ended January 31,
2006

Net external sales	\$113,447	\$51,754	\$ 32,150	\$	\$197,351
Operating profit	23,425	10,996	(978)	(3,051)	30,392

Page 15

Table of Contents**Nordson Corporation**

A reconciliation of total segment operating income to total consolidated income before income taxes is as follows:

Three months ended (In thousands)	January 31, 2007	January 31, 2006
Total profit for reportable segments	\$28,266	\$ 30,392
Interest expense	(4,181)	(3,491)
Interest and investment income	367	184
Other-net	(1,069)	(705)
Consolidated income before income taxes and discontinued operations	\$23,383	\$ 26,380

The Company has significant sales in the following geographic regions:

Three months ended (In thousands)	January 31, 2007	January 31, 2006
United States	\$ 64,291	\$ 66,152
Americas	14,796	15,712
Europe	76,842	70,205
Japan	17,103	18,819
Asia Pacific	30,843	26,463
Total net external sales	\$203,875	\$ 197,351

The increase in total assets from October 31, 2006 to January 31, 2007 is primarily due to goodwill and other intangible assets. These assets are included in the Corporate segment.

16. Pension and other postretirement plans. The components of net periodic pension cost for 2007 as compared with 2006 were:

Three months ended (In thousands)	U.S.		International	
	2007	2006	2007	2006
Service cost	\$ 1,277	\$ 1,356	\$ 440	\$ 376
Interest cost	2,332	2,301	533	348
Expected return on plan assets	(2,421)	(2,261)	(318)	(200)
Amortization of prior service cost	137	123	10	7
Recognized net actuarial loss	743	882	117	94
Total benefit cost	\$ 2,068	\$ 2,401	\$ 782	\$ 625

The Company's contributions to pension plans in fiscal 2007 is now estimated to be approximately \$10.2 million, compared to the previous estimate of \$14.0 million disclosed in the Company's 2006 10-K.

Table of Contents**Nordson Corporation**

The components of other postretirement benefits for 2007 as compared with 2006 were:

Three months ended (In thousands)	U.S.		International	
	2007	2006	2007	2006
Service cost	\$ 350	\$ 312	\$11	\$
Interest cost	665	558	10	
Amortization of prior service cost	(181)	(181)		
Recognized net actuarial loss	330	411	2	
Total benefit cost	\$1,164	\$1,100	\$23	\$

17. **Contingencies.** The Company is involved in pending or potential litigation regarding environmental, product liability, patent, contract, employee and other matters arising from the normal course of business. Including the environmental matter discussed below, it is the Company's opinion, after consultation with legal counsel, that resolutions of these matters are not expected to result in a material effect on its financial condition, operating results, or cash flows.

Environmental The Company has voluntarily agreed with the City of New Richmond, Wisconsin, and other Potentially Responsible Parties (PRP) to share costs associated with (1) a feasibility study and remedial investigation (FS/RI) for remediation of the City of New Richmond municipal landfill (the Site) and (2) providing clean drinking water to the affected residential properties down gradient of the Site. The PRP group has agreed to an allocation that sets the Company's share of the cost of remediation at 56.35 percent. The Company has committed and paid \$943,000 towards completing the FS/RI phase of the project.

The FS/RI was completed and submitted to the Wisconsin Department of Natural Resources (WDNR) in July 2006. The total cost of the Company's share for remediation efforts (Site and clean drinking water) will not be ascertainable until a remediation plan is approved by the WDNR. Approval is not anticipated to occur before the second quarter of fiscal 2007. However, based upon the range of viable alternatives for Site remediation and providing clean drinking water to residences down gradient of the Site submitted as part of the Feasibility Study, the Company accrued \$2,835,000 of expense in the third quarter of 2006, its best estimate of its obligation with respect to remediation of the Site and providing clean drinking water to residences down gradient of the Site. This amount is recorded in selling and administrative expenses.

The 2006 accrual brought the total liability balance to \$2,970,000. Approximately \$2,150,000 of the liability is classified as long-term, and is expected to be disbursed over the next 10 years. The remaining portion is included in accrued liabilities. The recorded amount is the Company's best estimate of its obligation, however, management has estimated that it is reasonably possible that additional costs of \$2,600,000 could be incurred. Factors that could affect the estimate include the results of future testing, the ultimate remediation required and changes in regulations. Consequently, the Company's liability could be greater than its current estimate. However, the Company does not expect that the costs associated with remediation will have a material adverse effect on its financial condition or results of operations.

Table of Contents

Nordson Corporation

18. **Guarantees.** The Company has issued guarantees to two banks to support the short-term borrowing facilities of a 49 percent-owned South Korean joint venture/distributor of the Company's products. One guarantee is for Korean Won Three Billion (approximately \$3,186,000) secured by land and building and expires on January 31, 2008. The other is a continuing guarantee for \$3,300,000.

In 2004, the Company issued a guarantee to a U.S. bank related to a five-year trade financing agreement for a sale to a customer in Turkey. The loan is secured by collateral with a current value well in excess of the amount due. The guarantee would be triggered upon a payment default by the customer to the bank. The amount of the guarantee at January 31, 2007 was Euro 1,400,000 (approximately \$1,825,000) and is declining ratably as semi-annual principal payments are made by the customer. The Company has recorded \$885,000 in other current liabilities related to this guarantee. The recorded amount is being reduced as the customer makes payments.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is Management's discussion and analysis of certain significant factors affecting the Company's financial condition and results of operations for the periods included in the accompanying condensed consolidated financial statements.

Results of Operations

Sales

Worldwide sales for the three months ended January 31, 2007 were \$203.9 million, a 3.3% increase from sales of \$197.4 million for the comparable period of 2006. The December 14, 2006 acquisition of Dage Holdings, Limited and favorable currency translation rates each contributed approximately 3.3% to the increase in sales, offsetting a 3.4% decline in organic sales volume.

Sales of the Company's Adhesive Dispensing Systems segment increased 0.8% in 2007 from 2006. Volume decreases of 3.4% were offset by favorable currency effects that increased sales by 4.2%. The decline in sales volume in 2007 can be traced a general economic decline as evidenced by lower system sales in several geographic regions and lower parts sales in the United States. Advanced Technology Systems segment sales were up 15.3% from 2006, with the Dage acquisition generating a volume increase of 12.8%. Core businesses contributed an additional 0.8%, and favorable currency translation rates contributed 1.7%. Within this segment, sales were impacted by weakness in the Asia Pacific region associated with several key customers. Increased sales of the EFD business were offset by decreases in Asymtek, March and UV Curing. Sales of the Finishing and Coating Systems segment were down 7.3% from the prior year, with volume decreases of 9.9% offset by currency effects of 2.6%. The sales volume decrease can be traced to lower system sales across all geographic regions.

On a geographic basis, first quarter sales volume was up 14.3% in the Asia Pacific region and 0.9% in Europe, while volume decreased 8.5% in Japan, 5.6% in the Americas region and 2.8% in the U.S.

Table of Contents

Nordson Corporation

Operating Profit

Cost of sales for the three months ended January 31, 2007 were \$86.2 million, up from \$83.3 million in 2006, primarily due to the sales increase. The gross margin percentage was 57.7% for the three months ended January 31, 2007, compared to 57.8% for the comparable period of 2006. The 2007 percentage was negatively impacted by 0.6% for purchase accounting adjustments related to the Dage acquisition. Favorable currency effects increased the gross margin rate by 0.3%.

Selling and administrative expenses in 2007 were \$89.4 million, up \$7.0 million, or 8.5%, from 2006 expenses of \$82.4 million, excluding severance and restructuring costs. The increase was largely due to the Dage acquisition and to currency translation effects that increased selling and administrative costs by 3.0%. Excluding Dage and currency translation effects, selling and administrative expenses increased 1.6%. Annual compensation increases and higher employee benefit costs also contributed to the increase. Selling and administrative expenses as a percent of sales increased to 43.8% in 2007 from 41.7% for the first three months of 2006.

Operating profit as a percentage of sales was 13.9% in the first three months of 2007, down from 15.4% in 2006. Operating profit as a percent of sales for the Adhesive Dispensing Systems segment decreased from 20.6% in 2006 to 19.6% in 2007, primarily due to sales volume decreases. For the Advanced Technology Systems segment, operating profit as a percent of sales decreased from 21.2% in 2006 to 13.8% in 2007. The operating profit of this segment was impacted by the impact of purchase price accounting adjustments related to the Dage acquisition and by lower core sales volume. The Finishing and Coating Systems segment generated a small operating profit in 2007, compared to an operating loss in 2006. The prior year was impacted by severance and restructuring costs of \$1.2 million.

Net Income

Interest expense for the three months ended January 31, 2007 was \$4.2 million, up from \$3.5 million for the three months ended January 31, 2006 due to borrowings related to the December 14, 2006 acquisition of Dage Holdings, Limited. Foreign exchange losses of \$932,000 in 2007 and \$707,000 in 2006 were largely responsible for the other expense amounts in those respective years.

The Company's effective tax rate was 33.5% in the first three months of 2007 and 2006. The 2007 rate included a discrete item of \$300,000 for the effect of the Tax Relief and Health Care Act of 2006, which was signed into law in the first quarter and provided retroactive reinstatement of a research credit.

Net income from continuing operations for the three months ended January 31, 2007 was \$15.6 million, or \$.46 per share on a diluted basis, compared to \$17.6 million or \$.52 per share on a diluted basis in 2006. This represents an 11% decrease in net income and a 12% decrease in earnings per share, including purchase accounting adjustments. Net income for 2006, including the effect of discontinued operations, was \$16.1 million, or \$.47 per diluted share.

Table of Contents

Nordson Corporation

Foreign Currency Effects

In the aggregate, average exchange rates for the three months ended January 31, 2007 used to translate international sales and operating results into U.S. dollars compared favorably with average exchange rates existing during the comparable 2006 period. It is not possible to precisely measure the impact on operating results arising from foreign currency exchange rate changes, because of changes in selling prices, sales volume, product mix and cost structure in each country in which the Company operates. However, if transactions for the three months ended January 31, 2007 were translated at exchange rates in effect during the same period of 2006, sales would have been approximately \$6.5 million lower while third-party costs and expenses would have been approximately \$4.5 million lower.

Financial Condition

In December 2006, cash of \$226.9 million was used for the purchase of Dage Holdings, Limited. Existing lines of credit and cash were used for the purchase. This transaction was the primary reason for the decrease in cash and cash equivalents of \$19.1 million during the three months ended January 31, 2007. Other sources were cash provided by operations of \$17.8 million and cash of \$5.4 million that was generated by the exercise of stock options. Other uses of cash were dividend payments of \$5.8 million and capital expenditures of \$8.7 million. Included in the capital expenditure amount is \$5.1 million for the purchase of a building for the EFD business. It is expected that the buildings currently occupied will be sold during the second quarter.

The Company has various lines of credit with both domestic and foreign banks, including a facility with a group of banks that expires in 2009. This facility was increased from \$200 million to \$300 million on December 8, 2006, and may be increased to \$400 million under certain conditions. At January 31, 2007, there were \$200 million of outstanding borrowings under this facility. Available lines of credit continue to be adequate to meet additional cash requirements over the next year.

Receivables decreased and inventories increased as a result of the traditionally lower level of business activity in the Company's first fiscal quarter compared to its fourth fiscal quarter. The increase in prepaid expenses relates largely to annual insurance premiums paid in the first quarter of the year. Other current liabilities decreased as a result of bonus and profit sharing payments during the first quarter. Other long-term liabilities increased largely due to higher deferred compensation.

Critical Accounting Policies

The Company's consolidated financial statements and accompanying notes have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company's management to make estimates, judgments and assumptions that affect reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, the Company evaluates the accounting policies and estimates it uses to prepare financial statements. The Company bases its estimates on historical experience and assumptions believed to be reasonable under current facts and circumstances. Actual amounts and results could differ from these estimates used by management.

Certain accounting policies that require significant management estimates and are deemed critical to the Company's results of operations or financial position were discussed in Item 7 of the 10-K for the year ended October 31, 2006. During the first quarter of 2007 there were no material changes in these policies.

Table of Contents

Nordson Corporation

Outlook

Sales volume for the second quarter of 2007 is expected to increase 5% to 9% compared to the second quarter of 2006. The effect of the weaker U.S. dollar should increase reported sales by about 2%, resulting in a 7% to 11% increase in sales. The increase reflects the acquisition of Dage. Gross margins for the second quarter are estimated to be 55% to 56%, including the impact of purchase accounting adjustments related to the Dage acquisition. Operating expenses should be approximately 40.5% to 41.0% of sales. Earnings per share are expected to be in the range of \$.62 to \$.73 for the three months ended April 30, 2007. This amount includes \$.06 per share from the sale of real estate.

Safe Harbor Statements Under The Private Securities Litigation Reform Act Of 1995

This Form 10-Q, particularly Management's Discussion and Analysis, contains forward-looking statements within the meaning of the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. Such statements may also appear in press or earnings releases and conference calls and relate to, among other things, income, earnings, cash flows, changes in operations, operating improvements, businesses in which Nordson Corporation operates and the U.S. and global economies. Statements in this 10-Q that are not historical are hereby identified as forward-looking statements and may be indicated by words or phrases such as anticipates, supports, plans, projects, expects, believes, should, would, could, hope, management is of the opinion, as well as the use of the future tense and similar words or phrases.

In light of these risks and uncertainties, actual events and results may vary significantly from those included in or contemplated or implied by such statements. Readers are cautioned not to place undue reliance on such forward-looking statements. These forward-looking statements speak only as of the date made. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

The Company may, from time to time, post financial or other information on its Web site, <http://www.nordson.com/Investors/>. The Internet address is for informational purposes only and is not intended for use as a hyperlink. The Company is not incorporating any material on its Web site into this Report.

Factors that could cause actual results to differ materially from the expected results are discussed in Item 1A, Risk Factors in the Company's 10-K for the year ended October 31, 2006.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information regarding the Company's financial instruments that are sensitive to changes in interest rates and foreign currency exchange rates was disclosed in Form 10-K filed by the Company on January 12, 2007. The information disclosed has not changed materially in the interim period since October 31, 2006.

Table of Contents

Nordson Corporation

ITEM 4. CONTROLS AND PROCEDURES

The Company's management with the participation of its principal executive officer (Chairman and Chief Executive Officer) and principal financial officer (President, Chief Financial and Administrative Officer) has reviewed and evaluated the Company's disclosure controls and procedures (as defined in the Securities Exchange Act Rule 13a-15(e)) as of January 31, 2007. Based on that evaluation, the Company's management, including its principal executive and financial officers, has concluded that the Company's disclosure controls and procedures were effective as of January 31, 2007 in ensuring that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and is accumulated and communicated to the Company's management, including its principal executive officer and its principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

There were no changes in the Company's internal controls over financial reporting that occurred during the three months ended January 31, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II Other Information

ITEM 1. LEGAL PROCEEDINGS

In addition, the Company is involved in various other legal proceedings arising in the normal course of business. Based on current information, the Company does not expect that the ultimate resolution of pending and threatened legal proceedings, including the environmental matter described above, will have a material adverse effect on its financial condition, results of operations or cash flows.

Environmental The Company has voluntarily agreed with the City of New Richmond, Wisconsin, and other Potentially Responsible Parties (PRP) to share costs associated with (1) a feasibility study and remedial investigation (FS/RI) for remediation of the City of New Richmond municipal landfill (the Site) and (2) providing clean drinking water to the affected residential properties down gradient of the Site. The PRP group has agreed to an allocation that sets the Company's share of the cost of remediation at 56.35 percent. The Company has committed and paid \$943 towards completing the FS/RI phase of the project.

The FS/RI was completed and submitted to the Wisconsin Department of Natural Resources (WDNR) in July 2006. The total cost of the Company's share for remediation efforts (Site and clean drinking water) will not be ascertainable until a remediation plan is approved by the WDNR. Approval is not anticipated to occur before the second quarter of fiscal 2007. However, based upon the range of viable alternatives for Site remediation and providing clean drinking water to residences down gradient of the Site submitted as part of the Feasibility Study, the Company accrued \$2,835,000 of expense in the third quarter of 2006, its best estimate of its obligation with respect to remediation of the Site and providing clean drinking water to residences down gradient of the Site. This amount is recorded in selling and administrative expenses.

The 2006 accrual brought the total liability balance to \$2,970,000. Approximately \$2,150,000 of the liability is classified as long-term, and is expected to be disbursed over the next 10 years. The remaining portion is included in accrued liabilities. The recorded amount is the Company's best estimate of its obligation, however, management has estimated that it is reasonably possible that additional costs of \$2,600,000 could be incurred. Factors that could affect the estimate include the results of future testing, the ultimate remediation required and changes in regulations. Consequently, the Company's liability could be greater than its current estimate. However, the Company does not expect that the costs associated with remediation will have a material adverse effect on its financial condition or results of operations.

Table of Contents

Nordson Corporation

ITEM 1A. RISK FACTORS

Information regarding the Company's risk factors was disclosed in Form 10-K filed by the Company on January 12, 2007. The information disclosed has not changed materially in the interim period since October 31, 2006.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

In October 2006, the Board of Directors authorized the Company to repurchase up to one million shares of the Company's common stock on the open market or in privately negotiated transactions. Expected uses for repurchased shares include the funding of benefit programs including stock options, restricted stock and 401(k) matching. Shares purchased will be treated as treasury shares until used for such purposes. The repurchase program will be funded using the Company's working capital. No shares have been purchased under this program or otherwise.

ITEM 6. EXHIBITS

Exhibit Number:

- 31.1 Certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934 by the Chief Executive Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934 by the Chief Financial Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of CEO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Table of Contents

Nordson Corporation

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: March 12, 2007

Nordson Corporation

By: /s/ PETER S. HELLMAN
Peter S. Hellman
President, Chief Financial and
Administrative Officer
(Principal Financial Officer)

Page 24