ERIE INDEMNITY CO
Form 10-Q
August 01, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2013

Commission file number 0-24000

ERIE INDEMNITY COMPANY
(Exact name of registrant as specified in its charter)

PENNSYLVANIA	25-0466020
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
100 Erie Insurance Place, Erie, Pennsylvania	16530
(Address of principal executive offices)	(Zip Code)

(814) 870-2000
(Registrant's telephone number, including area code)
Not applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes X No ___

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

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

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

Large Accelerated Filer X Accelerated Filer ___ Non-Accelerated Filer ___ Smaller Reporting Company ___

(Do not check if a smaller reporting company)

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

The number of shares outstanding of the registrant's Class A Common Stock as of the latest practicable date, with no par value and a stated value of $0.0292 per share, was 46,679,320 at July 19, 2013.

The number of shares outstanding of the registrant's Class B Common Stock as of the latest practicable date, with no par value and a stated value of $70 per share, was 2,542 at July 19, 2013.

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

ERIE INDEMNITY COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(dollars in millions, except per share data)

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Revenues				
Premiums earned	$1,215	$1,109	$2,390	$2,196
Net investment income	104	113	207	221
Net realized investment gains (losses)	61	(107)	310	189
Net impairment losses recognized in earnings	(1)	0	(1)	0
Equity in earnings of limited partnerships	39	37	75	58
Other income	8	8	16	16
Total revenues	1,426	1,160	2,997	2,680
Benefits and expenses				
Insurance losses and loss expenses	861	943	1,703	1,659
Policy acquisition and underwriting expenses	302	287	595	557
Total benefits and expenses	1,163	1,230	2,298	2,216
Income (loss) from operations before income taxes and noncontrolling interest	263	(70)	699	464
Provision for income taxes	86	(32)	232	148
Net income (loss)	$177	$(38)	$467	$316
Less: Net income (loss) attributable to noncontrolling interest in consolidated entity – Exchange	133	(81)	386	237
Net income attributable to Indemnity	$44	$43	$81	$79
Earnings Per Share				
Net income attributable to Indemnity per share				
Class A common stock – basic	$0.95	$0.90	$1.73	$1.65
Class A common stock – diluted	$0.84	$0.80	$1.54	$1.47
Class B common stock – basic and diluted	$142	$135	$259	$249
Weighted average shares outstanding attributable to Indemnity – Basic				

As shares are issued, deferred share-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 shares are recognized when realized and credited to capital in excess of stated value.

The following table summarizes activity related to nonvested shares during the six months ended April 30, 2010:

	Number of Shares	Weighted-Average Grant Date Fair Value
Nonvested shares at October 31, 2009	23	$ 38.49
Granted	18	$ 56.63
Vested	(10)	$ 46.73
Forfeited		
Nonvested shares at April 30, 2010	31	$ 46.31

As of April 30, 2010, there was $957 of unrecognized compensation cost related to nonvested common shares. The cost is expected to be amortized over a weighted average period of 2.0 years.

The amount charged to expense related to nonvested stock was $158 in the three months ended April 30, 2010 and $120 in the three months ended April 30, 2009. For the six months ended April 30, 2010 and April 30, 2009, the amounts were $337 and $247, respectively.

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Directors Deferred Compensation

Non-employee directors may defer all or part of their compensation until retirement. Compensation may be deferred as cash or as share equivalent units. Deferred cash amounts are recorded as liabilities. Additional share equivalent units are earned when common share dividends are declared.

The following table summarizes activity related to director deferred compensation share equivalent units during the six months ended April 30, 2010:

	Number of Shares	Weighted-Average Grant Date Fair Value
Outstanding at October 31, 2009	127	$ 30.51
Deferrals	2	$ 63.69
Restricted stock units vested	8	$ 45.73
Dividend equivalents	1	$ 66.21
Distributions	(3)	$ 25.18
Outstanding at April 30, 2010	135	$ 32.21

The amount charged to expense related to this plan was $71 for the three months ended April 30, 2010 and $77 for the three months ended April 30, 2009. For the six months ended April 30, 2010 and April 30, 2009, the amounts were $171 and $154, respectively.

Long-Term Incentive Compensation Plan

Under the long-term incentive compensation plan, executive officers and selected other key employees receive common share awards based solely on corporate performance measures over three-year performance periods. Awards vary based on the degree to which corporate performance exceeds predetermined threshold, target and maximum performance levels at the end of a performance period. No payout will occur unless certain threshold performance objectives are exceeded.

The amount of compensation expense is based upon current performance projections for each three-year period and the percentage of the requisite service that has been rendered. The calculations are also based upon the weighted-average value of our common shares at the dates of grant. This value was $52.19 per share for both the executive officer and the selected other employees groups for fiscal year 2010. The value was $26.45 per share for both the executive officer and the selected other employees groups for fiscal year 2009. For the three months ended April 30, 2010, $374 was charged to expense. The amount credited to expense was $903 in the three months ended April 30, 2009. For the six months ended April 30, 2010, $840 was charged to expense. The amount credited to expense was $5,014 in the six months ended April 30, 2009. The cumulative amount recorded in shareholders equity at April 30, 2010 was $840.

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12. Warranty Accrual. We offer warranty to our customers depending on the specific product and terms of the customer purchase agreement. A typical warranty program requires that we repair or replace defective products within a specified time period (generally one year) from the date of delivery or first use. We record an estimate for future warranty-related costs based on actual historical return rates. Based on analysis of return rates and other factors, the adequacy of our warranty provisions are adjusted as necessary. The liability for warranty costs is included in accrued liabilities in the Consolidated Balance Sheet.

    Following is a reconciliation of the product warranty liability for the six months ended April 30, 2010 and 2009:

	April 30, 2010	April 30, 2009
Beginning balance	$ 4,587	$ 5,336
Warranty assumed from acquisition	60	
Accruals for warranties	3,111	1,724
Warranty payments	(2,129)	(2,387)
Currency effect	(223)	22
Ending balance	$ 5,406	$ 4,695

13. Severance and restructuring costs. Cost reduction activities were taken in the fourth quarter of fiscal year 2008, fiscal year 2009 and fiscal year 2010 primarily in response to economic conditions and to improve operating efficiencies. It is anticipated that the total severance and related costs of these actions will be approximately $23,200 of which $5,561 occurred in fiscal year 2008, $16,396 occurred in fiscal year 2009, and $1,102 occurred in fiscal year 2010. The remainder will occur during the last half of fiscal year 2010. The severance costs were recorded in the Corporate segment.

    The following table summarizes activity in the severance and restructuring accruals during the six months ended April 30, 2010:

Accrual balance at October 31, 2009	$ 2,228
Amounts accrued	1,102
Payments	(1,732)
Currency effect	(171)
Accrual balance at April 30, 2010	$ 1,427

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14. Operating segments. We conduct business across three business segments: Adhesive Dispensing Systems, Advanced Technology Systems, and Industrial Coating Systems. The composition of segments and measure of segment profitability is consistent with that used by our chief operating decision maker. The primary measure used by the chief operating decision maker for purposes of making decisions about allocating resources to the segments and assessing performance is operating profit, which equals sales less cost of sales and certain operating expenses. Items below the operating profit line of the Consolidated Statement of Income (interest and investment income, interest expense and other income/expense) are excluded from the measure of segment profitability reviewed by our chief operating decision maker and are not presented by operating segment. In addition, the measure of segment operating profit that is reported to and reviewed by the chief operating decision maker excludes severance and restructuring costs associated with the cost reduction program that began in September 2008. The accounting policies of the segments are generally the same as those described in Note 1, Significant Accounting Policies, of our annual report on Form 10-K for the year ended October 31, 2009.
The following table presents sales and operating profits of our reportable segments:

	Adhesive Dispensing Systems	Advanced Technology Systems	Industrial Coating Systems	Corporate	Total
Three months ended April 30, 2010					
Net external sales	$130,151	$ 93,770	$27,738	$	$251,659
Operating profit (loss)	43,611	20,295	820	(7,136) a	57,590
Three months ended April 30, 2009					
Net external sales	$111,325	$ 49,973	$27,542	$	$188,840
Operating profit (loss)	30,627	(539)	(1,868)	(9,641) b	18,579
Six months ended April 30, 2010					
Net external sales	$247,164	$170,694	$54,390	$	$472,248
Operating profit (loss)	75,898	33,753	445	(16,236) a	93,860
Six months ended April 30, 2009					
Net external sales	$215,646	$106,514	$53,288	$	$375,448
Operating profit (loss)	56,779	783	(4,064)	(21,844) b	31,654

a - Includes $571 of severance and restructuring costs in the three months ended April 30, 2010 and $1,102 in the six months ended April 30, 2010.

b - Includes $5,054 of severance and restructuring costs in the three months ended April 30, 2009 and $13,118 in the six months ended April 30, 2009.

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

Three months ended	April 30, 2010	April 30, 2009
Total profit for reportable segments	$ 57,590	$ 18,579
Interest expense	(1,625)	(1,691)
Interest and investment income	204	112
Other-net	204	521
Income before income taxes	$ 56,373	$ 17,521

Six months ended	April 30, 2010	April 30, 2009
Total profit for reportable segments	$ 93,860	$ 31,654
Interest expense	(3,081)	(4,444)
Interest and investment income	479	274
Other-net	523	7,200
Income before income taxes	$ 91,781	$ 34,684

We had significant sales in the following geographic regions:

Three months ended	April 30, 2010	April 30, 2009
United States	$ 68,365	$ 55,025
Americas	18,590	12,049
Europe	82,626	71,988
Japan	22,415	20,552
Asia Pacific	59,663	29,226
Total net sales	$251,659	$188,840

Six months ended	April 30, 2010	April 30, 2009
United States	$127,609	$111,400
Americas	35,134	24,585
Europe	161,643	141,649
Japan	40,225	39,517
Asia Pacific	107,637	58,297
Total net sales	$472,248	$375,448

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15. Pension and other postretirement plans. The components of net periodic pension cost for the three and six-month periods ended April 30, 2010 and 2009 were:

Three months ended	U.S. April 30, 2010	U.S. April 30, 2009	International April 30, 2010	International April 30, 2009
Service cost	$ 1,651	$ 1,075	$ 400	$ 320
Interest cost	2,851	2,942	680	610
Expected return on plan assets	(2,897)	(2,963)	(335)	(273)
Amortization of prior service cost	163	153	13	12
Recognized net actuarial loss	1,494	196	92	(5)
Settlement loss		349		
Total benefit cost	$ 3,262	$ 1,752	$ 850	$ 664

Six months ended	U.S. April 30, 2010	U.S. April 30, 2009	International April 30, 2010	International April 30, 2009
Service cost	$ 3,321	$ 2,160	$ 820	$ 648
Interest cost	5,880	5,855	1,409	1,237
Expected return on plan assets	(5,795)	(5,927)	(695)	(556)
Amortization of prior service cost	308	301	26	24
Recognized net actuarial loss	3,039	387	190	(8)
Settlement loss	8,022	1,629		
Total benefit cost	$14,775	$ 4,405	$1,750	$ 1,345

During the six months ended April 30, 2010 and April 30, 2009, net periodic pension cost included settlement losses of $8,022 and $1,629, respectively, due to lump sum retirement payments.

Contributions to pension plans for fiscal year 2010 are expected to be $72,728, compared to the estimate of $28,354 that was disclosed in our Form 10-K for fiscal year 2009. The increase is due to additional voluntary contributions to U.S. plans.

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The components of other postretirement benefit cost for the three and six-month periods ended April 30, 2010 and 2009 were:

	U.S.		International	
Three months ended	April 30, 2010	April 30, 2009	April 30, 2010	April 30,2009
Service cost	$ 183	$ 160	$ 8	$ 6
Interest cost	574	723	11	8
Amortization of prior service cost	(205)	(209)		
Recognized net actuarial loss	352	128	(2)	(3)
Total benefit cost	$ 904	$ 802	$17	$ 11

	U.S.		International	
Six months ended	April 30, 2010	April 30, 2009	April 30, 2010	April 30, 2009
Service cost	$ 385	$ 318	$15	$ 11
Interest cost	1,211	1,433	22	16
Amortization of prior service cost	(432)	(415)		
Recognized net actuarial loss	743	254	(3)	(5)
Total benefit cost	$1,907	$ 1,590	$34	$ 22

In March 2010, the Patient Protection and Affordable Care Act and the Health Care Education and Affordability Reconciliation Act (the Acts) were signed into law. The Acts contain provisions that could impact our accounting for retiree medical benefits in future periods. However, the extent of that impact, if any, cannot be determined until additional interpretations of the Acts become available. Based on the analysis to date, the impact of provisions in the Acts that is reasonably determinable is not expected to have a material impact on our postretirement benefit plans. Accordingly, a remeasurement of our postretirement benefit obligation is not required at this time. We will continue to assess the provisions of the Acts and may consider plan amendments in future periods to better align these plans with the provisions of the Acts.

16. Fair value measurements. 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 inputs to the valuation techniques used to measure fair value are classified into the following categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

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The following table presents the classification of our financial assets and liabilities measured at fair value on a recurring basis at April 30, 2010:

	Total	Level 1	Level 2	Level 3
Assets:				
Rabbi trust (a)	$14,877	$	$14,877	$
Forward exchange contracts (b)	482		482	
Total assets at fair value	$15,359	$	$15,359	$
Liabilities:				
Deferred compensation plans (c)	$15,917	$15,917	$	$
Forward exchange contracts (b)	4,617		4,617	
Total liabilities at fair value	$20,534	$15,917	$ 4,617	$

(a) We maintain a rabbi trust that serves as an investment to shadow our deferred compensation plan liability. The investment assets of the trust consist of life insurance policies for which we recognize income or expense based upon changes in cash surrender value.

(b) We enter into foreign currency forward contracts to reduce the risk of foreign currency exposures resulting from receivables, payables, intercompany receivables, intercompany payables and loans denominated in foreign currencies. The maturities of these contracts are usually less than 90 days. Foreign exchange contracts are valued using market exchange rates.

(c) Senior management and other highly compensated employees may defer up to 100% of their salary and incentive compensation into various non-qualified deferred compensation plans. Deferrals can be allocated to various market performance measurement funds. Changes in the value of compensation deferred under these plans are recognized each period based on the fair value of

the underlying
measurement
funds.

We had no assets or liabilities measured at fair value on a non-recurring basis as of April 30, 2010.

17. Financial Instruments. We operate internationally and enter into intercompany transactions denominated in foreign currencies. Consequently, we are subject to market risk arising from exchange rate movements between the dates foreign currencies are recorded and the dates they are settled. We regularly use foreign currency forward contracts to reduce our risks related to most of these transactions. These contracts usually have maturities of 90 days or less and generally require us to exchange foreign currencies for U.S. dollars at maturity, at rates stated in the contracts. These contracts are not designated as hedging instruments. Accordingly, the changes in the fair value of the hedges of balance sheet positions are recognized in each accounting period in Other net on the Consolidated Statement of Income together with the transaction gain or loss from the hedged balance sheet position. We do not use financial instruments for trading or speculative purposes.

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We had the following outstanding foreign currency forward contracts at April 30, 2010:

	Sell		Buy	
	Notional Amounts	Fair Market Value	Notional Amounts	Fair Market Value
Euro	$ 7,102	$ 7,044	$171,310	$167,405
British pound	754	766	13,684	13,509
Japanese yen	2,178	2,129	17,858	17,454
Others	4,537	4,595	33,240	33,552
Total	$14,571	$14,534	$236,092	$231,920

The following table shows the fair value of foreign currency forward contracts in the consolidated balance sheet at April 30, 2010. These contracts were not designated as hedging instruments.

Asset Derivatives		Liability Derivatives	
Balance sheet location	Fair value	Balance sheet location	Fair value
Receivables	$482	Accrued liabilities	$4,617

For the three months ended April 30, 2010, we recognized gains of $4,494 on foreign exchange contracts not designated as hedging instruments. Offsetting the gains on foreign exchange contracts were losses of $4,829 on the underlying transactions.

The carrying amounts and fair values of financial instruments at April 30, 2010, other than receivables and accounts payable, are shown in the table below. The carrying values of receivables and accounts payable approximate fair value due to the short-term nature of these instruments.

	Carrying Amount	Fair Value
Cash and cash equivalents	$ 33,096	$ 33,096
Marketable securities	740	740
Notes payable	(3,309)	(3,309)
Long-term debt	(176,550)	(177,802)
Foreign exchange contracts (net)	(4,135)	(4,135)

We used the following methods and assumptions in estimating the fair value of financial instruments:

Cash, cash equivalents and notes payable are valued at their carrying amounts due to the relatively short period to maturity of the instruments.

Marketable securities are valued at quoted market prices.

Long-term debt is valued by discounting future cash flows at currently available rates for borrowing arrangements with similar terms and conditions.

Foreign exchange contracts are estimated using quoted exchange rates.

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18. Income taxes. We record our interim provision for income taxes based on our estimated annual effective tax rate, as well as certain items discrete to the current period.

    The effective tax rates for the three and six-month periods ended April 30, 2010 were 42.5% and 35.5%, respectively. As a result of the enactment in March 2010 of the Patient Protection and Affordable Care Act and the subsequent enactment of the Health Care and Education Reconciliation Act of 2010, we recorded an additional tax charge of $5,255 in the three months ended April 30, 2010. The charge was due to a reduction in the value of our deferred tax asset as a result of a change to the tax treatment associated with Medicare Part D subsidies.

    The effective tax rate for the six months ended April 30, 2010 was positively impacted by consolidation of certain operations and legal entities, resulting in a $3,500 tax benefit. This effect was partially offset by $438 of other adjustments related to our 2009 tax provision.

    During the three months ended April 30, 2009, our unrecognized tax benefits decreased by $2,454, resulting in effective tax rates of 21.0% and 27.9% for the three and six-month periods, respectively, ended April 30, 2009. The decrease in unrecognized tax benefits was primarily due to remeasuring positions related to prior tax years.

19. Acquisition. On January 5, 2010, we acquired 100 percent of the outstanding shares of G L T Gesellschaft für Löttechnik mbH (GLT), a German distributor of Nordson EFD dispensing systems and related products. The acquisition date fair value of the consideration transferred, which consisted solely of cash, was $21,937 ($18,492, net of cash acquired). Based on an estimate of the fair value of the assets acquired and the liabilities assumed, goodwill of $5,601 and identifiable intangible assets of $7,270 were recorded. The identifiable intangible assets consist primarily of $5,661 of customer relationships that will be amortized over 10 years. As noted above, the allocation of the consideration transferred is preliminary and a final determination of required adjustments will be made based upon an independent appraisal of the fair value of related long-lived tangible and intangible assets and the determination of the fair value of certain other acquired assets and liabilities. Assuming this acquisition had taken place at the beginning of 2009, proforma results for the three and six months ended April 30, 2010 and April 30, 2009 would not have been materially different.

20. Contingencies. We are 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 our opinion, after consultation with legal counsel, that resolutions of these matters are not expected to result in a material effect on our financial condition, quarterly or annual operating results or cash flows.

    We have voluntarily agreed with the City of New Richmond, Wisconsin and other Potentially Responsible Parties to share costs associated with the remediation of the City of New Richmond municipal landfill (the Site) and constructing a potable water delivery system serving the impacted area down gradient of the Site. At April 30, 2010, our accrual for the ongoing operation, maintenance and monitoring obligation at the Site was $885, of which $116 was reported in accrued liabilities and $769 was reported in other long-term liabilities.

    The liability for environmental remediation represents management s best estimate of the probable and reasonably estimable undiscounted costs related to known remediation obligations. The accuracy of our estimate of environmental liability is affected by several uncertainties such as additional requirements that may be identified in connection with remedial activities, the complexity and evolution of environmental laws and regulations, and the identification of presently unknown remediation requirements. Consequently, our liability could be greater than our current estimate. However, we do not expect that the costs associated with remediation will have a material adverse effect on our financial condition or results of operations.

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21. Subsequent events. We evaluated all events or transactions that occurred after April 30, 2010 through the date the financial statements were issued, and there were no material recognizable or non-recognizable subsequent events.

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 our 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 April 30, 2010 were $251,659, an increase of $62,819, or 33.3%, from sales of $188,840 for the comparable period of 2009. Sales volume increased 28.2%, and favorable effects of currency translations increased sales by 5.1%. Sales increased in all three business segments and all five geographic regions in which we operate.

Sales of the Adhesive Dispensing Systems segment for the three months ended April 30, 2010 were $130,151, an increase of $18,826, or 16.9% from the comparable period of fiscal 2009. Sales volume increased 10.9%, and favorable currency translation effects increased sales by 6.0%. Sales volume increased in all geographic regions and was most pronounced in the United States and the Asia Pacific regions.

Advanced Technology Systems segment sales for the three months ended April 30, 2010 were $93,770 compared to $49,973 in the comparable period of fiscal 2009, an increase of $43,797, or 87.6%. Volume increased 84.0%, and currency translation effects increased sales by 3.6%. Within the segment, volume increases occurred in all geographic regions and was most pronounced in Asia Pacific due to higher demand in consumer electronics end markets. Sales growth occurred across all product lines within this segment.

Sales of the Industrial Coating Systems segment for the three months ended April 30, 2010 were $27,738, an increase of 0.7% from the three months ended April 30, 2009. A volume decline of 3.4% was offset by currency translation effects that increased sales by 4.1%. Sales volume increases in the Asia Pacific and Americas regions were offset by volume declines in the other three regions in which we operate. The lack of capital spending in consumer durable end markets impacted sales within this segment.

On a geographic basis, Asia Pacific sales for the three months ended April 30, 2010 increased 104.1% from the comparable period of the prior year. The increase consisted of volume of 97.1% and favorable currency effects of 7.0%. Sales increases in this region occurred across all three business segments. Sales in the Americas region for the three months ended April 30, 2010 were up 54.3%, with volume increasing 38.5% and favorable currency effect adding 15.8%. United States sales increased 24.2%. The European sales increase of 14.8% consisted of 8.4% volume and 6.4% currency. Sales in Japan for the three months ended April 30, 2010 increased 9.1% from the three months ended April 30, 2009, with volume increases of 3.8% and favorable currency effects of 5.3%. All regions were impacted by strong demand in the Advanced Technology Systems segment.

Worldwide sales for the six months ended April 30, 2010 were $472,248, an increase of $96,800, or 25.8% from sales of $375,448 for the comparable period of 2009. Of the increase, 20.3% related to volume, and favorable effects of currency translations increased sales by 5.5%. Sales increased in all three business segments and all five geographic regions in which we operate.

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Sales of the Adhesive Dispensing Systems segment for the six months ended April 30, 2010 were $247,164, an increase of $31,518, or 14.6% from the comparable period of fiscal 2009. Sales volume increased 7.9%, and favorable currency translation effects increased sales by 6.7%. The volume increase was driven by the Asia Pacific, Americas and United States regions.

Advanced Technology Systems segment sales for the six months ended April 30, 2010 were $170,694 compared to $106,514 in the comparable period of fiscal 2009, a 60.3% increase. Volume increased 56.5%, and currency translation effects increased sales by 3.8%. Within the segment, volume increases occurred in all geographic regions and were most pronounced in Asia Pacific due to higher demand in consumer electronics end markets.

Sales of the Industrial Coating Systems segment for the six months ended April 30, 2010 were $54,390, an increase of 2.1% from the six months ended April 30, 2009. Volume declined 2.1%, while currency translation effects increased sales by 4.2%. Sales volume increase in the Asia Pacific and Americas regions were offset by volume declines in the other three regions in which we operate.

On a geographic basis, Asia Pacific sales for the six months ended April 30, 2010 increased 84.6% from the comparable period of the prior year. The increase consisted of volume of 77.6% and favorable currency effects of 7.0%. Sales increases in this region occurred across all three business segments. Sales in the Americas region for the six months ended April 30, 2010 were up 42.9%, with volume increasing 30.1% and favorable currency effects adding 12.8%. United States sales increased 14.6%. The European sales increase of 14.1% consisted of 5.7% volume and 8.4% currency. Sales in Japan for the six months ended April 30, 2010 increased 1.8% from the six months ended April 30, 2009, with volume decreases of 2.3% offset by favorable currency effects of 4.1%. All regions were impacted by strong demand in the Advanced Technology Systems segment.

Operating Profit

Cost of sales for the three months ended April 30, 2010 were $97,792, up from $85,957 in 2009. Cost of sales for the six months ended April 30, 2010 were $186,706, up from $165,328 in 2009. The increases compared to the prior year reflect an increase in sales volume. The gross margin percentage was 61.1% for the three months ended April 30, 2010, as compared to 54.5% for the comparable period of fiscal year 2009. The gross margin percentage was 60.5% for the six months ended April 30, 2010, as compared to 56.0% for the comparable period of fiscal year 2009. The gross margin percentage increases in the current year are due to higher absorption of fixed overhead costs, the impact of cost reduction activities taken in fiscal year 2009, changes in product mix and favorable currency effects.

Selling and administrative expenses, excluding severance and restructuring costs, for the three months ended April 30, 2010 were $95,706, compared to $79,250 for the comparable period of fiscal year 2009. This represented an increase of $16,456, or 20.8%. Selling and administrative expenses, excluding severance and restructuring costs, for the six months ended April 30, 2010 were $190,580, compared to $165,348 for the comparable period of fiscal year 2009. This represented an increase of $25,232, or 15.3%. The increases were largely due to higher compensation expenses resulting from a higher level of business activity in the current year. In addition, currency translation effects increased selling and administrative costs by 4.0% for the three-month period and 4.4% for the six-month period.

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Selling and administrative expenses for the three months ended April 30, 2010 as a percent of sales decreased to 38.0% from 42.0% for the comparable period of fiscal year 2009. For the six months ended April 30, 2010, these expenses as a percent of sales decreased to 40.4% from 44.0% for the comparable period of fiscal year 2009. The decreases were primarily the result of higher sales in the current year and cost reduction activities occurring in fiscal years 2008 and 2009.

Cost reduction activities were taken in the fourth quarter of fiscal year 2008, fiscal year 2009 and in fiscal year 2010 primarily in response to economic conditions and to improve operating efficiencies. It is anticipated that the total severance and related costs of these actions will be approximately $23,200, of which $571 occurred in the second quarter of fiscal year 2010 and $5,054 occurred in second quarter of fiscal year 2009. The year-to-date amounts for fiscal years 2010 and 2009 were $1,102 and $13,118, respectively. The severance costs were recorded in the Corporate segment.

Operating profit as a percentage of sales was 22.9% for the three months ended April 30, 2010, up from 9.8% for the comparable period in fiscal year 2009. Operating profit as a percentage of sales was 19.9% for the six months ended April 30, 2010, up from 8.4% for the comparable period in fiscal year 2009. The increases were primarily due to sales mix yielding higher gross margins, operating costs increasing at a slower rate than sales, the effects of cost reduction activities taken in fiscal years 2008 and 2009 and to higher severance costs in fiscal year 2009.

Operating profit as a percent of sales for the Adhesive Dispensing Systems segment increased to 33.5% for the three months ended April 30, 2010 from 27.5% in 2009 and to 30.7% for the six months ended April 30, 2010 from 26.3% for the comparable period of 2009. The increases were primarily due to higher gross margin percentages and to sales volume increasing at a higher rate than operating costs.

For the Advanced Technology Systems segment, operating profit as a percent of sales for the three months ended April 30, 2010 was 21.6% compared to an operating loss of 1.1% of sales for the three months ended April 30, 2009. For the six months ended April 30, 2010 operating profit as a percent of sales was 19.8%, up from 0.7% last year. The increases were primarily due to sales volume increasing at a higher rate than operating costs.

The Industrial Coating Systems segment reported an operating profit of 3.0% of sales for the three months ended April 30, 2010, compared to an operating loss of 6.8% of sales in the three months ended April 30, 2009. For the six months ended April 30, 2010, operating profit was 0.8% of sales, compared to an operating loss of 7.6% of sales in the same period of fiscal year 2009. The changes were primarily due to higher gross margin percentages in the current year.

Interest and Other Income (Expense)

Interest expense for the three months ended April 30, 2010 was $1,625, down 3.9% from $1,691 for the three months ended April 30, 2009. The prior year amount included a credit of $212 related to unrecognized tax benefits. Interest expense for the six months ended April 30, 2010 was $3,081, down 30.7% from $4,444 for the six months ended April 30, 2009. The decreases were primarily due to lower borrowing levels.

Other income was $204 for the three months ended April 30, 2010, and $521 in the comparable period of the prior year. Included in those amounts were foreign exchange losses of $488 in 2010 and $77 in fiscal year 2009. Other income for the six months ended April 30, 2010 was $523, compared to $7,200 for the six months ended April 30, 2009. The prior year amount included a $5,013 gain on the sale of real estate. Also, included were foreign exchange losses of $277 in fiscal year 2010 and foreign exchange gains of $1,314 in fiscal year 2009.

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Income Taxes

Our effective tax rate was 42.5% and 35.5% for the three and six-month periods ending April 30, 2010, up from 21.0% and 27.9% for the comparable periods of fiscal 2009.

The effective rate for the three and six months ended April 30, 2010 was impacted by an additional tax charge of $5,255 resulting from the enactment in March 2010 of the Patient Protection and Affordable Care Act and the subsequent enactment of the Health Care and Education Reconciliation Act of 2010. The charge was due to a reduction in the value of our deferred tax asset as a result of a change to the tax treatment associated with Medicare Part D subsidies.

The effective tax rate for the six months ended April 30, 2010 also was positively impacted by consolidation of certain operations and legal entities, resulting in a $3,500 tax benefit. This effect was partially offset by $438 of other adjustments related to our fiscal year 2009 tax provision.

The effective tax rate for the three months ended April 30, 2009 was reduced by a decrease of $2,454 in our unrecognized tax benefits, primarily due to remeasuring positions related to prior tax years.

Net Income

Net income for the three months ended April 30, 2010 was $32,431, or $0.94 per share on a diluted basis, compared to $13,843, or $0.41 per share on a diluted basis in the same period of 2009. This represents a 134.3% increase in net income and a 129.3% increase in earnings per share. For the six months ended April 30, 2010, net income was $59,163, or $1.73 per share on a diluted basis, compared to $24,999, or $0.74 per share for the six months ended April 30, 2009. This represents a 136.7% increase in net income and a 133.8% increase in earnings per share.

Foreign Currency Effects

In the aggregate, average exchange rates for fiscal year 2010 used to translate international sales and operating results into U.S. dollars compared favorably with average exchange rates existing during fiscal year 2009. 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 we operate. However, if transactions for the three months ended April 30, 2010 were translated at exchange rates in effect during the same period of 2009, sales would have been approximately $9,600 lower while third-party costs and expenses would have been approximately $4,900 lower. If transactions for the six months ended April 30, 2010 were translated at exchange rates in effect during the same period of 2009, sales would have been approximately $11,100 lower and third party costs would have been approximately $7,100 lower.

Financial Condition

During the six months ended April 30, 2010, cash and cash equivalents increased $15,125. Cash provided by operations during this period was $18,941, compared to $76,137 for the six months ended April 30, 2009. Cash of $80,693 was generated from net income adjusted for non-cash income and expenses as compared to $35,240 last year. The increase is primarily due to higher net income. Changes in operating assets and liabilities used $61,752 of cash in the current year. Included in that amount was $52,028 of cash contributions to U.S. pension plans.

Cash used in investing activities was $23,340 for the six months ended April 30, 2010, compared to cash provided by investing activities of $737 in the comparable period of the prior year. The change was primarily the result of cash used for the acquisition of GLT in fiscal year 2010 and cash provided by the sale of real estate in fiscal year 2009. In addition, current year capital expenditures were $4,231, down from $7,753 from fiscal year 2009.

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Cash provided by financing activities was $20,813 for the six months ended April 30, 2010. Cash of $22,331 was provided by net short and long-term borrowings, and cash of $10,588 was provided by the issuance of common stock related to employee benefit plans. Cash was used for dividend payments of $12,837.

The following is a summary of other significant changes in balance sheet captions from the end of fiscal year 2009 to April 30, 2010. Receivables decreased $5,811 primarily due to the stronger U.S. dollar. Inventories increased $15,434 as a result of higher levels of business activity. Long-term deferred tax assets decreased $4,830 primarily as a result of a change to the tax treatment associated with Medicare Part D subsidies. Income taxes payable increased $6,891 as a result of higher pre-tax income in the current year. The increase in accrued liabilities is primarily due to the change in the fair value of foreign currency forward contracts and to accruals for salaries and other compensation offset by payments of supplemental pension and deferred compensation liabilities. The increase in customer advanced payments can be traced to a higher level of engineered system orders that require partial payment in advance. The decrease in other long-term liabilities is the result of the pension plan contributions referred to above.

Critical Accounting Policies

Our condensed consolidated financial statements and accompanying notes have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. The preparation of these financial statements requires management to make estimates, judgments and assumptions that affect reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, we evaluate the accounting policies and estimates used to prepare financial statements. Estimates are based 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 results of operations or financial position were discussed in Item 7 of the 10-K for the year ended October 31, 2009. There were no material changes in these policies during the three months ended April 30, 2010.

Outlook

We are encouraged with the improving business conditions and increasing order trends, although we recognize the current business environment continues to be challenging and the shape of recovery is still uncertain. We expect to remain cautious regarding spending, matching our expenditures appropriately with the pace of business recovery and maintaining the structural changes made in 2009 while funding those investments that are important to our underlying business. We believe we have the products, organizational talent, resources, and liquidity to respond to the global economic recovery and compete effectively in all our markets.

As the economic climate improves, we will continue to look for strategic acquisition opportunities. We will continue to develop new applications and markets for our technologies, and move forward with additional lean and other operational initiatives to enhance our financial performance.

For the third quarter of fiscal year 2010, sales are expected to increase 25% to 29% compared to the same period a year ago, including an estimated 4% unfavorable effect associated with currency translation. Diluted earnings per share are expected in the range of $1.08 to $1.18.

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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 relate to, among other things, income, earnings, cash flows, changes in operations, operating improvements, businesses in which we operate 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, wo hope, forecast, management is of the opinion, 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. We undertake 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.

Factors that could cause actual results to differ materially from the expected results are discussed in Item 1A, Risk Factors in our 10-K for the year ended October 31, 2009.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information regarding our financial instruments that are sensitive to changes in interest rates and foreign currency exchange rates was disclosed in Form 10-K filed on December 18, 2009. The information disclosed has not changed materially in the interim period since October 31, 2009.

ITEM 4. CONTROLS AND PROCEDURES

Our management with the participation of the principal executive officer (President and Chief Executive Officer) and principal financial officer (Vice President, Chief Financial Officer) has reviewed and evaluated our disclosure controls and procedures (as defined in the Securities Exchange Act Rule 13a-15(e)) as of April 30, 2010. Based on that evaluation, our management, including the principal executive and financial officers, has concluded that our disclosure controls and procedures were effective as of April 30, 2010 in ensuring that information required to be disclosed in the reports that we file or submit 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 management, including the principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

There were no changes in our internal controls over financial reporting that occurred during the three months ended April 30, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Part II Other Information

ITEM 1. LEGAL PROCEEDINGS

We are 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 our opinion, after consultation with legal counsel, that resolutions of these matters are not expected to result in a material effect on our financial condition, quarterly or annual operating results or cash flows.

We have voluntarily agreed with the City of New Richmond, Wisconsin and other Potentially Responsible Parties to share costs associated with the remediation of the City of New Richmond municipal landfill (the Site) and constructing a potable water delivery system serving the impacted area down gradient of the Site. At April 30, 2010, our accrual for the ongoing operation, maintenance and monitoring obligation at the Site was $885, of which $116 was reported in accrued liabilities and $769 was reported in other long-term liabilities.

The liability for environmental remediation represents management s best estimate of the probable and reasonably estimable undiscounted costs related to known remediation obligations. The accuracy of our estimate of environmental liability is affected by several uncertainties such as additional requirements that may be identified in connection with remedial activities, the complexity and evolution of environmental laws and regulations, and the identification of presently unknown remediation requirements. Consequently, our liability could be greater than our current estimate. However, we do not expect that the costs associated with remediation will have a material adverse effect on our financial condition or results of operations.

ITEM 1A. RISK FACTORS

Information regarding our risk factors was disclosed in Form 10-K filed on December 18, 2009. The information disclosed has not changed materially in the interim period since October 31, 2009.

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

On December 10, 2008 the Board of Directors approved a stock repurchase program of up to 1,000 shares over a three-year period beginning December 22, 2008. Expected uses for repurchased shares include the funding of benefit programs including stock options, nonvested 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 working capital. There were no share repurchases during the three months ended April 30, 2010.

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ITEM 5. OTHER INFORMATION

The Annual Meeting of Shareholders of Nordson Corporation was held on February 16, 2010 for the purpose of electing five directors and ratifying the appointment of Ernst & Young as our independent accountants for the fiscal year ending October 31, 2010.

All of management s nominees for directors, as listed in the proxy statement, were elected by the following votes:

Lee C. Banks	For:	30,207,806
	Withheld:	431,673
	Non-votes:	1,066,687
Randolph W. Carson	For:	30,215,736
	Withheld:	423,743
	Non-votes:	1,066,687
Michael F. Hilton	For:	30,088,344
	Withheld:	551,136
	Non-votes:	1,066,687
Victor L. Richey, Jr.	For:	30,215,610
	Withheld:	423,870
	Non-votes:	1,066,687
Benedict P. Rosen	For:	26,174,852
	Withheld:	4,464,628
	Non-votes:	1,066,687

The ratification of Ernst & Young as our independent registered public accountant firm for the fiscal year ending October 31, 2010 was approved as follows:

For:	31,236,281
Against:	174,291
Abstain:	295,595

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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.

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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: June 8, 2010	Nordson Corporation
	By: /s/ GREGORY A. THAXTON Gregory A. Thaxton Vice President, Chief Financial Officer (Principal Financial Officer)

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