

FULLER H B CO
Form 10-Q
September 26, 2014

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 August 30, 2014

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: 001-09225

H.B. FULLER COMPANY

(Exact name of registrant as specified in its charter)

Minnesota
(State or other jurisdiction of
incorporation or organization)

41-0268370
(I.R.S. Employer
Identification No.)

1200 Willow Lake Boulevard, St. Paul, Minnesota
(Address of principal executive offices)
(651) 236-5900

55110-5101
(Zip Code)

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer

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

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

The number of shares outstanding of the Registrant's Common Stock, par value \$1.00 per share, was 50,290,523 as of September 18, 2014.

PART I. FINANCIAL INFORMATION**Item 1. Financial Statements****H.B. FULLER COMPANY AND SUBSIDIARIES****Condensed Consolidated Statements of Income**

(In thousands, except per share amounts)

(Unaudited)

	13 Weeks Ended		39 Weeks Ended	
	August 30, 2014	August 31, 2013	August 30, 2014	August 31, 2013
Net revenue	\$ 526,765	\$ 514,579	\$ 1,556,780	\$ 1,513,437
Cost of sales	(401,611)	(370,072)	(1,155,926)	(1,088,938)
Gross profit	125,154	144,507	400,854	424,499
Selling, general and administrative expenses	(96,779)	(90,604)	(289,950)	(282,050)
Special charges, net	(12,343)	(12,775)	(37,615)	(28,951)
Other income (expense), net	(289)	(1,046)	(1,543)	(2,482)
Interest expense	(5,292)	(4,579)	(14,178)	(14,790)
Income from continuing operations before income taxes and income from equity method investments	10,451	35,503	57,568	96,226
Income taxes	(8,035)	(10,290)	(23,414)	(28,274)
Income from equity method investments	1,668	1,937	5,205	6,020
Income from continuing operations	4,084	27,150	39,359	73,972
Income from discontinued operations, net of tax		1,211		1,211
Net income including non-controlling interests	4,084	28,361	39,359	75,183
Net income attributable to non-controlling interests	(97)	(92)	(264)	(308)
Net income attributable to H.B. Fuller	\$ 3,987	\$ 28,269	\$ 39,095	\$ 74,875
Earnings per share attributable to H.B. Fuller common stockholders:				
Basic¹				
Income from continuing operations	0.08	0.54	0.78	1.48
Income from discontinued operations		0.02		0.02
Basic earnings per share	\$ 0.08	\$ 0.57	\$ 0.78	\$ 1.50
Diluted¹				
Income from continuing operations	0.08	0.53	0.76	1.44
Income from discontinued operations		0.02		0.02

Diluted earnings per share	\$	0.08	\$	0.55	\$	0.76	\$	1.47
Weighted-average common shares outstanding:								
Basic		50,053		49,913		49,973		49,888
Diluted		51,297		51,127		51,242		51,102
Dividends declared per common share	\$	0.120	\$	0.100	\$	0.340	\$	0.285

1 Income per share amounts may not add due to rounding
 See accompanying Notes to Condensed Consolidated Financial Statements.

H.B. FULLER COMPANY AND SUBSIDIARIES**Condensed Consolidated Statements of Comprehensive Income**

(In thousands)

(Unaudited)

	13 Weeks Ended		39 Weeks Ended	
	August 30, 2014	August 31, 2013	August 30, 2014	August 31, 2013
Net income including non-controlling interests	\$ 4,084	\$ 28,361	\$ 39,359	\$ 75,183
Other comprehensive income (loss)				
Foreign currency translation	(9,344)	(3,444)	(10,174)	(12,553)
Defined benefit pension plans adjustment, net of tax	1,019	1,985	3,058	5,926
Interest rate swaps, net of tax	11	11	31	31
Cash-flow hedges, net of tax	48	119	80	308
Other comprehensive income (loss)	(8,266)	(1,329)	(7,005)	(6,288)
Comprehensive income (loss)	(4,182)	27,032	32,354	68,895
Less: Comprehensive income attributable to non-controlling interests	99	139	263	316
Comprehensive income (loss) attributable to H.B. Fuller	\$ (4,281)	\$ 26,893	\$ 32,091	\$ 68,579

See accompanying Notes to Condensed Consolidated Financial Statements.

H.B. FULLER COMPANY AND SUBSIDIARIES**Condensed Consolidated Balance Sheets**

(In thousands, except share and per share amounts)

(Unaudited)

	August 30, 2014	November 30, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 75,544	\$ 155,121
Trade receivables (net of allowances \$9,616 and \$8,539, for August 30, 2014 and November 30, 2013, respectively)	345,104	331,125
Inventories	281,265	221,537
Other current assets	109,952	85,046
Current assets of discontinued operations	1,865	1,865
Total current assets	813,730	794,694
Property, plant and equipment	1,113,391	1,032,792
Accumulated depreciation	(620,029)	(598,405)
Property, plant and equipment, net	493,362	434,387
Goodwill	258,709	263,103
Other intangibles, net	200,080	219,401
Other assets	171,637	161,443
Total assets	\$ 1,937,518	\$ 1,873,028
Liabilities, redeemable non-controlling interest and total equity Current liabilities:		
Notes payable	\$ 30,949	\$ 20,589
Trade payables	212,491	201,575
Accrued compensation	44,293	76,218
Income taxes payable	6,315	10,830
Other accrued expenses	58,037	46,566
Current liabilities of discontinued operations	5,000	5,000
Total current liabilities	357,085	360,778
Long-term debt, excluding current maturities	531,952	472,315
Accrued pension liabilities	43,074	52,922
Other liabilities	49,825	51,835
Total liabilities	981,936	937,850

Commitments and contingencies		
Redeemable non-controlling interest	4,790	4,717
Equity:		
H.B. Fuller stockholders' equity:		
Preferred stock (no shares outstanding) Shares authorized 10,045,900		
Common stock, par value \$1.00 per share, Shares authorized 160,000,000, Shares outstanding 50,281,674 and 50,228,543, for August 30, 2014 and November 30, 2013, respectively	50,282	50,229
Additional paid-in capital	49,835	44,490
Retained earnings	929,224	907,308
Accumulated other comprehensive income (loss)	(78,966)	(71,962)
Total H.B. Fuller stockholders' equity	950,375	930,065
Non-controlling interests	417	396
Total equity	950,792	930,461
Total liabilities, redeemable non-controlling interest and total equity	\$ 1,937,518	\$ 1,873,028

See accompanying Notes to Condensed Consolidated Financial Statements.

H.B. FULLER COMPANY AND SUBSIDIARIES**Condensed Consolidated Statements of Total Equity**

(In thousands)

(Unaudited)

H.B. Fuller Company Shareholders

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interests	Total
Balance at December 1, 2012	\$ 49,903	\$ 37,965	\$ 830,031	\$ (139,626)	\$ 425	\$ 778,698
Comprehensive income			96,761	67,664	370	164,795
Dividends			(19,484)			(19,484)
Stock option exercises	462	8,429				8,891
Share-based compensation plans other, net	301	12,621				12,922
Excess tax benefit on share-based compensation		2,676				2,676
Repurchases of common stock	(437)	(17,201)				(17,638)
Redeemable non-controlling interest					(399)	(399)
Balance at November 30, 2013	50,229	44,490	907,308	(71,962)	396	930,461
Comprehensive income			39,095	(7,004)	263	32,354
Dividends			(17,179)			(17,179)
Stock option exercises	303	6,028				6,331
Share-based compensation plans other, net	67	11,378				11,445
Excess tax benefit on share-based compensation		3,123				3,123
Repurchases of common stock	(317)	(15,184)				(15,501)
Redeemable non-controlling interest					(242)	(242)
Balance at August 30, 2014	\$ 50,282	\$ 49,835	\$ 929,224	\$ (78,966)	\$ 417	\$ 950,792

See accompanying Notes to Condensed Consolidated Financial Statements.

H.B. FULLER COMPANY AND SUBSIDIARIES**Condensed Consolidated Statements of Cash Flows**

(In thousands)

(Unaudited)

	39 Weeks Ended	
	August 30, 2014	August 31, 2013
Cash flows from operating activities from continuing operations:		
Net income including non-controlling interests	\$ 39,359	\$ 75,183
Income from discontinued operations, net of tax		(1,211)
Adjustments to reconcile net income including non-controlling interests to net cash provided by (used in) operating activities from continuing operations:		
Depreciation	34,727	29,049
Amortization	17,311	16,746
Deferred income taxes	(78)	39
(Income) from equity method investments, net of dividends received	(2,958)	6,919
Share-based compensation	10,163	9,027
Excess tax benefit from share-based compensation	(3,123)	(2,167)
Non-cash charge for the sale of inventories revalued at the date of acquisition		189
Change in assets and liabilities, net of effects of acquisitions and discontinued operations:		
Trade receivables, net	(18,390)	1,360
Inventories	(63,071)	(14,213)
Other assets	(25,612)	(2,607)
Trade payables	26,372	(5,490)
Accrued compensation	(31,116)	(2,978)
Other accrued expenses	11,969	717
Income taxes payable	(4,001)	(9,597)
Accrued / prepaid pensions	(12,610)	(5,225)
Other liabilities	(5,886)	(4,166)
Other	14,387	(2,370)
Net cash provided by (used in) operating activities from continuing operations	(12,557)	89,205
Cash flows from investing activities from continuing operations:		
Purchased property, plant and equipment	(116,213)	(82,549)
Purchased businesses	(151)	(8,614)
Purchased technology		(2,387)
Proceeds from sale of property, plant and equipment	781	1,861
Net cash used in investing activities from continuing operations	(115,583)	(91,689)
Cash flows from financing activities from continuing operations:		
Proceeds from long-term debt	235,000	107,031
Repayment of long-term debt	(174,000)	(129,500)
Net proceeds from notes payable	10,390	1,104

Dividends paid	(17,052)	(14,317)
Distribution to redeemable non-controlling interest		(244)
Proceeds from stock options exercised	6,331	7,021
Excess tax benefit from share-based compensation	3,123	2,167
Repurchases of common stock	(15,501)	(12,021)
Net cash provided by (used in) financing activities from continuing operations	48,291	(38,759)
Effect of exchange rate changes	272	(71)
Net change in cash and cash equivalents from continuing operations	(79,577)	(41,314)
Cash provided by operating activities of discontinued operations		1,137
Net change in cash and cash equivalents	(79,577)	(40,177)
Cash and cash equivalents at beginning of period	155,121	200,436
Cash and cash equivalents at end of period	\$ 75,544	\$ 160,259

Supplemental disclosure of cash flow information:

Dividends paid with company stock	\$ 127	\$ 113
Cash paid for interest, net of amount capitalized of \$2,461 and \$1,017 for the periods ended August 30, 2014 and August 31, 2013, respectively	\$ 17,169	\$ 16,651
Cash paid for income taxes, net of refunds	\$ 13,118	\$ 32,579

See accompanying Notes to Condensed Consolidated Financial Statements.

H.B. FULLER COMPANY AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Amounts in thousands, except share and per share amounts)

(Unaudited)

Note 1: Accounting Policies

The accompanying unaudited interim Condensed Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information necessary for a fair presentation of results of operations, comprehensive income, financial position, and cash flows in conformity with U.S. generally accepted accounting principles. In our opinion, the unaudited interim Condensed Consolidated Financial Statements reflect all adjustments of a normal recurring nature considered necessary for the fair presentation of the results for the periods presented. Operating results for interim periods are not necessarily indicative of results that may be expected for the fiscal year as a whole.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosures at the date of the financial statements and during the reporting period. Actual results could differ from these estimates. These unaudited interim Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in our Annual Report on Form 10-K for the year ended November 30, 2013 as filed with the Securities and Exchange Commission.

Recently Adopted Accounting Pronouncements:

In February 2013, the FASB issued ASU No. 2013-02, Comprehensive Income: Reporting of Amounts Reclassified out of AOCI which further amended the disclosure requirements for comprehensive income. The update requires entities to disclose items reclassified out of accumulated other comprehensive income (AOCI) and into net income in a single location either in the notes to the Condensed Consolidated Financial Statements or parenthetically on the face of the Condensed Consolidated Statements of Income. The amendment is effective for fiscal years, and interim periods within those years, beginning after December 15, 2012 and is to be applied prospectively. We adopted the new requirements in the first quarter of our 2014 fiscal year. Since this update impacts disclosure requirements only, the adoption of this update did not have an impact on our condensed consolidated results of operations or financial condition.

In July 2013, the FASB issued ASU No. 2013-11, Income Taxes: Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists which requires that an unrecognized tax benefit should be presented in the financial statements as a reduction of a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward when settlement in this manner is available under the law. This guidance is effective for fiscal years and interim periods beginning after December 15, 2013 which is our fiscal 2015 and will be applied on a prospective basis to all unrecognized tax benefits that exist at the effective date. We adopted the new requirements in the first quarter of our 2014 fiscal year as early adoption was permitted. The adoption of this update did not have a material impact on our condensed consolidated financial condition.

New Accounting Pronouncements:

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for fiscal years and interim periods beginning after December 15, 2016 which is our fiscal year beginning on December 3, 2017. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. We are evaluating the effect that ASU No. 2014-09 will have on our condensed consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

Note 2: Acquisitions and Divestitures

Acquisitions

Plexbond Quimica, S.A.: On June 6, 2013 we acquired Plexbond Quimica, S.A., a provider of chemical urethane adhesives and polyester resins based in Curitiba, Brazil. The acquisition was a stock purchase and encompassed all of Plexbond Quimica, S.A. business operations. The purchase price of \$10,390 was funded through existing cash and was recorded in our Americas Adhesives operating segment.

The following table summarizes the final fair value measurement of the assets acquired and liabilities assumed as of the date of acquisition:

	Preliminary Valuation	Purchase Price Adjustment	Final Valuation
	November 30, 2013		
Current assets	\$ 5,179	\$	\$ 5,179
Property, plant and equipment	2,275		2,275
Goodwill	3,626	151	3,777
Other intangibles			
Customer relationships	3,529		3,529
Noncompetition agreements	565		565
Other assets	608		608
Current liabilities	(3,684)		(3,684)
Other liabilities	(1,859)		(1,859)
Total purchase price	\$ 10,239	\$ 151	\$ 10,390

Divestitures

Central America Paints: On August 6, 2012 we completed the sale of our Central America Paints business to Compania Global de Pinturas S.A., a company of Inversiones Mundial S.A. The assets and liabilities of this business are presented on the Condensed Consolidated Balance Sheets as assets and liabilities of discontinued operations. A portion of the cash proceeds was determined to be contingent consideration, pending resolution of purchase agreement contingencies. The contingent consideration was valued at fair value based on level 3 inputs. The contingent consideration was included in current liabilities of discontinued operations in the Condensed Consolidated Balance Sheets at August 30, 2014 and November 30, 2013 as we expect the purchase agreement contingencies to be resolved in 2014.

Net income from discontinued operations for the periods ended August 30, 2014 and August 31, 2013 were as follows:

	13 Weeks Ended		39 Weeks Ended	
	August 30, 2014	August 31, 2013	August 30, 2014	August 31, 2013
Income taxes	\$	\$ 1,211	\$	\$ 1,211
Net income from discontinued operations	\$	\$ 1,211	\$	\$ 1,211

In the third quarter of 2013, in conjunction with filing the fiscal year 2012 tax return, we recorded a reduction in the income tax expense related to the sale of the Central America Paints business of \$1,211.

The major classes of assets and liabilities of discontinued operations as of August 30, 2014 and November 30, 2013 were as follows:

	August 30, 2014		November 30, 2013
Current assets of discontinued operations	\$ 1,865	\$	1,865
Current liabilities of discontinued operations	\$ 5,000	\$	5,000

Note 3: Accounting for Share-Based Compensation

Overview: We have various share-based compensation programs, which provide for equity awards including stock options, restricted stock shares, restricted stock units and deferred compensation. These equity awards fall under several plans and are described in detail in our Annual Report on Form 10-K for the year ended November 30, 2013. Starting in 2014 we no longer grant restricted stock shares.

Grant-Date Fair Value: We use the Black-Scholes option-pricing model to calculate the grant-date fair value of an award. There were no options granted during the 13 weeks ended August 31, 2013. The fair value of options granted during the 13 weeks ended August 30, 2014 and 39 weeks ended August 30, 2014 and August 31, 2013 were calculated using the following weighted average assumptions:

	13 Weeks Ended August 30, 2014	39 Weeks Ended	
		August 30, 2014	August 31, 2013
Expected life (in years)	4.75	4.75	4.75
Weighted-average expected volatility	31.68%	34.13%	48.00%
Expected volatility	31.68%	31.68% - 37.06%	47.65% - 48.02%
Risk-free interest rate	1.61%	1.52%	0.73%
Expected dividend yield	0.96%	0.82%	0.87%
Weighted-average fair value of grants	\$12.89	\$14.19	\$15.09

Expected life We use historical employee exercise and option expiration data to estimate the expected life assumption for the Black-Scholes grant-date valuation. We believe that this historical data is currently the best estimate of the expected term of a new option. We use a weighted-average expected life for all awards.

Expected volatility Volatility is calculated using our historical volatility for the same period of time as the expected life. We have no reason to believe that our future volatility will differ materially from the past.

Risk-free interest rate The rate is based on the U.S. Treasury yield curve in effect at the time of the grant for the same period of time as the expected life.

Expected dividend yield The calculation is based on the total expected annual dividend payout divided by the average stock price.

Expense Recognition: We use the straight-line attribution method to recognize share-based compensation expense for option awards with graded vesting and restricted stock share and restricted stock units with graded and cliff vesting. The amount of share-based compensation expense recognized during a period is based on the value of the portion of the awards that are ultimately expected to vest.

Total share-based compensation expense of \$3,015 and \$2,812 was included in our Condensed Consolidated Statements of Income for the 13 weeks ended August 30, 2014 and August 31, 2013, respectively. Total share-based compensation expense of \$10,163 and \$9,027 was included in our Condensed Consolidated Statements of Income for the 39 weeks ended August 30, 2014 and August 31, 2013, respectively. All share-based compensation expense was recorded as selling, general and administrative expense. For the 13 weeks ended August 30, 2014 and August 31, 2013 there was \$673 and \$138 of excess tax benefit recognized, respectively. For the 39 weeks ended August 30, 2014 and August 31, 2013 there was \$3,123 and \$2,167 of excess tax benefit recognized, respectively.

As of August 30, 2014, there was \$8,160 of unrecognized compensation costs related to unvested stock option awards, which is expected to be recognized over a weighted-average period of 1.1 years. Unrecognized compensation costs related to unvested restricted stock shares was \$4,294 which is expected to be recognized over a weighted-average period of 1.2 years. Unrecognized compensation costs related to unvested restricted stock units was \$5,402 which is expected to be recognized over a weighted-average period of 1.2 years.

Share-based Activity

A summary of option activity as of August 30, 2014 and changes during the 39 weeks then ended is presented below:

	Options	Weighted- Average Exercise Price
Outstanding at November 30, 2013	2,429,961	\$ 25.74
Granted	420,716	48.89
Exercised	(302,732)	20.91
Forfeited or cancelled	(29,504)	36.37
Outstanding at August 30, 2014	2,518,441	\$ 30.07

The total fair values of options granted during the 13 weeks ended August 30, 2014 were \$73. There were no options granted during the 13 weeks ended August 31, 2013. Total intrinsic values of options exercised during the 13 weeks ended August 30, 2014 and August 31, 2013 were \$1,925 and \$2,665, respectively. Intrinsic value is the difference between our closing stock price on the respective trading day and the exercise price, multiplied by the number of options exercised. The total fair values of options granted during the 39 weeks ended August 30, 2014 and August 31, 2013 were \$5,972 and \$6,823, respectively. Total intrinsic values of options exercised during the 39 weeks ended August 30, 2014 and August 31, 2013 were \$6,855 and \$7,434, respectively. Proceeds received from option exercises during the 13 weeks ended August 30, 2014 and August 31, 2013 were \$1,680 and \$2,650, respectively and \$6,331 and \$7,021 during the 39 weeks ended August 30, 2014 and August 31, 2013, respectively.

A summary of nonvested restricted stock as of August 30, 2014 and changes during the 39 weeks then ended is presented below:

	Units	Shares	Total	Weighted- Average Grant Date Fair Value	Weighted- Average Remaining Contractual Life (in Years)
Nonvested at November 30, 2013	135,231	312,445	447,676	\$ 33.76	1.2
Granted	126,045		126,045	48.87	1.4
Vested	(68,293)	(113,502)	(181,795)	48.18	
Forfeited	(2,160)	(7,999)	(10,159)	37.08	1.2
Nonvested at August 30, 2014	190,823	190,944	381,767	\$ 40.67	1.2

Total fair values of restricted stock vested during the 13 weeks ended August 30, 2014 and August 31, 2013 were \$217 and \$229, respectively. Total fair values of restricted stock vested during the 39 weeks ended August 30, 2014 and August 31, 2013 were \$8,758 and \$6,779, respectively. The total fair value of nonvested restricted stock at August 30, 2014 was \$9,697.

We repurchased 1,095 and 838 restricted stock shares during the 13 weeks ended August 30, 2014 and August 31, 2013, respectively and 67,407 and 62,462 during the 39 weeks ended August 30, 2014 and August 31, 2013, respectively. The repurchases relate to statutory minimum tax withholding.

We have a Directors' Deferred Compensation plan that allows non-employee directors to defer all or a portion of their directors' compensation in a number of investment choices, including units representing shares of our common stock.

We also have a Key Employee Deferred Compensation Plan that allows key employees to defer a portion of their eligible compensation in a number of investment choices, including units, representing shares of our common stock. We provide a 10 percent match on deferred compensation invested into units, representing shares of our common stock. A summary of deferred compensation units as of August 30, 2014, and changes during the 39 weeks then ended is presented below:

	Non-employee		
	Directors	Employees	Total
Units outstanding November 30, 2013	312,680	61,288	373,968
Participant contributions	10,134	1,615	11,749
Company match contributions ¹	16,032	162	16,194
Payouts	(1,075)	(12,099)	(13,174)
Units outstanding August 30, 2014	337,771	50,966	388,737

¹ The non-employee directors' company match includes 15,019 deferred compensation units paid as discretionary awards to all non-employee directors in the third quarter of 2014.

Deferred compensation units are fully vested at the date of contribution.

Note 4: Earnings Per Share

A reconciliation of the common share components for the basic and diluted earnings per share calculations follows:

(Shares in thousands)	13 Weeks Ended		39 Weeks Ended	
	August 30, 2014	August 31, 2013	August 30, 2014	August 31, 2013
Weighted-average common shares basic	50,053	49,913	49,973	49,888
Equivalent shares from share-based compensations plans	1,244	1,214	1,269	1,214
Weighted-average common and common equivalent shares diluted	51,297	51,127	51,242	51,102

Basic earnings per share is calculated by dividing net income attributable to H.B. Fuller by the weighted-average number of common shares outstanding during the applicable period. Diluted earnings per share is based upon the weighted-average number of common and common equivalent shares outstanding during the applicable period. The difference between basic and diluted earnings per share is attributable to share-based compensation awards. We use the treasury stock method to calculate the effect of outstanding shares, which computes total employee proceeds as the sum of (a) the amount the employee must pay upon exercise of the award, (b) the amount of unearned share-based compensation costs attributed to future services and (c) the amount of tax benefits, if any, that would be credited to additional paid-in capital assuming exercise of the award. Share-based compensation awards for which total employee proceeds exceed the average market price over the applicable period have an antidilutive effect on earnings per share, and accordingly, are excluded from the calculation of diluted earnings per share.

Options to purchase 416,544 and 410,278 shares of common stock at a weighted-average exercise price of \$48.89 and \$48.93 for the 13 weeks and 39 weeks ended August 30, 2014, respectively, were excluded from the diluted earnings per share calculations because they were antidilutive. Options to purchase 449,466 shares of common stock at a weighted-average exercise price of \$39.58 for the 13 weeks and 39 weeks ended August 31, 2013 were excluded from the diluted earnings per share calculations because they were antidilutive.

Note 5: Accumulated Other Comprehensive Income (Loss)

The following table provides details of total comprehensive income (loss):

	13 Weeks Ended August 30, 2014				13 Weeks Ended August 31, 2013			
	H.B. Fuller Stockholders		Non-controlling Interests		H.B. Fuller Stockholders		Non-controlling Interests	
	Pretax	Tax	Net	Net	Pretax	Tax	Net	Net
Net income including non-controlling interests			\$ 3,987	\$ 97			\$ 28,269	\$ 92
Other comprehensive income (loss)				2				47
	\$ (9,346)		(9,346)	2	\$ (3,491)		(3,491)	47

Foreign currency translation adjustment ¹								
Reclassification to earnings:								
Defined benefit pension plans adjustment ²	1,658	(639)	1,019		3,054	(1,069)	1,985	
Interest rate swap ³	15	(4)	11		15	(4)	11	
Cash-flow hedges ³	62	(14)	48		194	(75)	119	
Other comprehensive income (loss)	\$ (7,611)	\$ (657)	(8,268)	2	\$ (228)	\$ (1,148)	(1,376)	47
Comprehensive income (loss)			\$ (4,281)	\$ 99			\$ 26,893	\$ 139

	39 Weeks Ended August 30, 2014				39 Weeks Ended August 31, 2013			
	H.B. Fuller Stockholders		Non-controlling Interests		H.B. Fuller Stockholders		Non-controlling Interests	
	Pretax	Tax	Net	Net	Pretax	Tax	Net	Net
Net income including non- controlling interests			\$ 39,095	\$ 264			\$ 74,875	\$ 308
Other comprehensive income (loss)								
Foreign currency translation adjustment ¹	\$ (10,173)		(10,173)	(1)	\$ (12,561)		(12,561)	8
Reclassification to earnings:								
Defined benefit pension plans adjustment ²	4,984	(1,926)	3,058		9,121	(3,195)	5,926	
Interest rate swap ³	43	(12)	31		43	(12)	31	
Cash-flow hedges ³	115	(35)	80		502	(194)	308	
Other comprehensive income (loss)	\$ (5,031)	\$ (1,973)	(7,004)	(1)	\$ (2,895)	\$ (3,401)	(6,296)	8
Comprehensive income			\$ 32,091	\$ 263			\$ 68,579	\$ 316

¹ Income taxes are not provided for foreign currency translation relating to permanent investments in international subsidiaries.

² Loss reclassified from AOCI into earnings as part of net periodic cost related to pension and other postretirement benefit plans is reported in cost of sales, SG&A and special charges.

³ Loss reclassified from AOCI into earnings is reported in other income (expense), net.

The components of accumulated other comprehensive income (loss) follow:

	August 30, 2014		
	Total	H.B. Fuller Stockholders	Non-controlling Interests
Foreign currency translation adjustment	\$ 39,694	\$ 39,705	\$ (11)
Defined benefit pension plans adjustment, net of taxes of \$63,284	(118,597)	(118,597)	
Interest rate swap, net of taxes of \$25	(63)	(63)	
Cash-flow hedges, net of taxes of \$35	(11)	(11)	
Accumulated other comprehensive income (loss)	\$ (78,977)	\$ (78,966)	\$ (11)

	November 30, 2013		
	Total	H.B. Fuller Stockholders	Non-controlling Interests
Foreign currency translation adjustment	\$ 49,871	\$ 49,878	\$ (7)
Defined benefit pension plans adjustment, net of taxes of \$65,210	(121,655)	(121,655)	
Interest rate swap, net of taxes of \$36	(94)	(94)	
Cash-flow hedges, net of taxes of \$57	(91)	(91)	
Accumulated other comprehensive income (loss)	\$ (71,969)	\$ (71,962)	\$ (7)

Note 6: Special Charges, net

The integration of the Forbo industrial adhesives business we acquired in March 2012 involves a significant amount of restructuring and capital investment to optimize the new combined entity. In addition, we are taking a series of actions in our existing EIMEA operating segment to improve the profitability and future growth prospects of this operating segment. We combined these two initiatives into a single project which we refer to as the Business Integration Project. During the 13 weeks ended August 30, 2014 and August 31, 2013, we incurred special charges, net of \$12,343 and \$12,775, respectively and \$37,615 and \$28,951 for the 39 weeks ended August 30, 2014 and August 31, 2013, respectively for costs related to the Business Integration Project.

The following table provides detail of special charges, net:

	13 Weeks Ended		39 Weeks Ended	
	August 30, 2014	August 31, 2013	August 30, 2014	August 31, 2013
Acquisition and transformation related costs	\$ 1,864	\$ 1,641	\$ 6,150	\$ 5,807
Workforce reduction costs	(55)	3,212	2,903	7,393
Facility exit costs	8,802	5,118	21,254	10,174
Other related costs	1,732	2,804	7,308	5,577
Special charges, net	\$ 12,343	\$ 12,775	\$ 37,615	\$ 28,951

Acquisition and transformation related costs of \$1,864 for the 13 weeks ended August 30, 2014 and \$1,641 for the 13 weeks ended August 31, 2013 include costs related to organization consulting, financial advisory and legal services necessary to integrate the Forbo industrial adhesives business into our existing operating segments. For the 39 weeks ended August 30, 2014 and August 31, 2013 we incurred acquisition and transformation related costs of \$6,150 and \$5,807, respectively. During the 13 weeks ended August 30, 2014, we recorded a reversal of workforce reduction costs of \$55, cash facility exit costs of \$7,340 and non-cash facility exit costs of \$1,462 and other incremental transformation related costs of \$1,732 including the cost of personnel directly working on the integration. During the 39 weeks ended August 30, 2014, we incurred workforce reduction costs of \$2,903, cash facility exit costs of \$16,623 and non-cash facility exit costs of \$4,631 and other incremental transformation related costs of \$7,308 including the cost of personnel directly working on the integration. During the 13 weeks and 39 weeks ended August 31, 2013, we incurred workforce reduction costs of \$3,212 and \$7,393, respectively, cash facility exit costs of \$3,262 and \$6,975, respectively, non-cash facility exit costs of \$1,856 and \$3,199, respectively and other incremental transformation related costs of \$2,804 and \$5,577, respectively including the cost of personnel directly working on the integration.

For the 39 weeks ended August 30, 2014, the activity in accrued compensation associated with the Business Integration Project, is as follows:

	Workforce Reduction Costs
Balance at November 30, 2013	\$ 18,057
Workforce reduction costs	2,903
Cash payments	(18,481)
Foreign currency translation adjustment	(161)
Balance at August 30, 2014	\$ 2,318

Of the \$2,318 in accrued workforce reduction costs at August 30, 2014, \$1,434 was included in accrued compensation and \$884 was included in other liabilities on our Condensed Consolidated Balance Sheets as this portion was not expected to be paid within the next year. The benefits were accrued based primarily on the formal severance plans in place for the various locations. The special charges are not allocated to our operating segments.

Note 7: Components of Net Periodic Cost (Benefit) related to Pension and Other Postretirement Benefit Plans

	13 Weeks Ended August 30, 2014 and August 31, 2013					
	Pension Benefits				Other Postretirement Benefits	
	U.S. Plans		Non-U.S. Plans		2014	2013
Net periodic cost (benefit):	2014	2013	2014	2013	2014	2013
Service cost	\$ 23	\$ 26	\$ 430	\$ 416	\$ 108	\$ 155
Interest cost	4,022	3,679	1,920	1,808	535	534
Expected return on assets	(5,967)	(5,680)	(2,735)	(2,302)	(1,185)	(932)
Amortization:						
Prior service cost	8	12	(1)	(1)	(942)	(1,033)
Actuarial (gain)/ loss	1,144	1,686	775	932	677	1,430
Net periodic cost (benefit)	\$ (770)	\$ (277)	\$ 389	\$ 853	\$ (807)	\$ 154

	39 Weeks Ended August 30, 2014 and August 31, 2013					
	Pension Benefits				Other Postretirement Benefits	
	U.S. Plans		Non-U.S. Plans		2014	2013
Net periodic cost (benefit):	2014	2013	2014	2013	2014	2013
Service cost	\$ 70	\$ 80	\$ 1,298	\$ 1,255	\$ 325	\$ 467
Interest cost	12,065	11,039	5,737	5,497	1,607	1,600
Expected return on assets	(17,900)	(17,040)	(8,161)	(7,002)	(3,556)	(2,794)
Amortization:						
Prior service cost	22	36	(3)	(3)	(2,828)	(3,101)
Actuarial (gain)/ loss	3,432	5,056	2,331	2,818	2,032	4,288
Net periodic cost (benefit)	\$ (2,311)	\$ (829)	\$ 1,202	\$ 2,565	\$ (2,420)	\$ 460

Note 8: Inventories

The composition of inventories follows:

	August 30, 2014	November 30, 2013
Raw materials	\$ 153,857	\$ 119,536
Finished goods	149,065	122,584
LIFO reserve	(21,657)	(20,583)

Total inventories	\$ 281,265	\$ 221,537
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Note 9: Financial Instruments

As a result of being a global enterprise, our earnings, cash flows and financial position are exposed to foreign currency risk from foreign currency denominated receivables and payables. These items are denominated in various foreign currencies, including the Euro, British pound sterling, Canadian dollar, Chinese renminbi, Japanese yen, Australian dollar, Argentine peso, Brazilian real, Colombian peso, Mexican peso, Turkish lira, Egyptian pound, Indian rupee and Malaysian ringgit.

Our objective is to balance, where possible, local currency denominated assets to local currency denominated liabilities to have a natural hedge and minimize foreign exchange impacts. We take steps to minimize risks from foreign currency exchange rate fluctuations through normal operating and financing activities and, when deemed appropriate, through the use of derivative instruments. We do not enter into any speculative positions with regard to derivative instruments.

We enter into derivative contracts with a group of investment grade multinational commercial banks. We evaluate the credit quality of each of these banks on a periodic basis as warranted.

Effective March 5, 2012, we entered into a cross-currency swap agreement to convert a notional amount of \$98,738 of foreign currency denominated intercompany loans into US dollars. The swap matures in 2015. As of August 30, 2014, the fair value of the swap was an asset of \$190 and was included in other assets in the Condensed Consolidated Balance Sheets. The swap was designated as a cash-flow hedge for accounting treatment. The lesser amount between the cumulative change in the fair value of the actual swap and the cumulative change in the fair value of hypothetical swap is recorded in accumulated other comprehensive income (loss) in the Condensed Consolidated Balance Sheets. The difference between the cumulative change in the fair value of the actual swap and the cumulative change in the fair value of hypothetical swap is recorded as other income (expense), net in the Condensed Consolidated Statements of Income. In a perfectly effective hedge relationship, the two fair value calculations would exactly offset each other. Any difference in the calculation represents hedge ineffectiveness. The ineffectiveness calculations as of August 30, 2014 resulted in additional pretax loss of \$37 year-to-date as the change in fair value of the cross-currency swap was less than the change in the fair value of the hypothetical swap. The amount in accumulated other comprehensive income (loss) related to the cross-currency swap was a loss of \$11 at August 30, 2014. The estimated net amount of the existing loss that is reported in accumulated other comprehensive income (loss) at August 30, 2014 that is expected to be reclassified into earnings within the next twelve months is \$11. At August 30, 2014, we believe the original forecasted transactions will occur, therefore, we do not believe any gains or losses will be reclassified into earnings as a result of the discontinuance of this cash flow hedge.

The following table summarizes the cross-currency swap outstanding as of August 30, 2014:

	Fiscal Year of Expiration	Interest Rate	Notional Value	Fair Value
Pay EUR	2015	4.30%	\$ 98,738	\$ 190
Receive USD		4.45%		

Except for the cross currency swap agreement listed above, foreign currency derivative instruments outstanding are not designated as hedges for accounting purposes. The gains and losses related to mark-to-market adjustments are recognized as other income or expense in the income statement during the periods in which the derivative instruments are outstanding. See Note 14 to Condensed Consolidated Financial Statements for fair value amounts of these derivative instruments.

As of August 30, 2014, we had forward foreign currency contracts maturing between September 2, 2014 and November 25, 2014. The mark-to-market effect associated with these contracts, on a net basis, was a gain of \$1,576 at August 30, 2014. These gains were largely offset by the underlying transaction gains and losses resulting from the foreign currency exposures for which these contracts relate.

We have interest rate swap agreements to convert \$75,000 of our Senior Notes to variable interest rates. The change in fair value of the Senior Notes, attributable to the change in the risk being hedged, was a liability of \$4,702 at August 30, 2014 and was included in long-term debt in the Condensed Consolidated Balance Sheets. The fair values of the swaps in total were an asset of \$4,628 at August 30, 2014 and were included in other assets in the Condensed

Consolidated Balance Sheets. The swaps were designated for hedge accounting treatment as fair value hedges. The changes in the fair value of the swap and the fair value of the Senior Notes attributable to the change in the risk being hedged are recorded as other income (expense), net in the Condensed Consolidated Statements of Income. In a perfectly effective hedge relationship, the two fair value calculations would exactly offset each other. Any difference in the calculation represents hedge ineffectiveness. The calculation as of August 30, 2014 resulted in additional pretax gain of \$61 year-to-date as the fair value of the interest rate swaps increased by more than the change in the fair value of the Senior Notes attributable to the change in the risk being hedged.

Concentrations of credit risk with respect to trade accounts receivable are limited due to the large number of entities in the customer base and their dispersion across many different industries and countries. As of August 30, 2014, there were no significant concentrations of credit risk.

Note 10: Commitments and Contingencies

Environmental Matters: From time to time, we become aware of compliance matters relating to, or receive notices from, federal, state or local entities regarding possible or alleged violations of environmental, health or safety laws and regulations. We review the circumstances of each individual site, considering the number of parties involved, the level of potential liability or contribution of us relative to the other parties, the nature and magnitude of the hazardous substances involved, the method and extent of remediation, the estimated legal and consulting expense with respect to each site and the time period over which any costs would likely be incurred. Also, from time to time, we are identified as a potentially responsible party (PRP) under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) and/or similar state laws that impose liability for costs relating to the clean up of contamination resulting from past spills, disposal or other release of hazardous substances. We are also subject to similar laws in some of the countries where current and former facilities are located. Our environmental, health and safety department monitors compliance with applicable laws on a global basis. To the extent we can reasonably estimate the amount of our probable liabilities for environmental matters, we establish a financial provision.

Currently we are involved in various environmental investigations, clean up activities and administrative proceedings and lawsuits. In particular, we are currently deemed a PRP in conjunction with numerous other parties, in a number of government enforcement actions associated with landfills and/or hazardous waste sites. As a PRP, we may be required to pay a share of the costs of investigation and clean up of these sites. In addition, we are engaged in environmental remediation and monitoring efforts at a number of current and former operating facilities. While uncertainties exist with respect to the amounts and timing of the ultimate environmental liabilities, based on currently available information, we have concluded that these matters, individually or in the aggregate, will not have a material adverse effect on our results of operations, financial condition or cash flow.

Other Legal Proceedings: From time to time and in the ordinary course of business, we are a party to, or a target of, lawsuits, claims, investigations and proceedings, including product liability, personal injury, contract, patent and intellectual property, environmental, health and safety, tax and employment matters. While we are unable to predict the outcome of these matters, we have concluded, based upon currently available information, that the ultimate resolution of any pending matter, individually or in the aggregate, including the asbestos litigation described in the following paragraphs, will not have a material adverse effect on our results of operations, financial condition or cash flow.

We have been named as a defendant in lawsuits in which plaintiffs have alleged injury due to products containing asbestos manufactured more than 30 years ago. The plaintiffs generally bring these lawsuits against multiple defendants and seek damages (both actual and punitive) in very large amounts. In many cases, plaintiffs are unable to demonstrate that they have suffered any compensable injuries or that the injuries suffered were the result of exposure to products manufactured by us. We are typically dismissed as a defendant in such cases without payment. If the plaintiff presents evidence indicating that compensable injury occurred as a result of exposure to our products, the case is generally settled for an amount that reflects the seriousness of the injury, the length, intensity and character of exposure to products containing asbestos, the number and solvency of other defendants in the case, and the jurisdiction in which the case has been brought.

A significant portion of the defense costs and settlements in asbestos-related litigation is paid by third parties, including indemnification pursuant to the provisions of a 1976 agreement under which we acquired a business from a third party. Currently, this third party is defending and paying settlement amounts, under a reservation of rights, in most of the asbestos cases tendered to the third party.

In addition to the indemnification arrangements with third parties, we have insurance policies that generally provide coverage for asbestos liabilities (including defense costs). Historically, insurers have paid a significant portion of our defense costs and settlements in asbestos-related litigation. However, certain of our insurers are insolvent. We have entered into cost-sharing agreements with our insurers that provide for the allocation of defense costs and under certain circumstances, settlements and judgments, in asbestos-related lawsuits. Under these agreements, we are required under certain circumstances to fund a share of settlements and judgments allocable to years in which the responsible insurer is insolvent. In addition, to delineate our rights under certain insurance policies, in October 2009, we commenced a declaratory judgment action against one of our insurers in the United States District Court

for the District of Minnesota. Additional insurers have been brought into the action to address issues related to the scope of their coverage. We recently entered into a settlement agreement with the defendant insurers in this case that provided for the allocation of defense costs and settlements in the future. The allocation under the settlement agreement depends on the outcome of an appeal of two issues to the United States Eighth Circuit Court of Appeals.

A summary of the number of and settlement amounts for asbestos-related lawsuits and claims is as follows:

(\$ in thousands)	39 Weeks Ended		3 Years Ended
	August 30, 2014	August 31, 2013	November 30, 2013
Lawsuits and claims settled	4	3	22
Settlement amounts	\$ 190	\$ 74	\$ 1,448
Insurance payments received or expected to be received	\$ 155	\$ 8	\$ 1,087

We do not believe that it would be meaningful to disclose the aggregate number of asbestos-related lawsuits filed against us because relatively few of these lawsuits are known to involve exposure to asbestos-containing products that we manufactured. Rather, we believe it is more meaningful to disclose the number of lawsuits that are settled and result in a payment to the plaintiff. To the extent we can reasonably estimate the amount of our probable liabilities for pending asbestos-related claims, we establish a financial provision and a corresponding receivable for insurance recoveries.

Based on currently available information, we have concluded that the resolution of any pending matter, including asbestos-related litigation, individually or in the aggregate, will not have a material adverse effect on our results of operations, financial condition or cash flow.

Note 11: Operating Segments

We are required to report segment information in the same way that we internally organize our business for assessing performance and making decisions regarding allocation of resources. We evaluate the performance of each of our operating segments based on segment operating income, which is defined as gross profit less selling, general and administrative (SG&A) expenses. Segment operating income excludes special charges, net. Corporate expenses are fully allocated to each operating segment. Inter-segment revenues are recorded at cost plus a markup for administrative costs. Operating results of each segment are regularly reviewed by our chief operating decision maker to make decisions about resources to be allocated to the segments and assess their performance.

Through the third quarter of 2013, our business was reported in five operating segments: North America Adhesives, EIMEA (Europe, India, Middle East and Africa), Latin America Adhesives, Asia Pacific and Construction Products. Changes in our management reporting structure during the fourth quarter of 2013 required us to conduct an operating segment assessment in accordance with ASC Topic 280 Segment Reporting, to determine our reportable segments. As a result of this assessment, we now have four reportable segments: Americas Adhesives, EIMEA, Asia Pacific and Construction Products. Prior periods have been restated to reflect our new operating segments.

The tables below provide certain information regarding net revenue and segment operating income of each of our operating segments:

	13 Weeks Ended	
	August 30, 2014	August 31, 2013

	Trade Revenue	Inter- Segment Revenue	Segment Operating Income	Trade Revenue	Inter- Segment Revenue	Segment Operating Income
Americas Adhesives	\$ 237,657	\$ 6,844	\$ 21,854	\$ 233,515	\$ 6,690	\$ 34,871
EIMEA	177,478	4,695	3,139	180,753	3,400	14,199
Asia Pacific	63,847	4,222	897	59,454	2,708	1,564
Construction Products	47,783	309	2,485	40,857	517	3,269
Total	\$ 526,765		\$ 28,375	\$ 514,579		\$ 53,903

	39 Weeks Ended					
	August 30, 2014			August 31, 2013		
	Trade Revenue	Inter-Segment Revenue	Segment Operating Income	Trade Revenue	Inter-Segment Revenue	Segment Operating Income
Americas Adhesives	\$ 684,308	\$ 18,297	\$ 78,949	\$ 670,019	\$ 16,766	\$ 92,621
EIMEA	538,693	13,228	21,735	543,448	8,869	34,817
Asia Pacific	196,842	10,800	4,443	182,148	9,987	6,331
Construction Products	136,937	1,272	5,777	117,822	732	8,680
Total	\$ 1,556,780		\$ 110,904	\$ 1,513,437		\$ 142,449

Reconciliation of segment operating income to income from continuing operations before income taxes and income from equity method investments:

	13 Weeks Ended		39 Weeks Ended	
	August 30, 2014	August 31, 2013	August 30, 2014	August 31, 2013
Segment operating income	\$ 28,375	\$ 53,903	\$ 110,904	\$ 142,449
Special charges, net	(12,343)	(12,775)	(37,615)	(28,951)
Other income (expense), net	(289)	(1,046)	(1,543)	(2,482)
Interest expense	(5,292)	(4,579)	(14,178)	(14,790)
Income from continuing operations before income taxes and income from equity method investments	\$ 10,451	\$ 35,503	\$ 57,568	\$ 96,226

Note 12: Income Taxes

As of August 30, 2014, we had a \$4,614 liability recorded under FASB ASC 740, Income Taxes for gross unrecognized tax benefits (excluding interest). As of August 30, 2014, we had accrued \$592 of gross interest relating to unrecognized tax benefits. During the third quarter of 2014 our recorded liability for gross unrecognized tax benefits decreased by \$681. The increase to our overall effective tax rate is primarily due to a change in the jurisdictional mix of annual forecasted earnings.

Note 13: Goodwill

A summary of goodwill activity for the first nine months of 2014 is presented below:

Balance at November 30, 2013	\$ 263,103
Plexbond Quimica, S.A. acquisition (Note 2)	151
Currency impact	(4,545)
Balance at August 30, 2014	\$ 258,709

Note 14: Fair Value Measurements

The following tables present information about our financial assets and liabilities that are measured at fair value on a recurring basis as of August 30, 2014 and November 30, 2013, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value. The hierarchy is broken down into three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs include data points that are observable such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs (other than quoted prices) such as interest rates and yield curves that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

Description	August 30, 2014	Fair Value Measurements		
		Level 1	Using: Level 2	Level 3
Assets:				
Marketable securities	\$ 1,271	\$ 1,271	\$	\$
Derivative assets	3,240		3,240	
Cash-flow hedges	190		190	
Interest rate swaps	4,628		4,628	
Liabilities:				
Derivative liabilities	\$ 1,664	\$	\$ 1,664	\$
Contingent consideration liability, continuing operations	341			341
Contingent consideration liability, discontinued operations	5,000			5,000

Description	November 30, 2013	Fair Value Measurements		
		Level 1	Using: Level 2	Level 3
Assets:				
Marketable securities	\$ 28,786	\$ 28,786	\$	\$
Derivative assets	533		533	
Interest rate swaps	5,930		5,930	
Liabilities:				
Derivative liabilities	\$ 1,399	\$	\$ 1,399	\$
Cash-flow hedges	4,801		4,801	
Contingent consideration liability, continuing operations	566			566
Contingent consideration liability, discontinued operations	5,000			5,000

Note 15: Share Repurchase Program

On September 30, 2010, the Board of Directors authorized a share repurchase program of up to \$100,000 of our outstanding common shares. Under the program, we are authorized to repurchase shares for cash on the open market, from time to time, in privately negotiated transactions or block transactions, or through an accelerated repurchase agreement. The timing of such repurchases is dependent on price, market conditions and applicable regulatory requirements. Upon repurchase of the shares, we reduced our common stock for the par value of the shares with the excess being applied against additional paid-in capital.

We did not repurchase any shares during the third quarter of 2014. During the third quarter of 2013 we repurchased shares under this program, with an aggregate value of \$4,893. Of this amount, \$125 reduced common stock and \$4,768 reduced additional paid-in capital. During the first nine months of 2014 we repurchased shares under this program, with an aggregate value of \$12,254. Of this amount, \$250 reduced common stock and \$12,004 reduced additional paid-in capital. During the first nine months of 2013 we repurchased shares under this program, with an aggregate value of \$9,668. Of this amount, \$250 reduced common stock and \$9,418 reduced additional paid-in capital.

Note 16: Redeemable Non-Controlling Interest

We account for the non-controlling interest in H.B. Fuller Kimya San. Tic A.S. (HBF Kimya) as a redeemable non-controlling interest because both the non-controlling shareholder and H.B. Fuller have an option, exercisable beginning August 1, 2018, to require the redemption of the shares owned by the non-controlling shareholder at a price

determined by a formula based on 24 months trailing EBITDA. Since the option makes the redemption of the

non-controlling ownership shares of HBF Kimya outside of our control, these shares are classified as a redeemable non-controlling interest in temporary equity in the Condensed Consolidated Balance Sheets. The non-controlling shareholder is entitled to increase his ownership by 1 percent per year for 5 years up to a maximum of 13 percent ownership based on the achievement of profitability targets in each year. The option is subject to a minimum price of 3,500. The redemption value of the option, if it were currently redeemable, is estimated to be 3,500.

HBF Kimya's results of operations are consolidated in our financial statements. Both the non-controlling interest and the accretion adjustment to redemption value are included in net income attributable to non-controlling interests in the Condensed Consolidated Statements of Income and in the carrying value of the redeemable non-controlling interest on the Condensed Consolidated Balance Sheets. As of August 30, 2014 the redeemable non-controlling interest was:

Balance at November 30, 2013	\$ 4,717
Net income attributed to redeemable non-controlling interest	242
Foreign currency translation adjustment	(169)
Balance at August 30, 2014	\$ 4,790

Note 17: Out of Period Adjustments

During the third quarter of 2014, we recorded book to physical inventory adjustments in the Americas Adhesives manufacturing locations which have implemented our new ERP system. We determined that a portion of these differences originated in the second quarter of 2014. This error resulted in an understatement of cost of sales in the second quarter of 2014 and a corresponding overstatement of cost of sales in the third quarter in the amount of \$1,646 and a corresponding overstatement of income taxes in the second quarter of 2014 and understatement of income taxes in the third quarter in the amount of \$629 in our Condensed Consolidated Statements of Income.

Also during the third quarter of 2014, we corrected tax benefits recorded in the second quarter of 2014 which should have been recorded as tax expenses. This error resulted in an understatement of income taxes in the second quarter of 2014 and overstatement of income taxes in the third quarter in the amount of \$1,010 in our Condensed Consolidated Statements of Income.

We evaluated the effects of these out of period adjustments on both the second quarter and the third quarter, in accordance with the guidance in ASC Topic 250-10-S99-1, Assessing Materiality and concluded that neither is materially misstated.

Note 18: Subsequent Event

On September 3, 2014 we acquired ProSpec® Construction Products from Bonsal American, a subsidiary of Oldcastle, Inc., the North American holding company of CRH plc for approximately \$26 million. ProSpec® is a provider of tile and stone installation products and strengthens our customer profile in the southeastern and western regions of the United States. The acquisition will be recorded in our Construction Products operating segment.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

The Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with the MD&A included in our Annual Report on Form 10-K for the year ended November 30, 2013 for important background information related to our business.

Net revenue in the third quarter of 2014 increased 2.4 percent over the third quarter of 2013. Sales volume increased 2.0 percent and product pricing decreased 0.7 percent compared to last year. A stronger Euro and Australian dollar offset by weaker Canadian dollar, Egyptian pound and Turkish lira compared to the U.S. dollar, for the third quarter of 2014 compared to the third quarter of 2013 were the main drivers of the positive 1.1 percent currency effect. Gross profit margin decreased 430 basis points due to slightly lower selling prices, less profitable sales mix and production inefficiencies related to the Business Integration Project, ERP system implementation and startup of supply chain activities to support new business. We incurred special charges, net of \$12.3 million for costs related to the Business Integration Project in the third quarter of 2014 and \$12.8 million in the third quarter of 2013.

Net income attributable to H.B. Fuller in the third quarter of 2014 was \$4.0 million as compared to \$28.3 million in the third quarter of 2013. The third quarter of 2013 net income attributable to H.B. Fuller includes \$1.2 million of income from discontinued operations, net of tax. On a diluted earnings per share basis, the third quarter of 2014 was \$0.08 per share as compared to \$0.55 per share for the same period last year.

Net revenue in the first nine months of 2014 increased 2.9 percent over the first nine months of 2013. Sales volume increased 3.2 percent and product pricing decreased 0.6 percent compared to last year. A stronger Euro offset by weaker Australian dollar, Canadian dollar, Indian rupee, Egyptian pound and Turkish lira compared to the U.S. dollar, for the first nine months of 2014 compared to the first nine months of 2013 were the main drivers of the positive 0.3 percent currency effect. Gross profit margin decreased 230 basis points due to slightly lower selling prices, less profitable sales mix and production inefficiencies related to the Business Integration Project, ERP system implementation and startup of supply chain activities to support new business. We incurred special charges, net of \$37.6 million for costs related to the Business Integration Project in the first nine months of 2014 and \$29.0 million in the first nine months of 2013.

Net income attributable to H.B. Fuller in the first nine months of 2014 was \$39.1 million as compared to \$74.9 million in the first nine months of 2013. The 2013 net income attributable to H.B. Fuller includes \$1.2 million of income from discontinued operations, net of tax. On a diluted earnings per share basis, the first nine months of 2014 was \$0.76 per share as compared to \$1.47 per share for the same period last year.

Results of Operations

Net revenue:

(\$ in millions)	13 Weeks Ended			39 Weeks Ended		
	August 30, 2014	August 31, 2013	2014 vs 2013	August 30, 2014	August 31, 2013	2014 vs 2013
Net revenue	\$ 526.8	\$ 514.6	2.4%	\$ 1,556.8	\$ 1,513.4	2.9%

We review variances in net revenue in terms of changes related to product pricing, sales volume, changes in foreign currency exchange rates and acquisitions. The pricing/sales volume variance and small acquisitions including Plexbond Quimica, S.A., which was acquired in the third quarter of 2013 are viewed as organic growth. The following

table shows the net revenue variance analysis for the third quarter and first nine months of 2014 compared to the same periods in 2013:

	13 Weeks Ended August 30, 2013 vs August 31, 2013	19 Weeks Ended August 30, 2014 vs August 31, 2013
Product pricing	(0.7%)	(0.6%)
Sales volume	2.0%	3.2%
Currency	1.1%	0.3%
	2.4%	2.9%

Organic sales growth, which we define as the combined variances from product pricing and sales volume was 1.3 percent in the third quarter of 2014 compared to the third quarter of 2013. Sales volume increased 2.0 percent and product pricing was 0.7 percent lower compared to last year. The 1.3 percent organic sales growth in the third quarter of 2014 was driven by 17.0 percent growth in Construction Products, 7.0 percent growth in Asia Pacific and 2.0 percent growth in Americas Adhesives. The majority of the currency impact was driven by a stronger Euro offset by weaker Australian dollar, Canadian dollar, Egyptian pound and Turkish lira compared to the U.S. dollar.

Organic sales growth was 2.6 percent in the first nine months of 2014 compared to the first nine months of 2013. Sales volume increased 3.2 percent offset by a 0.6 percent decrease in product pricing compared to last year. The 2.6 percent organic sales growth in 2014 was driven by 16.2 percent growth in Construction Products, 10.6 percent growth in Asia Pacific and 2.5 percent growth in Americas Adhesives. The majority of the currency impact was driven by a stronger Euro offset by weaker Australian dollar, Canadian dollar, Indian rupee, Egyptian pound and Turkish lira compared to the U.S. dollar.

Cost of sales:

(\$ in millions)	13 Weeks Ended			39 Weeks Ended		
	August 30, 2014	August 31, 2013	2014 vs 2013	August 30, 2014	August 31, 2013	2014 vs 2013
Raw materials	\$ 307.1	\$ 292.0	5.2%	\$ 892.9	\$ 859.1	3.9%
Other manufacturing costs	94.5	78.1	21.1%	263.0	229.8	14.4%
Cost of sales	\$ 401.6	\$ 370.1	8.5%	\$ 1,155.9	\$ 1,088.9	6.2%
Percent of net revenue	76.2%	71.9%		74.3%	72.0%	

Cost of sales in the third quarter of 2014 compared to third quarter of 2013 increased 8.5 percent. Raw material cost as a percentage of net revenue increased 150 basis points compared to last year due to slightly lower selling prices, less profitable sales mix and an out of period adjustment related to the prior quarter that resulted in higher raw material costs in the current quarter. Other manufacturing costs as a percentage of revenue increased 280 basis points compared to last year mainly due to production inefficiencies related to the Business Integration Project, ERP system implementation and startup of supply chain activities to support new business. As a result, cost of sales as a percentage of net revenue increased 430 basis points in the third quarter of 2014 compared to the same period last year.

Cost of sales in the first nine months of 2014 compared to first nine months of 2013 increased 6.2 percent. Raw material cost as a percentage of net revenue increased 60 basis points compared to the same period last year. Other manufacturing costs as a percentage of revenue increased 170 basis points compared to last year mainly due to production inefficiencies related to the Business Integration Project, ERP system implementation and start-up of supply chain activities to support new business. As a result, cost of sales as a percentage of net revenue increased 230 basis points in the first nine months of 2014 compared to the same period last year.

Gross profit:

(\$ in millions)	13 Weeks Ended			39 Weeks Ended		
	August 30, 2014	August 31, 2013	2014 vs 2013	August 30, 2014	August 31, 2013	2014 vs 2013
Gross profit	\$ 125.2	\$ 144.5	(13.4%)	\$ 400.9	\$ 424.5	(5.6%)

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Percent of net revenue	23.8%	28.1%	25.7%	28.0%
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Gross profit in the third quarter of 2014 decreased \$19.3 million and gross profit margin decreased 430 basis points compared to the third quarter of 2013. Costs associated with the implementation of our ERP system and production inefficiencies related to the Business Integration Project were the primary reason for the decrease in gross profit.

Gross profit in the first nine months of 2014 decreased by \$23.6 million and gross profit margin decreased by 230 basis points compared to the first nine months of 2013. Costs associated with the implementation of our ERP system and production inefficiencies related to the Business Integration Project were the primary reason for the decrease in gross profit.

Selling, general and administrative (SG&A) expenses:

(\$ in millions)	13 Weeks Ended			39 Weeks Ended		
	August 30, 2014	August 31, 2013	2014 vs 2013	August 30, 2014	August 31, 2013	2014 vs 2013
SG&A	\$ 96.8	\$ 90.6	6.8%	\$ 290.0	\$ 282.1	2.8%
Percent of net revenue	18.4%	17.6%		18.6%	18.6%	

SG&A expenses for the third quarter of 2014 increased \$6.2 million or 6.8 percent compared to the third quarter of 2013. The 80 basis point increase in SG&A expense as a percentage of net revenue was driven by \$4.3 million of costs related to the implementation of our ERP system.

SG&A expenses for the first nine months of 2014 increased \$7.9 million or 2.8 percent compared to the first nine months of 2013. Although SG&A expense as a percentage of net revenue was flat, 2014 contains \$9.2 million of costs related to the implementation of our ERP system.

We make SG&A expense plans at the beginning of each fiscal year and barring significant changes in business conditions or our outlook for the future, we maintain these spending plans for the entire year. Management routinely monitors our SG&A spending relative to these fiscal year plans for each operating segment and for the company overall. We feel it is important to maintain a consistent spending program in this area as many of the activities within the SG&A category such as the sales force, technology development, and customer service are critical elements of our business strategy. For the current year we planned SG&A expenses to increase relative to last year by an amount slightly less than our expected growth in net revenue.

Special charges, net:

(\$ in millions)	13 Weeks Ended			39 Weeks Ended		
	August 30, 2014	August 31, 2013	2014 vs 2013	August 30, 2014	August 31, 2013	2014 vs 2013
Special charges, net	\$ 12.3	\$ 12.8	(3.4%)	\$ 37.6	\$ 29.0	29.9%

The following table provides detail of special charges, net:

(\$ in millions)	13 Weeks Ended		39 Weeks Ended	
	August 30, 2014	August 31, 2013	August 30, 2014	August 31, 2013
Acquisition and transformation related costs	\$ 1.9	\$ 1.6	\$ 6.1	\$ 5.8
Workforce reduction costs	(0.1)	3.2	2.9	7.4
Facility exit costs	8.8	5.2	21.3	10.2
Other related costs	1.7	2.8	7.3	5.6
Special charges, net	\$ 12.3	\$ 12.8	\$ 37.6	\$ 29.0

The integration of the industrial adhesives business we acquired in March 2012 involves a significant amount of restructuring and capital investment to optimize the new combined entity. In addition to this acquisition, we announced our intentions to take a series of actions in our existing EIMEA operating segment to improve the

profitability and future growth prospects of this operating segment. We combined these two initiatives into a single project which we refer to as the Business Integration Project . During the 13 weeks ended August 30, 2014 and August 31, 2013, we incurred special charges, net of \$12.3 million and \$12.8 million respectively, for costs related to the Business Integration Project. During the 39 weeks ended August 30, 2014 and August 31, 2013, we incurred special charges, net of \$37.6 million and \$29.0 million respectively, for costs related to the Business Integration Project.

Acquisition and transformation related costs of \$1.9 million for the 13 weeks ended August 30, 2014 and \$1.6 million for the 13 weeks ended August 31, 2013 include costs related to organization consulting, financial advisory and legal services necessary to integrate the acquired business into our existing operating segments. During the 13 weeks ended August 30, 2014, we recorded a reversal of workforce reduction costs of \$0.1 million, cash facility exit costs of \$7.3 million, non-cash facility exit costs of \$1.5 million and other incremental transformation related costs of \$1.7 million including the cost of personnel directly working on the integration. During the 13 weeks ended August 31, 2013, we incurred workforce reduction costs of \$3.2 million, cash facility exit costs of \$3.3 million, non-cash facility exit costs of \$1.9 million and other incremental transformation related costs of \$2.8 million including the cost of personnel directly working on the integration.

Acquisition and transformation related costs of \$6.1 million for the 39 weeks ended August 30, 2014 and \$5.8 million for the 39 weeks ended August 31, 2013 include costs related to organization consulting, financial advisory and legal services necessary to integrate the acquired business into our existing operating segments. During the 39 weeks ended August 30, 2014, we incurred workforce reduction costs of \$2.9 million, cash facility exit costs of \$16.6 million, non-cash facility exit costs of \$4.7 million and other incremental transformation related costs of \$7.3 million including the cost of personnel directly working on the integration. During the 39 weeks ended August 31, 2013, we incurred workforce reduction costs of \$7.4 million, cash facility exit costs of \$7.0 million, non-cash facility exit costs of \$3.2 million and other incremental transformation related costs of \$5.6 million including the cost of personnel directly working on the integration.

We present operating segment information consistent with how we organize our business internally, assess performance and make decisions regarding the allocation of resources. Segment operating income is defined as gross profit less selling, general and administrative expenses. Because this definition excludes special charges, we have not allocated special charges to the operating segments or included them in Management's Discussion & Analysis of operating segment results. For informational purposes only, the following table provides the special charges, net attributable to each operating segment for the periods presented:

(\$ in millions)	13 Weeks Ended		39 Weeks Ended	
	August 30, 2014	August 31, 2013	August 30, 2014	August 31, 2013
Americas Adhesives	\$ 0.4	\$ 2.3	\$ 1.7	\$ 5.9
EIMEA	11.0	10.4	32.7	21.3
Asia Pacific	0.5	(0.2)	1.9	0.3
Company-wide	0.4	0.3	1.3	1.5
Special Charges, net	\$ 12.3	\$ 12.8	\$ 37.6	\$ 29.0

The benefits of the Business Integration Project are expected to be substantial. We have plans to create annual cash cost savings and other cash pretax profit improvement benefits aggregating to \$90.0 million when the various integration activities are complete. The Business Integration Project activities were expected to improve the EBITDA margin of the global business from just under 11 percent in 2011 to a target level of 15 percent by 2015. The achievement of the cost savings will be delayed due to project delays and higher than expected implementation costs. We now believe that the 15 percent EBITDA margin goal will be achieved in 2016 or shortly thereafter.

We estimated the total costs of the Business Integration Project to be approximately \$125.0 million. Primarily due to delays in completing the EIMEA portion of the project, we expect total project costs will exceed this estimate by approximately 25 percent. The following table provides detail of costs incurred inception-to-date as of August 30, 2014 for the Business Integration Project:

(\$ in millions)	Costs Incurred Inception-to-Date as of August 30, 2014	
Acquisition and transformation related costs	\$	40.5
Work force reduction costs		40.8
Cash facility exit costs		29.4
Non-cash facility exit costs		14.0
Other related costs		18.0
Business Integration Project	\$	142.7

The costs associated with the acquisition integration and the cash costs of the restructuring are incremental cash outlays that will be funded with existing cash and cash generated from operations. Non-cash costs are primarily related to accelerated depreciation of long-lived assets.

From the inception of the project we have focused on three key metrics which track the bulk of the Business Integration Project cost savings and profit improvement objectives: (1) cost savings achieved through workforce reductions, (2) cost reductions achieved through facility closures and consolidation and (3) the EBITDA margin of the business relative to our expected trend over the timeframe of the project. Since the project commenced over two years ago many changes have occurred in the project and within the underlying business. These changes make it difficult to accurately measure the cost savings according to the original metrics that we established. Therefore, going forward we will focus on the EBITDA margin goal of 15 percent as the performance metric for this project. For the quarter ended August 30, 2014 and August 31, 2013, we achieved EBITDA margin of 8.6 percent and 13.3 percent, respectively.

Other income (expense), net:

(\$ in millions)	13 Weeks Ended			39 Weeks Ended		
	August 30, 2014	August 31, 2013	2014 vs 2013	August 30, 2014	August 31, 2013	2014 vs 2013
Other income (expense), net	\$ (0.3)	\$ (1.0)	NMP	\$ (1.5)	\$ (2.5)	NMP

NMP = Non-meaningful percentage

Other income (expense), net in the third quarter of 2014 included \$0.5 million of currency translation and re-measurement losses offset by \$0.1 million of interest income and \$0.1 million of gains on disposal of fixed assets. Other income (expense), net in the third quarter of 2013 included \$0.9 million of currency translation and re-measurement losses and \$0.3 million of net financing costs offset by \$0.2 million of interest income.

For the first nine months of 2014, other income (expense), net included \$2.4 million of currency translation and re-measurement losses offset by \$0.5 million of net financing income, \$0.3 million of interest income and \$0.1 million of gains on disposal of fixed assets. Other income (expense), net in the first nine months of 2013 included \$2.5 million of currency translation and re-measurement losses and \$0.6 million of net financing costs offset by \$0.6 million of interest income.

Interest expense:

(\$ in millions)	13 Weeks Ended			39 Weeks Ended		
	August 30, 2014	August 31, 2013	2014 vs 2013	August 30, 2014	August 31, 2013	2014 vs 2013
Interest expense	\$ 5.3	\$ 4.6	15.6%	\$ 14.2	\$ 14.8	(4.1%)

Interest expense in the third quarter of 2014 as compared to the same period last year was higher due to higher average debt balances, and lower capitalized interest related to the Business Integration Project and the implementation of our ERP system, offset by lower average interest rates. We capitalized interest expense of \$0.5 million in the third quarter of 2014 as compared to \$0.6 million in the same period last year.

Interest expense for the first nine months of 2014 as compared to same period last year was lower due to higher capitalized interest related to the Business Integration Project and the implementation of our ERP system, offset by higher average debt balances. We capitalized interest expense of \$2.5 million for the first nine months of 2014 as

compared to \$1.0 million through the same period last year.

Income taxes:

(\$ in millions)	13 Weeks Ended			39 Weeks Ended		
	August 30, 2014	August 31, 2013	2014 vs 2013	August 30, 2014	August 31, 2013	2014 vs 2013
Income taxes	\$ 8.0	\$ 10.3	(21.9%)	\$ 23.4	\$ 28.3	(17.2%)
Effective tax rate	76.9%	29.0%		40.7%	29.4%	

Income tax expense of \$8.0 million in the third quarter of 2014 includes \$0.8 million of discrete tax benefits and \$1.4 million of tax benefits relating to the special charges for costs related to the Business Integration Project. Excluding the discrete benefits and the effects of items included in special charges, the overall effective tax rate was 44.7 percent. The increase to the overall effective tax rate in the third quarter is primarily due to a change in the jurisdictional mix of annual forecasted earnings, the impact of recognizing this change in the current quarter and an out of period adjustment related to the prior quarter that resulted in higher income tax expense in the current quarter. Without discrete tax benefits of \$1.3 million and the impact of costs related to the Business Integration Project in the third quarter of 2013, the overall effective tax rate was 29.8 percent.

Income tax expense of \$23.4 million in the first nine months of 2014 includes \$1.8 million of discrete tax benefits and \$5.3 million of tax benefits relating to the special charges for costs related to the Business Integration Project. Excluding the discrete benefits and the effects of items included in special charges, the overall effective tax rate was 32.1 percent. The increase to the overall effective tax rate is primarily due to a change in the jurisdictional mix of annual forecasted earnings. Without discrete tax benefits of \$2.8 million and the impact of costs related to the Business Integration Project in the first nine months of 2013, the overall effective tax rate was 29.9 percent.

Income from equity method investments:

(\$ in millions)	13 Weeks Ended			39 Weeks Ended		
	August 30, 2014	August 31, 2013	2014 vs 2013	August 30, 2014	August 31, 2013	2014 vs 2013
Income from equity method investments	\$ 1.7	\$ 1.9	(13.9%)	\$ 5.2	\$ 6.0	(13.5%)

The income from equity method investments relates to our 50 percent ownership of the Sekisui-Fuller joint venture in Japan.

Net income attributable to non-controlling interests:

(\$ in millions)	13 Weeks Ended			39 Weeks Ended		
	August 30, 2014	August 31, 2013	2014 vs 2013	August 30, 2014	August 31, 2013	2014 vs 2013
Net income attributable to non-controlling interests	\$ (0.1)	\$ (0.1)	NMP	\$ (0.3)	\$ (0.3)	NMP

NMP = Non-meaningful percentage

Net income attributable to non-controlling interests relates to an 11 percent redeemable non-controlling interest in HBF Turkey.

Net income attributable to H.B. Fuller:

(\$ in millions)	13 Weeks Ended			39 Weeks Ended		
	August 30, 2014	August 31, 2013	2014 vs 2013	August 30, 2014	August 31, 2013	2014 vs 2013
Net income attributable to H.B. Fuller	\$ 4.0	\$ 28.3	(85.9%)	\$ 39.1	\$ 74.9	(47.8%)
Percent of net revenue	0.8%	5.5%		2.5%	4.9%	

The net income attributable to H.B. Fuller for the third quarter of 2014 was \$4.0 million compared to \$28.3 million for the third quarter of 2013. The third quarter of 2014 included \$12.3 million of special charges, net (\$10.9 million after tax) for costs related to the Business Integration Project. The third quarter of 2013 included \$12.8 million of special charges, net (\$9.7 million after tax) for costs related to the Business Integration Project. The diluted earnings per share for the third quarter of 2014 was \$0.08 per share as compared to \$0.55 per share for the third quarter of 2013.

The net income attributable to H.B. Fuller for the first nine months of 2014 was \$39.1 million compared to \$74.9 million for the first nine months of 2013. The first nine months of 2014 included \$37.6 million of special charges, net (\$32.3 million after tax) for costs related to the Business Integration Project. The first nine months of 2013 included \$29.0 million of special charges, net (\$22.4 million after tax) for costs related to the Business Integration Project. The diluted earnings per share for the first nine months of 2014 was \$0.76 per share as compared to \$1.47 per share for the same period last year.

Operating Segment Results

Through the third quarter of 2013, our business was reported in five operating segments: North America Adhesives, EIMEA (Europe, India, Middle East and Africa), Latin America Adhesives, Asia Pacific and Construction Products. Changes in our management reporting structure during the fourth quarter of 2013 required us to conduct an operating segment assessment in accordance with ASC Topic 280 Segment Reporting, to determine our reportable segments. As a result of this assessment, we now have four reportable segments: Americas Adhesives, EIMEA, Asia Pacific and Construction Products. Prior periods have been restated to reflect our new operating segments. Operating results of each of these segments are regularly reviewed by our chief operating decision maker to make decisions about resources to be allocated to the segments and assess their performance.

The tables below provide certain information regarding the net revenue and segment operating income of each of our operating segments. The pricing/sales volume variance is viewed as organic growth. For segment evaluation by the chief operating decision maker, segment operating income is defined as gross profit less SG&A expenses and excludes special charges, net.

Net Revenue by Segment:

	13 Weeks Ended				39 Weeks Ended			
	August 30, 2014		August 31, 2013		August 30, 2014		August 31, 2013	
	Net Revenue	% of Total	Net Revenue	% of Total	Net Revenue	% of Total	Net Revenue	% of Total
(\$ in millions)								
Americas Adhesives	\$ 237.7	45%	\$ 233.5	45%	\$ 684.3	44%	\$ 670.0	44%
EIMEA	177.5	34%	180.7	35%	538.7	35%	543.5	36%
Asia Pacific	63.8	12%	59.5	12%	196.8	12%	182.1	12%
Construction Products	47.8	9%	40.9	8%	137.0	9%	117.8	8%
Total	\$ 526.8	100%	\$ 514.6	100%	\$ 1,556.8	100%	\$ 1,513.4	100%

Segment Operating Income:

(\$ in millions)	13 Weeks Ended				39 Weeks Ended			
	August 30, 2014		August 31, 2013		August 30, 2014		August 31, 2013	
	Segment Operating Income	% of Total	Segment Operating Income	% of Total	Segment Operating Income	% of Total	Segment Operating Income	% of Total
Americas Adhesives	\$ 21.9	77%	\$ 34.9	65%	\$ 79.0	71%	\$ 92.6	65%
EIMEA	3.1	11%	14.2	26%	21.7	20%	34.8	25%
Asia Pacific	0.9	3%	1.5	3%	4.4	4%	6.3	4%
Construction Products	2.5	9%	3.3	6%	5.8	5%	8.7	6%
Total	\$ 28.4	100%	\$ 53.9	100%	\$ 110.9	100%	\$ 142.4	100%

The following table provides a reconciliation of segment operating income to income from continuing operations before income taxes and income from equity method investments, as reported on the Condensed Consolidated Statements of Income.

(\$ in millions)	13 Weeks Ended		39 Weeks Ended	
	August 30, 2014	August 31, 2013	August 30, 2014	August 31, 2013
Segment operating income	\$ 28.4	\$ 53.9	\$ 110.9	\$ 142.4
Special charges, net	(12.3)	(12.8)	(37.6)	(29.0)
Other income (expense), net	(0.3)	(1.0)	(1.5)	(2.4)
Interest expense	(5.3)	(4.6)	(14.2)	(14.8)
Income from continuing operations before income taxes and income from equity method investments	\$ 10.5	\$ 35.5	\$ 57.6	\$ 96.2

Americas Adhesives

(\$ in millions)	13 Weeks Ended			39 Weeks Ended		
	August 30, 2014	August 31, 2013	2014 vs 2013	August 30, 2014	August 31, 2013	2014 vs 2013
Net revenue	\$ 237.7	\$ 233.5	1.8%	\$ 684.3	\$ 670.0	2.1%
Segment operating income	\$ 21.9	\$ 34.9	(37.3%)	\$ 78.9	\$ 92.6	(14.8%)
Segment profit margin %	9.2%	14.9%		11.5%	13.8%	

The following tables provide details of the Americas Adhesives net revenue variances:

	13 Weeks Ended August 30, 2014 vs August 31, 2013	39 Weeks Ended August 30, 2014 vs August 31, 2013
Organic growth	2.0%	2.5%
Currency	(0.2%)	(0.4%)
Total	1.8%	2.1%

Net revenue increased 1.8 percent in the third quarter of 2014 compared to the third quarter of 2013. The 2.0 percent increase in organic growth was attributable to a 3.6 percent increase in sales volume partially offset by a 1.6 percent decrease in product pricing. The weaker Canadian dollar compared to the U.S. dollar resulted in a 0.2 percent decrease in net revenue. As a percentage of net revenue, raw material costs increased 190 basis points due to lower selling prices and an out of period adjustment related to the prior quarter that resulted in higher raw material costs in the current quarter. Other manufacturing costs as a percentage of net revenue increased 270 basis points compared with the third quarter of last year. The main driver for this increase are production inefficiencies related to the implementation of our new ERP system. Segment operating income decreased 37.3 percent and segment profit margin as a percentage of net revenue decreased 570 basis points in the third quarter compared to the third quarter last year.

Net revenue increased 2.1 percent in the first nine months of 2014 compared to the first nine months of 2013. The 2.5 percent increase in organic growth was attributable to a 3.8 percent increase in sales volume partially offset by 1.3 percent decrease in product pricing. The weaker Canadian dollar compared to the U.S. dollar resulted in a 0.4 percent decrease in net revenue. As a percentage of net revenue, raw material costs were 60 basis points higher than the same period last year. Other manufacturing costs as a percentage of net revenue increased 160 basis points compared to the first nine months of last year mainly due to production inefficiencies related to the implementation of our new ERP system. Segment operating income decreased 14.8 percent and segment profit margin as a percentage of net revenue decreased 230 basis points in the first nine months compared to the same period last year.

EIMEA

(\$ in millions)	13 Weeks Ended			39 Weeks Ended		
	August 30, 2014	August 31, 2013	2014 vs 2013	August 30, 2014	August 31, 2013	2014 vs 2013
Net revenue	\$ 177.5	\$ 180.7	(1.8%)	\$ 538.7	\$ 543.5	(0.9%)
Segment operating income	\$ 3.1	\$ 14.2	(77.9%)	\$ 21.7	\$ 34.8	(37.6%)
Segment profit margin %	1.8%	7.9%		4.0%	6.4%	

The following table provides details of the EIMEA net revenue variances:

	13 Weeks Ended August 30, 2014 vs August 31, 2013	39 Weeks Ended August 30, 2014 vs August 31, 2013
Organic growth	(5.0%)	(3.0%)
Currency	3.2%	2.1%
Total	(1.8%)	(0.9%)

Net revenue decreased 1.8 percent in the third quarter of 2014 compared to the third quarter of 2013. Sales volume decreased 5.4 percent and product pricing increased 0.4 percent. The positive currency effect of 3.2 percent was a result of a stronger Euro partially offset by weaker Turkish lira and Egyptian pound compared to the U.S. dollar. Sales volume was down in core Europe reflecting the generally soft end market conditions across most of the region and volume losses due to longer lead times caused by production inefficiencies. Sales volume growth was generated in the emerging markets, mainly in India, Middle East and Egypt. Raw material cost as a percentage of net revenue increased 140 basis points in the third quarter compared to the third quarter last year primarily due to higher vinyl acetate monomer costs. Other manufacturing costs as a percentage of net revenue were 390 basis points higher than last year mainly due to production and supply chain inefficiencies related to the Business Integration Project. As a result, segment operating income decreased 77.9 percent and segment profit margin decreased 610 basis points compared to the third quarter last year.

Net revenue decreased 0.9 percent in the first nine months of 2014 compared to the first nine months of 2013. Sales volume decreased 3.5 percent and product pricing increased 0.5 percent. The positive currency effect of 2.1 percent was a result of a stronger Euro partially offset by weaker Turkish lira, Indian rupee and Egyptian pound compared to the U.S. dollar. Sales volume was down in core Europe reflecting the generally soft end market conditions across most of the region and volume losses due to longer lead times caused by production inefficiencies. Sales volume growth was generated in the emerging markets, mainly in India and Turkey. Raw material cost as a percentage of net revenue increased 10 basis points compared to the same period last year. Other manufacturing costs as a percentage of net revenue were 220 basis points higher than last year mainly due to production and supply chain inefficiencies related to the Business Integration Project. As a result, segment operating income decreased 37.6 percent and segment profit margin decreased 240 basis points compared to the first nine months of last year.

Asia Pacific**13 Weeks Ended****39 Weeks Ended**

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(\$ in millions)	August 30, 2014	August 31, 2013	2014 vs 2013	August 30, 2014	August 31, 2013	2014 vs 2013
Net revenue	\$ 63.8	\$ 59.5	7.4%	\$ 196.8	\$ 182.1	8.1%
Segment operating income	\$ 0.9	\$ 1.5	(42.6%)	\$ 4.4	\$ 6.3	(29.8%)
Segment profit margin %	1.4%	2.6%		2.3%	3.5%	

The following table provides details of Asia Pacific net revenue variances:

	13 Weeks Ended August 30, 2014 vs August 31, 2013	9 Weeks Ended August 30, 2014 vs August 31, 2013
Organic growth	7.0%	10.6%
Currency	0.4%	(2.5%)
Total	7.4%	8.1%

Net revenue in the third quarter of 2014 increased 7.4 percent compared to the third quarter last year. The 7.0 percent increase in organic growth was attributable to a 6.7 percent increase in sales volume and a 0.3 percent increase in product pricing. Most Asian markets showed growth compared to the third quarter last year. Positive currency effects of 0.4 percent compared to last year are mainly attributable to a stronger Australian dollar and Korean won, partially offset by a weaker Chinese renminbi. Raw material costs as a percentage of net revenue increased 80 basis points compared to the third quarter of last year mainly due to sales mix. Other manufacturing costs as a percentage of net revenue decreased 10 basis points compared to the third quarter of last year. Compared to the third quarter of last year, segment operating income decreased \$0.6 million and segment profit margin decreased 120 basis points.

Net revenue in the first nine months of 2014 increased 8.1 percent compared to the first nine months last year. The 10.6 percent increase in organic growth was attributable to an increase in sales volume of 10.7 percent while product pricing decreased 0.1 percent. Most markets showed growth compared to the first nine months of last year. Negative currency effects of 2.5 percent compared to last year are mainly attributable to Australian and Southeast Asian markets. Raw material costs as a percentage of net revenue increased 170 basis points compared to the first nine months of last year mainly due to sales mix. Other manufacturing costs as a percentage of net revenue increased 70 basis points compared to the first nine months of last year. Compared to the first nine months of last year, segment operating income decreased \$1.9 million and segment profit margin decreased 120 basis points.

Construction Products

(\$ in millions)	13 Weeks Ended			39 Weeks Ended		
	August 30, 2014	August 31, 2013	2014 vs 2013	August 30, 2014	August 31, 2013	2014 vs 2013
Net revenue	\$ 47.8	\$ 40.9	17.0%	\$ 137.0	\$ 117.8	16.2%
Segment operating income	\$ 2.5	\$ 3.3	(24.0%)	\$ 5.8	\$ 8.7	(33.4%)
Segment profit margin %	5.2%	8.0%		4.2%	7.4%	

The following tables provide details of the Construction Products net revenue variances:

	13 Weeks Ended August 30, 2014 vs August 31, 2013	39 Weeks Ended August 30, 2014 vs August 31, 2013
Organic growth	17.0%	16.2%

Net revenue increased 17.0 percent in the third quarter of 2014 compared to the third quarter of 2013. The increase was driven by 18.5 percent increase in sales volume partially offset by a 1.5 percent decrease in product pricing. The increase in sales volume was primarily attributed to continued market share gains with several key retail partners. The decrease in pricing is mainly due to price reductions related to certain product lines in the wholesale channel. Raw material cost as a percentage of net revenue was 230 basis points higher in the third quarter of 2014 compared to last year primarily due to lower selling prices and changes in sales mix. Manufacturing costs as a percentage of net revenue increased 240 basis points compared to the third quarter of last year driven mainly by inefficiencies related to the startup of new business. Segment operating income decreased 24.0 percent and segment profit margin decreased 280 basis points in the third quarter compared to the third quarter last year.

Net revenue increased 16.2 percent in the first nine months of 2014 compared to the first nine months of 2013. The increase was driven by a 19.2 percent increase in sales volume partially offset by a 3.0 percent decrease in product pricing. The increase in sales volume was primarily attributed to continued market share gains with several key retail partners. The decrease in pricing is mainly due to price reductions related to certain product lines in the wholesale

channel. Raw material cost as a percentage of net revenue was 220 basis points higher in the first nine months of 2014 compared to the same period last year primarily due to lower selling prices and changes in sales mix. Manufacturing costs as a percentage of net revenue increased 160 basis points compared to the first nine months of last year driven mainly by inefficiencies related to the startup of new business. Segment operating income decreased 33.4 percent and segment profit margin decreased 320 basis points in the first nine months compared to the same period last year.

Financial Condition, Liquidity and Capital Resources

Total cash and cash equivalents as of August 30, 2014 were \$75.5 million as compared to \$155.1 million as of November 30, 2013 and \$160.3 million as of August 31, 2013. Of the \$75.5 million in cash and cash equivalents as of August 30, 2014, \$67.8 million was held outside the United States. Total long and short-term debt was \$562.9 million as of August 30, 2014, \$492.9 million as of November 30, 2013 and \$493.5 million as of August 31, 2013. The total debt to total capital ratio as measured by Total Debt divided by (Total Debt plus Total Equity) was 37.2 percent as of August 30, 2014 as compared to 36.4 percent as of November 30, 2013 and 37.0 percent as of August 31, 2013.

We believe that cash flows from operating activities will be adequate to meet our ongoing liquidity and capital expenditure needs. In addition, we believe we have the ability to obtain both short-term and long-term debt to meet our financing needs for the foreseeable future. Cash available in the United States has historically been sufficient and we expect it will continue to be sufficient to fund U.S. operations and U.S. capital spending and U.S. pension and other postretirement benefit contributions in addition to funding U.S. acquisitions, dividend payments, debt service and share repurchases as needed. For those international earnings considered to be reinvested indefinitely, we currently have no intention to, and plans do not indicate a need to, repatriate these funds for U.S. operations.

Our credit agreements and note purchase agreements include restrictive covenants that, if not met, could lead to a renegotiation of our credit lines and a significant increase in our cost of financing. At August 30, 2014, we were in compliance with all covenants of our contractual obligations as shown in the following table:

Covenant	Debt Instrument	Measurement	Result as of August 30, 2014
TTM EBITDA / TTM Interest Expense	All Debt Instruments	Not less than 2.5	10.4
Total Indebtedness / TTM EBITDA	All Debt Instruments	Not greater than 3.5	2.9

TTM = Trailing 12 months

EBITDA for covenant purposes is defined as consolidated net income, plus (i) interest expense, (ii) taxes, (iii) depreciation and amortization, (iv) non-cash impairment losses, (v) extraordinary non-cash losses incurred other than in the ordinary course of business, (vi) nonrecurring extraordinary non-cash restructuring charges, (vii) cash expenses for advisory services and for arranging financing for the Forbo Acquisition (including the non-cash write-off of deferred financing costs and any loss or expense on foreign exchange transactions intended to hedge the purchase price for the Forbo acquisition) with cash expenses not to exceed \$25.0 million, and (viii) cash expenses incurred during fiscal years 2011 through 2014 in connection with facilities consolidation, restructuring and integration, discontinuance of operations, work force reduction, sale or abandonment of assets other than inventory, and professional and other fees incurred in connection with the Forbo acquisition or the restructuring of our EIMEA operations, not to exceed \$85.0 million in the aggregate, and (x) not to exceed \$65.0 million during fiscal year 2012 and (y) not to exceed \$65.0 million during fiscal years 2013 and 2014 combined, minus extraordinary non-cash gains incurred other than in the ordinary course of business. For the Total Indebtedness / TTM EBITDA ratio, TTM EBITDA is adjusted for the pro forma results from Material Acquisitions and Material Divestitures as if the acquisition or divestiture occurred at the beginning of the calculation period. Additional detail is provided in the Current Report on Form 8-K dated March 5, 2012.

We believe we have the ability to meet all of our contractual obligations and commitments in fiscal 2014.

Selected Metrics of Liquidity

Key metrics we monitor are net working capital as a percent of annualized net revenue, trade account receivable days sales outstanding (DSO), inventory days on hand, free cash flow and debt capitalization ratio.

	August 30, 2014	August 31, 2013
Net working capital as a percentage of annualized net revenue ¹	19.6%	18.0%
Accounts receivable DSO ²	59 Days	55 Days
Inventory days on hand ³	66 Days	56 Days
Free cash flow ⁴	\$(145.8) million	\$(7.7) million
Total debt to total capital ratio ⁵	37.2%	37.0%

- ¹ Current quarter net working capital (trade receivables, net of allowance for doubtful accounts plus inventory minus trade payables) divided by annualized net revenue (current quarter multiplied by four).
- ² Trade receivables net of the allowance for doubtful accounts at the balance sheet date multiplied by 56 (8 weeks) and divided by the net revenue for the last 2 months of the quarter.
- ³ Total inventory multiplied by 56 and divided by cost of sales (excluding delivery costs) for the last 2 months of the quarter.
- ⁴ Year-to-date net cash provided by (used in) operations from continuing operations, less purchased property, plant and equipment and dividends paid.
- ⁵ Total debt divided by (total debt plus total stockholders' equity).

Another key metric is the return on invested capital, or ROIC. The calculation is represented by total return divided by total invested capital.

Total return is defined as: gross profit less SG&A expenses, less taxes at the effective tax rate plus income from equity method investments. Total return is calculated using trailing 12 month information.

Total invested capital is defined as the sum of notes payable, current maturities of long-term debt, long-term debt, redeemable non-controlling interest and total equity.

We believe ROIC provides a true measure of return on capital invested and is focused on the long term. The following table shows the ROIC calculations based on the definition above: