

FULLER H B CO
Form 10-Q
April 05, 2016
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 February 27, 2016

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)

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)

	Quarter Ended	
	February	February
	27,	28,
	2016	2015
Net revenue	\$474,326	\$470,661
Cost of sales	(336,721)	(354,455)
Gross profit	137,605	116,206
Selling, general and administrative expenses	(99,767)	(94,833)
Special charges, net	(413)	(2,361)
Other (expense) income, net	(5,082)	363
Interest expense	(6,308)	(6,102)
Income before income taxes and income from equity method investments	26,035	13,273
Income taxes	(8,760)	(4,769)
Income from equity method investments	1,692	1,291
Net income including non-controlling interests	18,967	9,795
Net income attributable to non-controlling interests	(49)	(85)
Net income attributable to H.B. Fuller	\$18,918	\$9,710
Earnings per share attributable to H.B. Fuller common stockholders:		
Basic	\$0.38	\$0.19
Diluted	\$0.37	\$0.19
Weighted-average common shares outstanding:		
Basic	49,958	50,188
Diluted	50,995	51,379
Dividends declared per common share	\$0.13	\$0.12

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

(In thousands)

(Unaudited)

	Quarter Ended	
	February	February
	27,	28,
	2016	2015
Net income including non-controlling interests	\$18,967	\$9,795
Other comprehensive income (loss)		
Foreign currency translation	(950)	(33,269)
Defined benefit pension plans adjustment, net of tax	2,665	1,527
Interest rate swaps, net of tax	10	10
Cash-flow hedges, net of tax	249	(25)
Other comprehensive income (loss)	1,974	(31,757)
Comprehensive income (loss)	20,941	(21,962)
Less: Comprehensive income attributable to non-controlling interests	44	95
Comprehensive income (loss) attributable to H.B. Fuller	\$20,897	\$(22,057)

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

(In thousands, except share and per share amounts)

	(Unaudited)	
	February 27, 2016	November 28, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 126,771	\$ 119,168
Trade receivables (net of allowances of \$12,015 and \$11,893, as of February 27, 2016 and November 28, 2015, respectively)	335,403	364,704
Inventories	264,837	248,504
Other current assets	64,049	68,675
Total current assets	791,060	801,051
Property, plant and equipment	1,127,802	1,111,987
Accumulated depreciation	(615,899)	(599,127)
Property, plant and equipment, net	511,903	512,860
Goodwill	354,901	354,204
Other intangibles, net	206,403	212,993
Other assets	159,069	161,144
Total assets	\$ 2,023,336	\$ 2,042,252
Liabilities, redeemable non-controlling interest and total equity		
Current liabilities:		
Notes payable	\$ 36,921	\$ 30,757
Current maturities of long-term debt	75,484	22,500
Trade payables	162,513	177,864
Accrued compensation	39,046	52,079
Income taxes payable	12,988	8,970
Other accrued expenses	52,134	57,355
Total current liabilities	379,086	349,525
Long-term debt, excluding current maturities	610,969	669,606
Accrued pension liabilities	74,596	76,324
Other liabilities	68,896	69,272
Total liabilities	1,133,547	1,164,727
Commitments and contingencies		

Redeemable non-controlling interest	4,376	4,199
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 – 49,989,167 and 50,074,310, as of February 27, 2016 and November 28, 2015, respectively	49,989	50,074
Additional paid-in capital	53,356	55,522
Retained earnings	1,006,964	994,608
Accumulated other comprehensive loss	(225,305)	(227,284)
Total H.B. Fuller stockholders' equity	885,004	872,920
Non-controlling interests	409	406
Total equity	885,413	873,326
Total liabilities, redeemable non-controlling interest and total equity	\$ 2,023,336	\$2,042,252

See accompanying Notes to Unaudited 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 November 29, 2014	\$50,311	\$ 53,269	\$933,819	\$ (147,352)	\$ 403	\$890,450	
Comprehensive income (loss)	-	-	86,680	(79,932)	400	7,148	
Dividends	-	-	(25,891)	-	-	(25,891)	
Stock option exercises	234	4,397	-	-	-	4,631	
Share-based compensation plans other, net	83	15,159	-	-	-	15,242	
Tax benefit on share-based compensation plans	-	1,433	-	-	-	1,433	
Repurchases of common stock	(554)	(18,736)	-	-	-	(19,290)	
Non-controlling interest assumed	-	-	-	-	14,197	14,197	
Recognition of non-controlling interest redemption liability	-	-	-	-	(11,773)	(11,773)	
Purchase of non-controlling interest	-	-	-	-	(2,424)	(2,424)	
Non-controlling interest	-	-	-	-	(76)	(76)	
Redeemable non-controlling interest	-	-	-	-	(321)	(321)	
Balance at November 28, 2015	50,074	55,522	994,608	(227,284)	406	873,326	
Comprehensive income	-	-	18,918	1,979	44	20,941	
Dividends	-	-	(6,562)	-	-	(6,562)	
Stock option exercises	1	31	-	-	-	32	
Share-based compensation plans other, net	105	4,471	-	-	-	4,576	
Tax benefit on share-based compensation plans	-	(341)	-	-	-	(341)	
Repurchases of common stock	(191)	(6,327)	-	-	-	(6,518)	
Redeemable non-controlling interest	-	-	-	-	(41)	(41)	
Balance at February 27, 2016	\$49,989	\$ 53,356	\$1,006,964	\$ (225,305)	\$ 409	\$885,413	

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

(In thousands)

(Unaudited)

	Quarter Ended	
	February	February
	27, 2016	28, 2015
Cash flows from operating activities:		
Net income including non-controlling interests	\$18,967	\$9,795
Adjustments to reconcile net income including non-controlling interests to net cash provided by operating activities:		
Depreciation	13,258	11,676
Amortization	6,698	6,148
Deferred income taxes	63	(212)
Income from equity method investments, net of dividends received	(1,692)	(1,291)
Share-based compensation	4,267	4,261
Excess tax benefit from share-based compensation	341	(397)
Non-cash charge for the sale of inventories revalued at the date of acquisition	-	2,701
Change in assets and liabilities, net of effects of acquisitions:		
Trade receivables, net	28,947	25,114
Inventories	(15,861)	(22,399)
Other assets	9,298	(14,395)
Trade payables	(4,301)	32,885
Accrued compensation	(13,235)	(10,986)
Other accrued expenses	(5,258)	7,482
Income taxes payable	5,673	(3,126)
Accrued / prepaid pensions	662	(4,542)
Other liabilities	(1,445)	603
Other	(3,821)	22,896
Net cash provided by operating activities	42,561	66,213
Cash flows from investing activities:		
Purchased property, plant and equipment	(23,361)	(28,381)
Purchased businesses, net of cash acquired	-	(217,638)
Proceeds from sale of property, plant and equipment	863	1,303
Net cash used in investing activities	(22,498)	(244,716)
Cash flows from financing activities:		
Proceeds from long-term debt	-	317,000
Repayment of long-term debt	(5,625)	(130,000)
Net proceeds from (payments on) notes payable	6,378	(4,748)
Dividends paid	(6,498)	(6,044)

Proceeds from stock options exercised	32	1,684
Excess tax benefit from share-based compensation	(341)	397
Repurchases of common stock	(6,518)	(2,203)
Net cash provided by (used in) financing activities	(12,572)	176,086
Effect of exchange rate changes	112	(3,578)
Net change in cash and cash equivalents	7,603	(5,995)
Cash and cash equivalents at beginning of period	119,168	77,569
Cash and cash equivalents at end of period	\$126,771	\$71,574
Supplemental disclosure of cash flow information:		
Dividends paid with company stock	\$64	\$47
Cash paid for interest, net of amount capitalized of \$117 and \$10 for the periods ended February 27, 2016 and February 28, 2015, respectively	\$5,566	\$5,561
Cash paid for income taxes, net of refunds	\$4,066	\$3,616

See accompanying Notes to Unaudited 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: Basis of Presentation

The accompanying unaudited interim Condensed Consolidated Financial Statements of H.B. Fuller Company and Subsidiaries 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 28, 2015 as filed with the Securities and Exchange Commission.

As of the beginning of the first quarter ending February 27, 2016, we created a new global operating segment named Engineering Adhesives, which includes the electronics, automotive and Tonsan businesses from around the world. We will also begin reporting our Construction Products business on a global basis by combining our EIMEA and Asia Pacific construction businesses with our Construction Products operating segment. We now have five reportable segments: Americas Adhesives, EIMEA, Asia Pacific, Construction Products and Engineering Adhesives.

New Accounting Pronouncements

In March 2016, the FASB issued ASU No. 2016-08, *Revenue from Contracts with Customers (Topic 606), Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*. This Update provides guidance on recording

revenue on a gross basis versus a net basis based on the determination of whether an entity is a principal or an agent when another party is involved in providing goods or services to a customer. The amendments in this Update affect the guidance in ASU No. 2014-09 and are effective in the same timeframe as ASU No. 2014-09 as discussed below.

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-05, *Derivatives and Hedging (Topic 815)*. The amendments in this guidance clarify that a change in the counterparty to a derivative instrument that has been designated as a hedging instrument under Topic 815 does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. Our effective date for adoption of this guidance is our fiscal year beginning December 4, 2016. We have evaluated the effect that this guidance will have on our Consolidated Financial Statements and related disclosures and determined it will not have a material impact.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Subtopic 842)*. This guidance changes accounting for leases and requires lessees to recognize the assets and liabilities arising from all leases, including those classified as operating leases under previous accounting guidance, on the balance sheet and requires disclosure of key information about leasing arrangements to increase transparency and comparability among organizations. The accounting for lessors does not fundamentally change except for changes to conform and align guidance to the lessee guidance. Our effective date for adoption of this guidance is our fiscal year beginning December 1, 2019 with early adoption permitted. The new guidance must be adopted using a modified retrospective transition approach, and provides for certain practical expedients. We are currently evaluating the impact that the new guidance will have on our consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-12, *Compensation - Stock Compensation (Topic 718), Accounting for Share-Based Payments When the Terms of an Award That a Performance Target Could Be Achieved after the Requisite Service Period*, which requires a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant-date fair value of the award and compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. Our effective date for adoption of this guidance is our fiscal year beginning December 4, 2016, however we elected to early adopt this guidance as of our first quarter ended February 27, 2016. The adoption of this guidance did not have a material impact on our Consolidated Financial Statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, 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. This guidance 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, 2017 (as stated in ASU No. 2015-14 which defers the effective date and was issued in August 2015) and is now effective for our fiscal year beginning December 2, 2018. Early application as of the original effective date is permitted under ASU 2015-14. The standard permits the use of either the retrospective or cumulative effect transition method. We are evaluating the effect that this guidance will have on our 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

Continental Products Limited

On February 3, 2015 we acquired the equity of Continental Products Limited, a provider of industrial adhesives, based in Nairobi, Kenya. The purchase price of €1,459, or approximately \$1,647, net of cash acquired of \$371, was funded through existing cash.

Tonsan Adhesive, Inc.

On February 2, 2015 we acquired 95 percent of the equity of Tonsan Adhesive, Inc., an independent engineering adhesives provider based in Beijing, China. The purchase price was 1.4 billion Chinese renminbi, or approximately \$215,925, net of cash acquired of \$7,754, which was financed with the proceeds from our October 31, 2014 term loan, drawn in conjunction with the acquisition.

Concurrent with the acquisition, we entered into an agreement to acquire the remaining 5 percent of Tonsan's equity beginning February 1, 2019 for 82 million Chinese renminbi or approximately \$13,038. In addition, the agreement requires us to pay up to 418 million Chinese renminbi or approximately \$66,848 in contingent consideration based upon a formula related to Tonsan's gross profit in fiscal 2018. The fair values of the agreement to purchase the remaining equity and the contingent consideration based upon a discounted cash flow model as of the date of acquisition were \$11,773 and \$7,714, respectively. See Note 14 for further discussion of the fair value of the contingent consideration.

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

	Preliminary Valuation November 28, 2015	Purchase Price and Fair Value Adjustments	Final Valuation February 27, 2016
Current assets	\$ 49,839	\$ -	\$ 49,839
Property, plant and equipment	59,142	-	59,142
Goodwill	125,090	700	125,790
Other intangibles			
Developed technology	18,600	-	18,600
Customer relationships	25,700	-	25,700
Trademarks/trade names	11,000	-	11,000
Other assets	13,540	-	13,540
Current liabilities	(38,068)	-	(38,068)
Other liabilities	(37,145)	(700) ¹	(37,845)
Redeemable non-controlling interests	(11,773)	-	(11,773)
Total purchase price	\$ 215,925	\$ -	\$ 215,925

¹ Relates to an adjustment to the contingent consideration liability discussed above.

Note 3: Accounting for Share-Based Compensation*Overview*

We have various share-based compensation programs, which provide for equity awards including stock options, incentive stock options, restricted stock shares, restricted stock units, performance awards 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 28, 2015.

Grant-Date Fair Value

We use the Black-Scholes option pricing model to calculate the grant-date fair value of an award. The fair value of options granted during the quarter ended February 27, 2016 and February 28, 2015 were calculated using the following weighted average assumptions:

	Quarter Ended			
	February 27, 2016		February 28, 2015	
Expected life (in years)	4.75		4.61	
Weighted-average expected volatility	29.03%		30.91%	
Expected volatility	29.03% -	29.23%	25.50% -	31.67%
Risk-free interest rate	1.44%		1.26%	
Expected dividend yield	1.56%		1.17%	
Weighted-average fair value of grants	\$ 7.64		\$ 10.21	

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 historical volatility.

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, restricted stock shares and restricted stock units with graded and cliff vesting. Incentive stock options and performance awards are based on certain performance-based metrics and the expense is adjusted quarterly, based on our projections of the achievement of those metrics. 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 \$4,267 and \$4,261 was included in our Condensed Consolidated Statements of Income for the quarter ended February 27, 2016 and February 28, 2015, respectively. All share-based compensation expense was recorded as selling, general and administrative expense. For the quarter ended February 27, 2016, there was \$341 charged against the APIC Pool for tax deficiencies. For the quarter ended February 28, 2015, there was \$397 of excess tax benefit recognized.

As of February 27, 2016, there was \$10,748 of unrecognized compensation costs related to unvested stock option awards, which is expected to be recognized over a weighted-average period of 1.6 years. Unrecognized compensation costs related to unvested restricted stock shares was \$436 which is expected to be recognized over a weighted-average period of 0.9 years. Unrecognized compensation costs related to unvested restricted stock units was \$11,631 which is expected to be recognized over a weighted-average period of 1.7 years.

Share-based Activity

A summary of option activity as of February 27, 2016 and changes during the quarter then ended is presented below:

	Options	Weighted- Average Exercise Price
Outstanding at November 28, 2015	2,912,073	\$ 33.37
Granted	803,869	33.40
Exercised	(1,206)	26.79
Forfeited or cancelled	(86,897)	37.57
Outstanding at February 27, 2016	3,627,839	\$ 33.28

The total fair value of options granted during the quarter ended February 27, 2016 and February 28, 2015 were \$6,138 and \$7,180, respectively. Total intrinsic value of options exercised during the quarter ended February 27, 2016 and February 28, 2015 were \$11 and \$1,326, 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. Proceeds received from option exercises during the quarter ended February 27, 2016 and February 28, 2015 were \$32 and \$1,684, respectively.

A summary of nonvested restricted stock as of February 27, 2016 and changes during the quarter then ended is presented below:

Units	Shares	Total	Weighted- Average Grant Date Fair Value	Weighted- Average Remaining Contractual Life (in Years)
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Nonvested at November 28, 2015	237,013	110,160	347,173	\$ 42.17	0.8
Granted	203,668	-	203,668	33.65	2.1
Vested	(99,135)	(68,737)	(167,872)	41.88	-
Forfeited	(19,942)	(179)	(20,121)	38.11	2.3
Nonvested at February 27, 2016	321,604	41,244	362,848	\$ 37.78	1.6

Total fair value of restricted stock vested during the quarter ended February 27, 2016 and February 28, 2015 were \$5,833 and \$6,000, respectively. The total fair value of nonvested restricted stock at February 27, 2016 was \$13,707.

We repurchased 66,447 and 53,917 restricted stock shares during the quarter ended February 27, 2016 and February 28, 2015, 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 February 27, 2016, and changes during the quarter then ended is presented below:

	Non-employee	Employees	Total
	Directors		
Units outstanding November 28, 2015	380,170	45,906	426,076
Participant contributions	9,742	2,118	11,860
Company match contributions	975	212	1,187
Payouts	-	(4,351)	(4,351)
Units outstanding February 27, 2016	390,887	43,885	434,772

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 is as follows:

(Shares in thousands)	Quarter Ended	
	February 27, 2016	February 28, 2015
Weighted-average common shares - basic	49,958	50,188
Equivalent shares from share-based compensations plans	1,037	1,191
Weighted-average common and common equivalent shares - diluted	50,995	51,379

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 1,495,004 and 447,433 shares of common stock at a weighted-average exercise price of \$42.88 and \$48.59 for the quarter ended February 27, 2016 and February 28, 2015, respectively, 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):

Quarter Ended February 27, 2016		Quarter Ended February 28, 2015	
H.B. Fuller Stockholders	Non-	H.B. Fuller Stockholders	Non-

	controlling						controlling	
	Pretax	Tax	Net	Interests Net	Pretax	Tax	Net	Interests Net
Net income including non-controlling interests	-	-	\$18,918	\$ 49	-	-	\$9,710	\$ 85
Foreign currency translation adjustment ¹	\$(945)	-	(945)	(5)	\$(33,279)	-	(33,279)	10
Reclassification to earnings:								
Defined benefit pension plans adjustment ²	3,997	\$(1,332)	2,665	-	2,325	\$(798)	1,527	-
Interest rate swap ³	13	(3)	10	-	16	(6)	10	-
Cash-flow hedges ³	403	(154)	249	-	(31)	6	(25)	-
Other comprehensive income (loss)	\$3,468	\$(1,489)	1,979	(5)	\$(30,969)	\$(798)	(31,767)	10
Comprehensive income (loss)			\$20,897	\$ 44			\$(22,057)	\$ 95

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

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

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

The components of accumulated other comprehensive loss is as follows:

	February 27, 2016		
	Total	H.B. Fuller Stockholders	Non- controlling Interests
Foreign currency translation adjustment	\$(52,542)	\$ (52,499)	\$ (43)
Defined benefit pension plans adjustment, net of taxes of \$60,593	(171,735)	(171,735)	-
Interest rate swap, net of taxes of \$2	(3)	(3)	-
Cash-flow hedges, net of taxes of \$657	(1,068)	(1,068)	-
Accumulated other comprehensive income (loss)	\$(225,348)	\$ (225,305)	\$ (43)
	November 28, 2015		
	Total	H.B. Fuller Stockholders	Non- controlling Interests
Foreign currency translation adjustment	\$(51,592)	\$ (51,554)	\$ (38)
Defined benefit pension plans adjustment, net of taxes of \$93,012	(174,400)	(174,400)	-
Interest rate swap, net of taxes of \$5	(13)	(13)	-
Cash-flow hedges, net of taxes of \$811	(1,317)	(1,317)	-
Accumulated other comprehensive (loss) income	\$(227,322)	\$ (227,284)	\$ (38)

Note 6: Special Charges, net

The integration of the industrial adhesives business we acquired in March 2012 involved a significant amount of restructuring and capital investment to optimize the new combined entity. In addition, we have taken 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 quarter ended February 27, 2016 and February 28, 2015, we incurred special charges,

net of \$413 and \$2,361, respectively, for costs related to the Business Integration Project.

The following table provides detail of special charges, net:

	Quarter Ended	
	February	February
	27,	28, 2015
	2016	
Acquisition and transformation related costs	\$105	\$ 472
Workforce reduction costs	(1)	56
Facility exit costs	273	1,529
Other related costs	36	304
Special charges, net	\$413	\$ 2,361

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

	Quarter Ended February 27, 2016 and February 28, 2015					
	Pension Benefits				Other Postretirement Benefits	
	U.S. Plans		Non-U.S. Plans		2016	2015
<u>Net periodic cost (benefit):</u>	2016	2015	2016	2015	2016	2015
Service cost	\$27	\$27	\$480	\$507	\$84	\$112
Interest cost	3,767	4,081	1,367	1,516	480	510
Expected return on assets	(6,077)	(6,420)	(2,482)	(2,667)	(1,342)	(1,377)
Amortization:						
Prior service cost	7	7	(1)	(1)	(10)	(626)
Actuarial loss (gain)	1,293	1,407	752	831	532	608
Net periodic (benefit) cost	\$(983)	\$(898)	\$116	\$186	\$(256)	\$(773)

Note 8: Inventories

The composition of inventories is as follows:

	February 27, 2016	November 28, 2015
Raw materials	\$128,305	\$121,545
Finished goods	151,569	142,195
LIFO reserve	(15,037)	(15,236)
Total inventories	\$264,837	\$248,504

Note 9: Financial Instruments*Foreign Currency Derivative 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 October 7, 2015, we entered into three cross-currency swap agreements to convert a notional amount of \$134,736 of foreign currency denominated intercompany loans into US dollars. The first swap matures in 2017, the second swap matures in 2018 and the third swap matures in 2019. As of February 27, 2016, the combined fair value of the swaps was an asset of \$1,741 and was included in other assets in the Condensed Consolidated Balance Sheets. The swaps were designated as cash-flow hedges for accounting treatment. The lesser amount between the cumulative change in the fair value of the actual swaps and the cumulative change in the fair value of hypothetical swaps 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 swaps and the cumulative change in the fair value of hypothetical swaps 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 ineffectiveness calculations as of February 27, 2016 resulted in additional pre-tax loss of \$31 for the quarter ended February 27, 2016 as the change in fair value of the cross-currency swaps was less than the change in the fair value of the hypothetical swaps. The amount in accumulated other comprehensive income (loss) related to cross-currency swaps was a loss of \$1,068 as of February 27, 2016. The estimated net amount of the existing loss that is reported in accumulated other comprehensive income (loss) as of February 27, 2016 that is expected to be reclassified into earnings within the next twelve months is \$603. As of February 27, 2016, we do not believe any gains or losses will be reclassified into earnings as a result of the discontinuance of these cash flow hedges because the original forecasted transaction will not occur.

The following table summarizes the cross-currency swaps outstanding as of February 27, 2016:

	Fiscal Year of Expiration	Interest Rate	Notional Value	Fair Value
Pay EUR	2017	3.05	% \$ 44,912	\$ 767
Receive USD		3.9145	%	
Pay EUR	2018	3.45	% \$ 44,912	\$ 568
Receive USD		4.5374	%	
Pay EUR	2019	3.80	% \$ 44,912	\$ 406
Receive USD		5.0530	%	
Total			\$ 134,736	\$ 1,741

Except for the cross-currency swap agreements 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 Condensed Consolidated Statements of Income during the periods in which the derivative instruments are outstanding. See Note 14 for fair value amounts of these derivative instruments.

As of February 27, 2016, we had forward foreign currency contracts maturing between March 15, 2016 and February 24, 2017. The mark-to-market effect associated with these contracts, on a net basis, was a gain of \$1,384 at February 27, 2016. These gains were largely offset by the underlying transaction gains and losses resulting from the foreign currency exposures for which these contracts relate.

Interest Rate Swaps

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 \$3,328 at February 27, 2016 and was included in long-term debt and current maturities of long-term debt in the Condensed Consolidated Balance Sheets. The combined fair value of the swaps were an asset of \$3,510 at February 27, 2016 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 February 27, 2016 resulted in a pretax gain of \$143 for the quarter ended February 27, 2016 as the fair value of the senior notes decreased by more than the change in the fair value of the interest rate swaps attributable to the change in the risk being hedged. The calculations as of February 28, 2015 resulted in a pre-tax gain of \$59 for the quarter ended February 28, 2015 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 February 27, 2016, 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 our contribution 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 settlements and judgments in asbestos-related lawsuits. These agreements require, among other things, that we fund a share of settlements and judgments allocable to years in which the responsible insurer is insolvent

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

(\$ in thousands)	Quarter Ended		3 Years Ended
	February 27, 2016	February 28, 2015	November 28, 2015
Lawsuits and claims settled	2	1	25
Settlement amounts	\$75	\$ 50	\$ 2,072
Insurance payments received or expected to be received	\$56	\$ 37	\$ 1,648

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 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 fourth quarter of 2015, our business was reported in four operating segments: Americas Adhesives, Europe, India, Middle East and Africa (EIMEA), Asia Pacific and Construction Products. Changes in our management reporting structure during the first quarter of 2016 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 five reportable segments: Americas Adhesives, EIMEA, Asia Pacific, Construction Products and Engineering Adhesives. Prior period segment information has been recast retrospectively to reflect our new operating segments.

The table below provides certain information regarding net revenue and segment operating income for each of our operating segments:

Quarter Ended			February 28, 2015		
February 27, 2016			February 28, 2015		
Trade	Inter-Segment	Segment Operating	Trade	Inter-Segment	Segment Operating

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	Revenue	Revenue	Income	Revenue	Revenue	Income
Americas Adhesives	\$183,319	\$ 3,630	\$ 26,259	\$194,073	\$ 5,383	\$ 21,677
EIMEA	124,291	5,271	6,163	134,115	4,551	685
Asia Pacific	53,860	951	3,753	55,343	3,466	3,145
Construction Products	60,074	104	785	58,456	176	1,014
Engineering Adhesives	52,782	-	878	28,674	-	(5,148)
Total	\$474,326		\$ 37,838	\$470,661		\$ 21,373

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

	Quarter Ended	
	February 27, 2016	February 28, 2015
Segment operating income	\$37,838	\$ 21,373
Special charges, net	(413)	(2,361)
Other income (expense), net	(5,082)	363
Interest expense	(6,308)	(6,102)
Income before income taxes and income from equity method investments	\$26,035	\$ 13,273

The table below provides total assets of each of our operating segments as of November 28, 2015:

Total assets	November 28, 2015
Americas Adhesives	\$436,526
EIMEA	628,780
Asia Pacific	213,025
Construction Products	218,897
Engineering Adhesives	387,206
Corporate	157,818
Total	\$2,042,252

Note 12: Income Taxes

As of February 27, 2016, we had a liability of \$5,124 recorded under FASB ASC 740, *Income Taxes*, for gross unrecognized tax benefits (excluding interest), compared to \$4,870 as of November 28, 2015. As of February 27, 2016, we had accrued \$667 of gross interest relating to unrecognized tax benefits. For the quarter ended February 27, 2016, our recorded liability for gross unrecognized tax benefits increased by \$254.

Note 13: Goodwill and Other Intangible Assets

A summary of goodwill activity during the quarter ended February 27, 2016 is presented below:

	Americas Adhesives	EIMEA	Asia Pacific	Construction Products	Engineering Adhesives	Total
Balance at November 28, 2015	\$ 59,706	\$ 100,638	\$ 17,329	\$ 22,668	\$ 153,863	\$ 354,204
Acquisition adjustment	-	-	-	-	700	700
Currency impact	(44)	2,154	143	35	(2,291)	(3)
Balance at February 27, 2016	\$ 59,662	\$ 102,792	\$ 17,472	\$ 22,703	\$ 152,272	\$ 354,901

As discussed in Note 11, during the first quarter of fiscal year 2016, we changed our operating segments as a result of a change in our management reporting structure. This resulted in a change in our reporting units. We allocated goodwill to our new reporting units using the relative fair value approach.

Balances of amortizable identifiable intangible assets, excluding goodwill and other non-amortizable intangible assets, as of February 27, 2016 are as follows:

Amortizable Intangible Assets	Purchased Technology & Patents	Customer Relationships	All Other	Total
Original cost	\$ 69,813	\$ 235,067	\$49,578	\$354,458
Accumulated amortization	(19,618)	(102,928)	(25,971)	(148,517)
Net identifiable intangibles	\$ 50,195	\$ 132,139	\$23,607	\$205,941

Amortization expense with respect to amortizable intangible assets was \$6,698 and \$6,148 for the first three months of 2016 and 2015, respectively.

Estimated aggregate amortization expense based on the current carrying value of amortizable intangible assets for the next five fiscal years are as follows:

Fiscal Year	Remainder of 2016	2017	2018	2019	2020	Thereafter
Amortization Expense	\$ 18,721	\$ 25,057	\$ 24,664	\$ 22,740	\$ 21,769	\$ 92,990

Non-amortizable intangible assets as of February 27, 2016 are \$462 and are related to trademarks and trade names.

Note 14: Fair Value Measurements

Estimates of fair value for financial assets and liabilities are based on the framework established in the accounting guidance for fair value measurements. The framework defines fair value, provides guidance for measuring fair value and requires certain disclosures. The framework discusses valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flow) and the cost approach (cost to replace the service capacity of an asset or replacement cost). The framework utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.

These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3: Unobservable inputs that reflect management's assumptions, and include situations where there is little, if any, market activity for the asset or liability.

Balances Measured at Fair Value on a Recurring Basis

The following table presents information about our financial assets and liabilities that are measured at fair value on a recurring basis as of February 27, 2016 and November 28, 2015, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value.

Description	February 27, 2016	Fair Value Measurements Using:		
		Level 1	Level 2	Level 3
Assets:				
Marketable securities	\$ 3,620	\$3,620	\$-	\$-
Derivative assets	3,527	-	3,527	-
Interest rate swaps	3,510	-	3,510	-
Cash-flow hedges	1,741	-	1,741	-
Liabilities:				
Derivative liabilities	\$ 2,143	\$-	\$2,143	\$-
Contingent consideration liability	11,794	-	-	11,794

Description	November 28, 2015	Fair Value Measurements Using:		
		Level 1	Level 2	Level 3
Assets:				
Marketable securities	\$ 1,698	\$1,698	\$-	\$-
Derivative assets	15,185	-	15,185	-
Interest rate swaps	3,395	-	3,395	-
Cash-flow hedges	5,384	-	5,384	-
Liabilities:				
Derivative liabilities	\$ 4,744	\$-	\$4,744	\$-
Contingent consideration liability	10,854	-	-	10,854

We use the income approach in calculating the fair value of our contingent consideration liabilities using a discounted cash flow model and Level 3 inputs. The expected cash flows are affected by various significant judgments and assumptions, including revenue growth rates, profit margin percentages and discount rate, which are sensitive to change. Estimates of fair value are inherently uncertain and represent only management's reasonable expectation regarding future developments. These estimates and the judgments and assumptions upon which the estimates are based will, in all likelihood, differ in some respects from actual future results. The valuation of our contingent consideration related to the acquisition of Tonsan Adhesive, Inc. as of February 27, 2016 resulted in a fair value of \$11,644 and a \$487 net mark to market adjustment recorded to SG&A in the Condensed Consolidated Statement of Income as of February 27, 2016.

Contingent consideration liabilities	
Level 3 balance November 28, 2015	\$10,854
Opening balance sheet adjustment	700
Mark to market adjustment	487
Foreign currency translation adjustment	(247)
Level 3 balance February 27, 2016	\$11,794

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.

During the quarter ended February 27, 2016, we repurchased shares under this program, with an aggregate value of \$4,210. Of this amount, \$125 reduced common stock and \$4,085 reduced additional paid-in capital. We did not repurchase any shares during the quarter ended February 28, 2015.

Note 16: Redeemable Non-Controlling Interest

We account for the non-controlling interest in H.B. Fuller Kimya Sanayi Ticaret 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.

The results of operations for the HBF Kimya non-controlling interest is 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. HBF Kimya's functional currency is the Turkish lira and changes in exchange rates will affect the reported amount of the redeemable non-controlling interest.

	Redeemable
	Non-Controlling
	Interest
Balance at November 28, 2015	\$ 4,199
Net income (loss) attributed to redeemable non-controlling interest	41
Foreign currency translation adjustment	136
Balance at February 27, 2016	\$ 4,376

Note 17: Subsequent Event

On April 5, 2016, we entered into an agreement to purchase the equity of Advanced Adhesives Pty Limited and the business assets of Advanced Adhesives (New Zealand) Limited for a combined 12 million Australian dollars, or approximately \$9,000, subject to certain closing conditions. These entities develop, manufacture and distribute hot melt and water-based adhesives for packaging, woodworking and durable assembly applications in Australia and New Zealand.

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 28, 2015 for important background information related to our business.

As of the beginning of the first quarter ending February 27, 2016, we created a new global operating segment named Engineering Adhesives, which includes the electronics, automotive and Tonsan businesses from around the world. We will also begin reporting our Construction Products business on a global basis by combining our EIMEA and Asia Pacific construction businesses with our Construction Products operating segment. We now have five reportable segments: Americas Adhesives, EIMEA, Asia Pacific, Construction Products and Engineering Adhesives.

Net revenue in the first quarter of 2016 increased 0.8 percent from the first quarter of 2015. Sales volume increased 5.8 percent and product pricing decreased 0.5 percent compared to the first quarter of 2015. A weaker Euro, Turkish lira, Indian rupee, Canadian dollar, Chinese yuan and Australian dollar compared to the U.S. dollar, for the first quarter of 2016 compared to the first quarter of 2015 were the main drivers of a negative 4.5 percent currency effect. Gross profit margin increased 430 basis points primarily due to lower raw material costs.

Net income attributable to H.B. Fuller in the first quarter of 2016 was \$18.9 million as compared to \$9.7 million in the first quarter of 2015. On a diluted earnings per share basis, the first quarter of 2016 was \$0.37 per share as compared to \$0.19 per share for the same period of 2015.

Results of Operations

Net revenue:

	Quarter Ended		
	February	February	2016
	27,	28,	vs
(\$ in millions)	2016	2015	2015

Net revenue \$474.3 \$ 470.7 0.8 %

Constant currency growth is defined as the combined variances from product pricing, sales volume and small acquisitions such as Tonsan Adhesive, Inc. and Continental Products Limited. The following table shows the net revenue variance analysis for the first quarter of 2016 compared to the same period in 2015:

	Quarter Ended February 27, 2016	
	vs February 28, 2015	
Product pricing	(0.5	%)
Sales volume	5.8	%
Currency	(4.5	%)
Total	0.8	%

Constant currency growth was 5.3 percent in the first quarter of 2016 compared to the first quarter of 2015. Sales volume increased 5.8 percent and product pricing decreased 0.5 percent compared to 2015. The 5.3 percent constant currency growth in the first quarter of 2016 was driven by 88.1 percent growth in Engineering Adhesives, 4.3 percent growth in Construction Products, 4.0 percent growth in Asia Pacific and 2.6 percent growth in EIMEA partially offset by a decrease in Americas Adhesives of 4.4 percent. The 88.1 percent growth in Engineering Adhesives was primarily due to a full quarter of Tonsan revenue for the first quarter of 2016 compared to a partial quarter for the first quarter of 2015. The negative 4.5 percent currency impact was primarily driven by the devaluation of the Euro, Turkish lira, Indian rupee, Canadian dollar, Chinese yuan and Australian dollar compared to the U.S. dollar.

Cost of sales:

	Quarter Ended		
	February	February	2016
	27,	28,	vs
(\$ in millions)	2016	2015	2015
Raw materials	\$254.5	\$ 271.8	(6.4 %)
Other manufacturing costs	82.2	82.7	(0.5 %)
Cost of sales	\$336.7	\$ 354.5	(5.0 %)
Percent of net revenue	71.0 %	75.3 %	

Cost of sales in the first quarter of 2016 compared to the first quarter of 2015 decreased 430 basis points as a percentage of net revenue. Raw material cost as a percentage of net revenue decreased 410 basis points compared to last year due to lower raw material costs, sales mix and the 2015 impact of valuing inventories acquired in the Tonsan Adhesive, Inc. and Continental Products Limited acquisitions at fair value. Other manufacturing costs as a percentage of revenue decreased 20 basis points compared to last year.

Gross profit:

	Quarter Ended		
	February	February	2016
	27,	28,	vs
(\$ in millions)	2016	2015	2015
Gross profit	\$137.6	\$ 116.2	18.4 %
Percent of net revenue	29.0 %	24.7 %	

Gross profit in the first quarter of 2016 increased \$21.4 million or 18.4 percent and gross profit margin increased 430 basis points compared to the first quarter of 2015. Reduced raw material costs, better sales mix and a full quarter of Tonsan in the first quarter of 2016 resulted in the increase in gross profit.

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

	Quarter Ended		
	February	February	2016
	27,	28,	vs
(\$ in millions)	2016	2015	2015

SG&A	\$99.8	\$ 94.8	5.2 %
Percent of net revenue	21.0%	20.1 %	

SG&A expenses for the first quarter of 2016 increased \$5.0 million or 5.2 percent, compared to the first quarter of 2015. The increase is mainly due to a full quarter of Tonsan expenses for the first quarter of 2016, partially offset by lower expenses related to general spending reductions and foreign currency exchange rate benefits on spending outside the U.S.

Special charges, net:

	Quarter Ended		
	February	February	2016
	27,	28,	vs
(\$ in millions)	2016	2015	2015
Special charges, net	\$0.4	\$ 2.4	(82.5%)

The following table provides detail of special charges, net:

	Quarter Ended	
	February	February
	27,	28,
(\$ in millions)	2016	2015
Acquisition and transformation related costs	\$0.1	\$ 0.5
Workforce reduction costs	-	0.1
Facility exit costs	0.3	1.5
Other related costs	-	0.3
Special charges, net	\$0.4	\$ 2.4

The integration of the industrial adhesives business we acquired in March 2012 involved 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 first quarter ended February 27, 2016 and February 28, 2015, we incurred special charges, net of \$0.4 million and \$2.4 million respectively, for costs related to the Business Integration Project.

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. The following table provides the special charges, net attributable to each operating segment for the periods presented:

	Quarter Ended	
	February	
	27,	28,
(\$ in millions)	2016	2015
Americas Adhesives	\$-	\$ (0.3)
EIMEA	0.4	2.4
Company-wide	-	0.3
Special Charges, net	\$0.4	\$ 2.4

We expect total project costs will be approximately \$164.0 million. The following table provides detail of costs incurred inception-to-date as of February 27, 2016 for the Business Integration Project:

	Costs Incurred
	Inception-to-Date
(\$ in millions)	as of February
	27, 2016
Acquisition and transformation related costs	\$ 43.1
Work force reduction costs	41.1
Cash facility exit costs	40.5
Non-cash facility exit costs	17.7
Other related costs	19.3
Business Integration Project	\$ 161.7

Non-cash costs are primarily related to accelerated depreciation of long-lived assets.

Other income (expense), net:

	Quarter Ended		
	February 2016	February 2015	2015
	27,	28,	vs
(\$ in millions)	2016	2015	2015
Other income (expense), net	\$ (5.1)	\$ 0.4	NMP

NMP = Non-meaningful percentage

Other income (expense), net in the first quarter of 2016 included \$5.8 million of currency translation and re-measurement losses offset by \$0.2 million of net financing income and \$0.5 million of interest income. The \$5.8 million of currency translation and re-measurement losses is mostly related to the devaluation of the Argentine peso. Other income (expense), net in the first quarter of 2015 included \$0.6 million of net financing income offset by \$0.2 million of currency translation and re-measurement losses.

Interest expense:

	Quarter Ended		
	February	February	2016
	27,	28,	vs
(\$ in millions)	2016	2015	2015
Interest expense	\$6.3	\$ 6.1	3.4 %

Interest expense in the first quarter of 2016 as compared to the same period last year was higher due to higher average debt balances related to the Tonsan acquisition, in the first quarter of 2015 and slightly higher LIBOR rates on floating rate debt, offset by higher capitalized interest. We capitalized \$0.1 million of interest expense in the first quarter of 2016 compared to a minimal amount in the same period last year.

Income taxes:

	Quarter Ended		
	February	February	2016
	27,	28,	vs
(\$ in millions)	2016	2015	2015
Income taxes	\$8.8	\$ 4.8	83.7 %
Effective tax rate	33.6 %	35.9 %	

Income tax expense of \$8.8 million in the first quarter of 2016 includes \$0.7 million of discrete tax benefit related to research and development credit renewal. Excluding the discrete tax benefit the overall effective tax rate was 35.9 percent.

Income from equity method investments:

	Quarter Ended		
	February	February	2016
	27,	28,	vs
(\$ in millions)	2016	2015	2015
Income from equity method investments	\$1.7	\$ 1.3	31.1 %

The income from equity method investments relates to our 50 percent ownership of the Sekisui-Fuller joint venture in Japan. The higher income for the first quarter of 2016 compared to the first quarter of 2015 is primarily related to higher net income in our joint venture.

Net income attributable to non-controlling interests:

	Quarter Ended	
	February 2016	February 2015
	27, 28,	vs
(\$ in millions)	2016	2015
Net income attributable to non-controlling interests	\$-	\$ (0.1) 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:

	Quarter Ended		
	February 27, 2016	February 28, 2015	2016 vs 2015
(\$ in millions)			
Net income attributable to H.B. Fuller	\$18.9	\$ 9.7	94.8 %
Percent of net revenue	4.0 %	2.1 %	

The net income attributable to H.B. Fuller for the first quarter of 2016 was \$18.9 million compared to \$9.7 million for the first quarter of 2015. The diluted earnings per share for the first quarter of 2016 was \$0.37 per share as compared to \$0.19 per share for the first quarter of 2015.

Operating Segment Results

Through the fourth quarter of 2015, our business was reported in four operating segments: Americas Adhesives, Europe, India, Middle East and Africa (EIMEA), Asia Pacific and Construction Products. Changes in our management reporting structure during the first quarter of 2016 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 five reportable segments: Americas Adhesives, EIMEA, Asia Pacific, Construction Products and Engineering Adhesives. Prior period segment information has been recast retrospectively 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. For segment evaluation by the chief operating decision maker, segment operating income is defined as gross profit less SG&A expenses. Segment operating income excludes special charges, net. The product pricing/sales volume variance and small acquisitions are viewed as constant currency growth.

Net Revenue by Segment:

(\$ in millions)	Quarter Ended			
	February 27, 2016		February 28, 2015	
	Net Revenue	% of Total	Net Revenue	% of Total
Americas Adhesives	\$183.3	39 %	\$194.1	41 %
EIMEA	124.3	26 %	134.1	29 %
Asia Pacific	53.8	11 %	55.3	12 %
Construction Products	60.1	13 %	58.5	12 %
Engineering Adhesives	52.8	11 %	28.7	6 %
Total	\$474.3	100 %	\$470.7	100 %

Segment Operating Income:

(\$ in millions)	Quarter Ended			
	February 27, 2016		February 28, 2015	
	Segment Operating Income	% of Total	Segment Operating Income	% of Total
Americas Adhesives	\$26.3	70 %	\$21.7	101 %
EIMEA	6.1	16 %	0.7	3 %
Asia Pacific	3.7	10 %	3.1	15 %
Construction Products	0.8	2 %	1.0	5 %
Engineering Adhesives	0.9	2 %	(5.1)	(24 %)
Total	\$37.8	100 %	\$21.4	100 %

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

	Quarter Ended	
	February	February
	27,	28,
	2016	2015
(\$ in millions)		
Segment operating income	\$37.8	\$ 21.4
Special charges, net	(0.4)	(2.4)
Other income (expense), net	(5.1)	0.4
Interest expense	(6.3)	(6.1)
Income before income taxes and income from equity method investments	\$26.0	\$ 13.3

Americas Adhesives

	Quarter Ended		
	February	February	2016
	27,	28,	vs
	2016	2015	2015
(\$ in millions)			
Net revenue	\$183.3	\$ 194.1	(5.5 %)
Segment operating income	\$26.3	\$ 21.7	21.1 %
Segment profit margin %	14.3 %	11.2 %	%

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

	Quarter	
	Ended	
	February	
	27, 2016	
	vs	
	February	
	28, 2015	
Constant currency growth	(4.4	%)
Currency	(1.1	%)
Total	(5.5	%)

Net revenue decreased 5.5 percent in the first quarter of 2016 compared to the first quarter of 2015. The 4.4 percent decrease in constant currency growth was attributable to a 3.2 percent decrease in sales volume and 1.2 percent

decrease in product pricing. The weaker Canadian dollar compared to the U.S. dollar resulted in a 1.1 percent decrease. The sales volume decrease was driven by lost market share in certain consumer based markets and general end market weakness in Latin America. As a percentage of net revenue, raw material costs decreased 370 basis points mainly due to a reduction in raw material costs. Other manufacturing costs as a percentage of net revenue decreased 20 basis. Segment operating income increased 21.1 percent and segment profit margin as a percentage of net revenue increased 310 basis points in the first quarter compared to the first quarter last year.

EIMEA

	Quarter Ended		
	February	February	2016
	27,	28,	vs
(\$ in millions)	2016	2015	2015
Net revenue	\$124.3	\$ 134.1	(7.3 %)
Segment operating income	\$6.1	\$ 0.7	800.0%
Segment profit margin%	5.0 %	0.5 %	

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

	Quarter Ended February 27, 2016		
	vs		
	February 28, 2015		
Constant currency growth	2.6	%	
Currency	(9.9)	(%)	
Total	(7.3)	(%)	

Net revenue decreased 7.3 percent in the first quarter of 2016 compared to the first quarter of 2015. Sales volume increased 2.8 percent and product pricing decreased 0.2 percent. The negative currency effect of 9.9 percent was primarily the result of a weaker Euro, Indian rupee and Turkish lira compared to the U.S. dollar. Sales volume growth was primarily related to the hygiene market, with strong growth in the emerging markets, as well as core Europe. Raw material cost as a percentage of net revenue decreased 330 basis points in the first quarter compared to the first quarter last year primarily due to lower raw material costs. Other manufacturing costs as a percentage of net revenue were 110 basis points lower than 2015 as a result of the elimination of production inefficiencies incurred in the prior year related to the Business Integration Project. As a result, segment operating income increased 800 percent and segment profit margin increased 450 basis points compared to the first quarter of 2015.

Asia Pacific

	Quarter Ended		
	February	February	2016
	27,	28,	vs
	2016	2015	2015
(\$ in millions)			
Net revenue	\$53.8	\$ 55.3	(2.7 %)
Segment operating income	\$3.7	\$ 3.1	19.3 %
Segment profit margin %	7.0 %	5.7 %	

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

**Quarter
Ended**

**February
27, 2016**

**vs
February
28, 2015**

Constant currency growth	4.0	%
Currency	(6.7	%)
Total	(2.7	%)

Net revenue in the first quarter of 2016 decreased 2.7 percent compared to the first quarter of last year. The 4.0 percent increase in constant currency growth was attributable to a 4.5 percent increase in sales volume partially offset by a 0.5 percent decrease in product pricing. Most of the Asian markets showed growth compared to the first quarter of 2015 mainly driven by Southeast Asia, Greater China and Australia. Negative currency effects of 6.7 percent compared to the first quarter of 2015 were primarily driven by the weaker Australian dollar, Chinese yuan and Malaysian ringgit compared to the U.S. dollar. Raw material costs as a percentage of net revenue decreased 50 basis points compared to the first quarter of 2015 due to lower raw material costs and changes in sales mix. Other manufacturing costs as a percentage of net revenue increased 70 basis points compared to the first quarter of 2015. Operating expense as a percentage of net revenue decreased 150 basis points compared to the first quarter of 2015. Segment operating income increased 19.3 percent and segment profit margin increased 130 basis points compared to the first quarter of 2015.

Construction Products

	Quarter Ended		vs
	February 27, 2016	February 28, 2015	
(\$ in millions)			2016 2015
Net revenue	\$60.1	\$ 58.5	2.8 %
Segment operating income	\$0.8	\$ 1.0	(22.6%)
Segment profit margin %	1.3 %	1.7 %	

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

	Quarter Ended February 27, 2016		
	vs February 28, 2015		
Constant currency growth	4.3	%	
Currency	(1.5	%)	
Total	2.8	%	

Net revenue increased 2.8 percent in the first quarter of 2016 compared to the first quarter of 2015. The increase in constant currency growth was driven by 2.3 percent increase in sales volume and a 2.0 percent increase in product pricing. Negative currency effects of 1.5 percent compared to the first quarter of last year were primarily driven by the weaker Australian dollar compared to the U.S. dollar. The increase in sales volume was primarily attributed to market share gains from prior periods with several key retail partners. The increase in pricing is mainly due to price increases related to certain product lines in multiple channels. Raw material cost as a percentage of net revenue was 220 basis points lower in the first quarter of 2016 compared to last year primarily due to lower raw material costs and a change in product mix. Other manufacturing costs as a percentage of net revenue were 200 basis points higher in the first quarter of 2016 compared to the first quarter of 2015 mainly due to higher supply chain costs as we complete the facility upgrade and expansion project. Segment operating income decreased 22.6 percent and segment profit margin decreased 40 basis points in the first quarter compared to the first quarter last year.

Engineering Adhesives

	Quarter Ended		
	February	February	2016
	27,	28,	vs
(\$ in millions)	2016	2015	2015
Net revenue	\$52.8	\$ 28.7	84.1 %
Segment operating income	\$0.9	\$ (5.1)	NMP
Segment profit margin %	1.7 %	(18.0 %)	

NMP = non meaningful percentage

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

	Quarter Ended February 27, 2016	
	vs	
	February 28, 2015	
Constant currency growth	88.1	%
Currency	(4.0)	%)
Total	84.1	%

Net revenue increased 84.1 percent in the first quarter of 2016 compared to the first quarter of 2015. The increase was driven by a 90.0 percent increase in sales volume partially offset by a 1.9 percent decrease in product pricing. The increase in sales volume was primarily attributed to a full quarter of the Tonsan business which was acquired late in the first quarter of 2015. Raw material cost as a percentage of net revenue was 1,500 basis points lower in the first quarter of 2016 compared to the first quarter of 2015 primarily due to the impact of valuing inventories related to the Tonsan acquisition at fair value, lower raw material costs and changes in product mix associated with the acquisition of Tonsan. Other manufacturing costs as a percentage of net revenue were 210 basis points lower in the first quarter of 2016 compared to the first quarter of 2015 primarily due to the impact of a full quarter of the Tonsan business. Segment operating income increased \$6.0 million and segment profit margin increased 1,970 basis points in the first quarter compared to the first quarter last year.

Financial Condition, Liquidity and Capital Resources

Total cash and cash equivalents as of February 27, 2016 were \$126.8 million compared to \$119.2 million as of November 28, 2015 and \$71.6 million as of February 28, 2015. Of the \$126.8 million in cash and cash equivalents as of February 27, 2016, \$102.8 million was held outside the United States. Total long and short-term debt was \$723.4 million as of February 27, 2016, \$722.9 million as of November 28, 2015 and \$763.6 million as of February 28, 2015. The total debt to total capital ratio as measured by Total Debt divided by (Total Debt plus Total Equity) was 45.0 percent as of February 27, 2016 as compared to 45.3 percent as of November 28, 2015 and 46.8 percent as of February 28, 2015.

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 February 27, 2016, we were in compliance with all covenants of our contractual obligations as shown in the following table:

Covenant	Debt Instrument	Measurement	Result as of
			February 27, 2016
TTM EBITDA / TTM Interest Expense	All Debt Instruments	Not less than 2.5	10.5
Total Indebtedness / TTM EBITDA	All Debt Instruments	Not greater than 3.5	2.7

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) [reserved], (viii) cash expenses incurred during fiscal years 2013 through 2015 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 acquired business or the restructuring of the company's Europe, India, Middle East and Africa operations, not to exceed (x) \$39.8 million for the period beginning with the fiscal quarter ending November 30, 2013 through and including the fiscal quarter ending May 31, 2014 and (y) \$20.0 million for the period beginning with the fiscal quarter ending August 30, 2014 through and including the fiscal quarter ending November 28, 2015, (ix) cash expenses related to the Tonsan acquisition for advisory services and for arranging financing for the acquired business (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 acquired business) with cash expenses not to exceed \$10.0 million, 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 Form 8-K dated October 31, 2014.

Pursuant to the Credit Agreement dated October 31, 2014, the company elected to increase the Total Indebtedness / TTM EBITDA ratio to a maximum of 3.75 to 1.00 for four quarters beginning with first fiscal quarter ending February 28, 2015. The maximum ratio returned to 3.50 to 1.00 in the first fiscal quarter 2016.

We believe we have the ability to meet all of our contractual obligations and commitments in fiscal 2016.

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.

	February 27, 2016	February 28, 2015
Net working capital as a percentage of annualized net revenue ¹	23.1	% 22.1