

FULLER H B CO  
Form 10-Q  
June 27, 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 May 31, 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)**

**55110-5101**  
**(Zip Code)**

**(651) 236-5900**

**(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 50,215,987 as of June 19, 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		26 Weeks Ended	
	May 31, 2014	June 1, 2013	May 31, 2014	June 1, 2013
<b>Net revenue</b>	<b>\$ 544,034</b>	\$ 519,016	<b>\$ 1,030,015</b>	\$ 998,858
Cost of sales	(401,379)	(372,400)	(754,315)	(718,866)
Gross profit	<b>142,655</b>	146,616	<b>275,700</b>	279,992
Selling, general and administrative expenses	(96,372)	(93,806)	(193,171)	(191,446)
Special charges, net	(13,538)	(10,843)	(25,272)	(16,176)
Other income (expense), net	(204)	(1,814)	(1,254)	(1,436)
Interest expense	(4,760)	(4,884)	(8,886)	(10,211)
<b>Income before income taxes and income from equity method investments</b>	<b>27,781</b>	35,269	<b>47,117</b>	60,723
Income taxes	(8,838)	(10,864)	(15,379)	(17,984)
Income from equity method investments	<b>1,683</b>	1,643	<b>3,537</b>	4,083
<b>Net income including non-controlling interests</b>	<b>20,626</b>	26,048	<b>35,275</b>	46,822
Net income attributable to non-controlling interests	(89)	(119)	(167)	(216)
<b>Net income attributable to H.B. Fuller</b>	<b>\$ 20,537</b>	\$ 25,929	<b>\$ 35,108</b>	\$ 46,606
<b>Earnings per share attributable to H.B. Fuller common stockholders:</b>				
Basic	<b>\$ 0.41</b>	\$ 0.52	<b>\$ 0.70</b>	\$ 0.93
Diluted	<b>\$ 0.40</b>	\$ 0.51	<b>\$ 0.69</b>	\$ 0.91
<b>Weighted-average common shares outstanding:</b>				
Basic	<b>49,956</b>	49,935	<b>49,933</b>	49,876
Diluted	<b>51,175</b>	51,152	<b>51,215</b>	51,090
<b>Dividends declared per common share</b>	<b>\$ 0.120</b>	\$ 0.100	<b>\$ 0.220</b>	\$ 0.185

See accompanying Notes to Condensed Consolidated Financial Statements.

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

(In thousands)

(Unaudited)

	<b>13 Weeks Ended</b>		<b>26 Weeks Ended</b>	
	<b>May 31,</b>	<b>June 1,</b>	<b>May 31,</b>	<b>June 1,</b>
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>Net income including non-controlling interests</b>	<b>\$ 20,626</b>	\$ 26,048	<b>\$ 35,275</b>	\$ 46,822
Other comprehensive income (loss)				
Foreign currency translation	(1,377)	(5,647)	(830)	(9,109)
Defined benefit pension plans adjustment, net of tax	1,021	1,965	2,039	3,941
Interest rate swaps, net of tax	10	10	20	20
Cash-flow hedges, net of tax	29	(21)	32	189
<b>Other comprehensive income (loss)</b>	<b>(317)</b>	(3,693)	<b>1,261</b>	(4,959)
Comprehensive income	<b>20,309</b>	22,355	<b>36,536</b>	41,863
Less: Comprehensive income attributable to non-controlling interests	<b>97</b>	73	<b>164</b>	177
<b>Comprehensive income attributable to H.B. Fuller</b>	<b>\$ 20,212</b>	\$ 22,282	<b>\$ 36,372</b>	\$ 41,686

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)

	May 31, 2014	November 30, 2013
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 95,044	\$ 155,121
Trade receivables (net of allowances \$8,951 and \$8,539, for May 31, 2014 and November 30, 2013, respectively)	354,436	331,125
Inventories	281,914	221,537
Other current assets	99,272	85,046
Current assets of discontinued operations	1,865	1,865
<b>Total current assets</b>	<b>832,531</b>	794,694
Property, plant and equipment	1,100,261	1,032,792
Accumulated depreciation	(615,213)	(598,405)
<b>Property, plant and equipment, net</b>	<b>485,048</b>	434,387
Goodwill	264,389	263,103
Other intangibles, net	208,200	219,401
Other assets	170,647	161,443
<b>Total assets</b>	<b>\$ 1,960,815</b>	\$ 1,873,028
<b>Liabilities, redeemable non-controlling interest and total equity</b>		
<b>Current liabilities:</b>		
Notes payable	\$ 29,466	\$ 20,589
Trade payables	222,284	201,575
Accrued compensation	51,431	76,218
Income taxes payable	8,233	10,830
Other accrued expenses	52,330	46,566
Current liabilities of discontinued operations	5,000	5,000
<b>Total current liabilities</b>	<b>368,744</b>	360,778
Long-term debt, excluding current maturities	536,584	472,315
Accrued pension liabilities	45,988	52,922
Other liabilities	49,755	51,835
<b>Total liabilities</b>	<b>1,001,071</b>	937,850

<b>Commitments and contingencies</b>		
<b>Redeemable non-controlling interest</b>	<b>4,886</b>	<b>4,717</b>
<b>Equity:</b>		
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	50,193,237 and 50,228,543, for May 31, 2014 and November 30, 2013,	
respectively	<b>50,193</b>	<b>50,229</b>
Additional paid-in capital	<b>43,647</b>	<b>44,490</b>
Retained earnings	<b>931,311</b>	<b>907,308</b>
Accumulated other comprehensive income (loss)	<b>(70,698)</b>	<b>(71,962)</b>
<b>Total H.B. Fuller stockholders' equity</b>	<b>954,453</b>	<b>930,065</b>
<b>Non-controlling interests</b>	<b>405</b>	<b>396</b>
<b>Total equity</b>	<b>954,858</b>	<b>930,461</b>
<b>Total liabilities, redeemable non-controlling interest and total equity</b>	<b>\$ 1,960,815</b>	<b>\$ 1,873,028</b>

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**

	<b>Common Stock</b>	<b>Additional Paid-in Capital</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Non- Controlling Interests</b>	<b>Total</b>
<b>Balance at December 1, 2012</b>	\$ 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)
<b>Balance at November 30, 2013</b>	50,229	44,490	907,308	(71,962)	396	930,461
Comprehensive income			35,108	1,264	164	36,536
Dividends			(11,105)			(11,105)
Stock option exercises	216	4,435				4,651
Share-based compensation plans other, net	64	7,405				7,469
Excess tax benefit on share-based compensation		2,450				2,450
Repurchases of common stock	(316)	(15,133)				(15,449)
Redeemable non-controlling interest					(155)	(155)
<b>Balance at May 31, 2014</b>	<b>\$ 50,193</b>	<b>\$ 43,647</b>	<b>\$ 931,311</b>	<b>\$ (70,698)</b>	<b>\$ 405</b>	<b>\$ 954,858</b>

See accompanying Notes to Condensed Consolidated Financial Statements.

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

(In thousands)

(Unaudited)

	<b>26 Weeks Ended</b>	
	<b>May 31, 2014</b>	<b>June 1, 2013</b>
<b>Cash flows from operating activities from continuing operations:</b>		
Net income including non-controlling interests	\$ 35,275	\$ 46,822
Adjustments to reconcile net income including non-controlling interests to net cash provided by (used in) operating activities from continuing operations:		
Depreciation	22,073	18,887
Amortization	11,578	11,101
Deferred income taxes	(586)	(428)
(Income) from equity method investments, net of dividends received	(3,537)	4,984
Share-based compensation	7,148	6,215
Excess tax benefit from share-based compensation	(2,450)	(2,029)
Change in assets and liabilities, net of effects of acquisitions and discontinued operations:		
Trade receivables, net	(23,847)	1,152
Inventories	(60,635)	(16,950)
Other assets	(12,569)	(8,959)
Trade payables	27,122	1,046
Accrued compensation	(24,921)	(11,951)
Other accrued expenses	5,601	(1,888)
Income taxes payable	(3,990)	(8,231)
Accrued / prepaid pensions	(9,071)	(1,499)
Other liabilities	(3,211)	(4,280)
Other	2,180	6,719
<b>Net cash provided by (used in) operating activities from continuing operations</b>	<b>(33,840)</b>	<b>40,711</b>
<b>Cash flows from investing activities from continuing operations:</b>		