FULLER H B CO
Form 10-Q
September 25, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended August 29, 2015

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	**41-0268370**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
1200 Willow Lake Boulevard, St. Paul, Minnesota	**55110-5101**
(Address of principal executive offices)	**(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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 x No ¨

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (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 x

The number of shares outstanding of the Registrant s Common Stock, par value $1.00 per share, was 50,561,045 as of September 17, 2015.

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 29, 2015	August 30, 2014	August 29, 2015	August 30, 2014
Net revenue	**$ 524,133**	$ 526,765	**$ 1,535,556**	$ 1,556,780
Cost of sales	**(377,293)**	(401,611)	**(1,123,573)**	(1,155,926)
Gross profit	**146,840**	125,154	**411,983**	400,854
Selling, general and administrative expenses	**(98,297)**	(96,779)	**(293,712)**	(289,950)
Special charges, net	**(1,297)**	(12,343)	**(4,592)**	(37,615)
Other income (expense), net	**(1,040)**	(289)	**(1,246)**	(1,543)
Interest expense	**(6,448)**	(5,292)	**(18,765)**	(14,178)
Income from continuing operations before income taxes and income from equity method investments	**39,758**	10,451	**93,668**	57,568
Income taxes	**(14,372)**	(8,035)	**(34,528)**	(23,414)
Income from equity method investments	**1,500**	1,668	**4,157**	5,205
Income from continuing operations	**26,886**	4,084	**63,297**	39,359
Loss from discontinued operations, net of tax			**(1,300)**	
Net income including non-controlling interests	**26,886**	4,084	**61,997**	39,359
Net income attributable to non-controlling interests	**(79)**	(97)	**(308)**	(264)
Net income attributable to H.B. Fuller	**$ 26,807**	$ 3,987	**$ 61,689**	$ 39,095
Earnings per share attributable to H.B. Fuller common stockholders:				
Basic[1]				
Income from continuing operations	**0.53**	0.08	**1.25**	0.78
Loss from discontinued operations			**(0.03)**	
Basic earnings per share	**$ 0.53**	$ 0.08	**$ 1.23**	$ 0.78
Diluted[1]				

Income from continuing operations		**0.52**		0.08		**1.22**		0.76
Loss from discontinued operations						**(0.03)**		
Diluted earnings per share	**$**	**0.52**	$	0.08	**$**	**1.20**	$	0.76
Weighted-average common shares outstanding:								
Basic		**50,421**		50,053		**50,318**		49,973
Diluted		**51,530**		51,297		**51,460**		51,242
Dividends declared per common share	**$**	**0.13**	$	0.12	**$**	**0.38**	$	0.34

[1] Income per share amounts may not add due to rounding

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)

	13 Weeks Ended		39 Weeks Ended	
	August 29, 2015	**August 30, 2014**	**August 29, 2015**	**August 30, 2014**
Net income including non-controlling interests	**$ 26,886**	$ 4,084	**$ 61,997**	$ 39,359
Other comprehensive loss				
Foreign currency translation	**(10,719)**	(9,344)	**(48,639)**	(10,174)
Defined benefit pension plans adjustment, net of tax	**1,527**	1,019	**4,582**	3,058
Interest rate swaps, net of tax	**10**	11	**30**	31
Cash-flow hedges, net of tax		48	**(25)**	80
Other comprehensive loss	**(9,182)**	(8,266)	**(44,052)**	(7,005)
Comprehensive income (loss)	**17,704**	(4,182)	**17,945**	32,354
Less: Comprehensive (loss) income attributable to non-controlling interests	**(19)**	99	**294**	263
Comprehensive income (loss) attributable to H.B. Fuller	**$ 17,723**	$ (4,281)	**$ 17,651**	$ 32,091

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)

	August 29, 2015	November 29, 2014
Assets		
Current assets:		
Cash and cash equivalents	**$ 85,821**	$ 77,569
Trade receivables (net of allowances - $10,588 and $10,246, for August 29, 2015 and November 29, 2014, respectively)	**341,932**	341,307
Inventories	**266,896**	251,290
Other current assets	**97,590**	93,105
Current assets of discontinued operations		1,865
Total current assets	**792,239**	765,136
Property, plant and equipment	**1,130,187**	1,106,506
Accumulated depreciation	**(599,277)**	(603,872)
Property, plant and equipment, net	**530,910**	502,634
Goodwill	**386,594**	255,972
Other intangibles, net	**216,886**	195,938
Other assets	**142,009**	149,326
Total assets	**$ 2,068,638**	$ 1,869,006
Liabilities, redeemable non-controlling interest and total equity		
Current liabilities:		
Notes payable	**$ 31,248**	$ 27,149
Current maturities of long-term debt	**20,625**	
Trade payables	**170,602**	174,494
Accrued compensation	**40,753**	45,746
Income taxes payable	**10,658**	13,761
Other accrued expenses	**51,303**	51,049
Current liabilities of discontinued operations		5,000
Total current liabilities	**325,189**	317,199
Long-term debt, excluding current maturities	**675,705**	547,735
Accrued pension liabilities	**58,395**	67,193

Other liabilities	**100,864**	41,775
Total liabilities	**1,160,153**	973,902
Commitments and contingencies		
Redeemable non-controlling interest	**4,343**	4,654
Equity:		
H.B. Fuller stockholders equity:		
Preferred stock (no shares outstanding) Shares authorized 10,045,900		
Common stock, par value $1.00 per share, Shares authorized 160,000,000, Shares outstanding 50,560,303 and 50,310,803, for August 29, 2015 and November 29, 2014, respectively	**50,560**	50,311
Additional paid-in capital	**68,400**	53,269
Retained earnings	**976,181**	933,819
Accumulated other comprehensive income (loss)	**(191,390)**	(147,352)
Total H.B. Fuller stockholders equity	**903,751**	890,047
Non-controlling interests	**391**	403
Total equity	**904,142**	890,450
Total liabilities, redeemable non-controlling interest and total equity	**$ 2,068,638**	$ 1,869,006

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 30, 2013	$ 50,229	$ 44,490	$ 907,308	$ (71,962)	$ 396	$ 930,461
Comprehensive income (loss)			49,773	(75,390)	364	(25,253)
Dividends			(23,262)			(23,262)
Stock option exercises	330	6,522				6,852
Share-based compensation plans other, net	70	14,092				14,162
Tax benefit on share-based compensation plans		3,357				3,357
Repurchases of common stock	(318)	(15,192)				(15,510)
Redeemable non-controlling interest					(357)	(357)
Balance at November 29, 2014	50,311	53,269	933,819	(147,352)	403	890,450
Comprehensive income (loss)			61,689	(44,038)	294	17,945
Dividends			(19,327)			(19,327)
Stock option exercises	222	4,120				4,342
Share-based compensation plans other, net	81	11,850				11,931
Tax benefit on share-based compensation plans		1,321				1,321
Repurchases of common stock	(54)	(2,160)				(2,214)
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					(230)	(230)
Balance at August 29, 2015	**$ 50,560**	**$ 68,400**	**$ 976,181**	**$ (191,390)**	**$ 391**	**$ 904,142**

See accompanying Notes to unaudited Condensed Consolidated Financial Statements.

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H.B. FULLER COMPANY AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	39 Weeks Ended	
	August 29, 2015	**August 30, 2014**
Cash flows from operating activities:		
Net income including non-controlling interests	**$ 61,997**	$ 39,359
Loss from discontinued operations, net of tax	**1,300**	
Adjustments to reconcile net income including non-controlling interests and loss from discontinued operations, net of tax to net cash provided by (used in) operating activities:		
Depreciation	**35,696**	34,727
Amortization	**20,046**	17,311
Deferred income taxes	**4,775**	(78)
(Income) from equity method investments, net of dividends received	**(4,157)**	(2,958)
Share-based compensation	**10,325**	10,163
Excess tax benefit from share-based compensation	**(1,321)**	(3,123)
Non-cash charge for the sale of inventories revalued at the date of acquisition	**2,416**	
Change in assets and liabilities, net of effects of acquisitions:		
Trade receivables, net	**15,860**	(18,390)
Inventories	**(19,955)**	(63,071)
Other assets	**2,241**	(25,612)
Trade payables	**10,557**	26,372
Accrued compensation	**(4,617)**	(31,116)
Other accrued expenses	**4,705**	11,969
Income taxes payable	**1,714**	(4,001)
Accrued / prepaid pensions	**(6,565)**	(12,610)
Other liabilities	**(3,262)**	(5,886)
Other	**21,289**	14,387
Net cash provided by (used in) operating activities	**153,044**	(12,557)
Cash flows from investing activities:		
Purchased property, plant and equipment	**(48,638)**	(116,213)
Purchased businesses, net of cash acquired	**(217,572)**	(151)
Proceeds from sale of property, plant and equipment	**1,529**	781
Net cash used in investing activities	**(264,681)**	(115,583)
Cash flows from financing activities:		
Proceeds from long-term debt	**357,000**	235,000
Repayment of long-term debt	**(207,500)**	(174,000)

Net proceeds from (payments on) notes payable	**(2,114)**	10,390
Dividends paid	**(19,174)**	(17,052)
Proceeds from stock options exercised	**4,342**	6,331
Excess tax benefit from share-based compensation	**1,321**	3,123
Repurchases of common stock	**(2,214)**	(15,501)
Net cash provided by financing activities	**131,661**	48,291
Effect of exchange rate changes	**(6,478)**	272
Net change in cash and cash equivalents	**13,546**	(79,577)
Cash used in operating activities of discontinued operations	**(5,294)**	
Net change in cash and cash equivalents	**8,252**	(79,577)
Cash and cash equivalents at beginning of period	**77,569**	155,121
Cash and cash equivalents at end of period	**$ 85,821**	$ 75,544
Supplemental disclosure of cash flow information:		
Dividends paid with company stock	**$ 153**	$ 127
Cash paid for interest, net of amount capitalized of $91 and $2,461 for the periods ended August 29, 2015 and August 30, 2014, respectively	**$ 19,735**	$ 17,169
Cash paid for income taxes, net of refunds	**$ 23,748**	$ 13,118

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: 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 29, 2014 as filed with the Securities and Exchange Commission.

New Accounting Pronouncements:

In July 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-11, Inventory (Topic 330) Simplifying the Measurement of Inventory. This Update requires a company to measure inventory within the scope of this Update (inventory measured using first-in, first-out (FIFO) or average cost) at the lower of cost and net realizable value methods. Subsequent measurement is unchanged for inventory measured using the last-in, first-out (LIFO) or retail inventory method. Our effective date for adoption is our fiscal year beginning December 3, 2017. We are evaluating the effect that ASU No. 2015-11 will have on our condensed consolidated financial statements and related disclosures.

In May 2015, the FASB issued ASU No. 2015-07, Fair Value Measurement (Subtopic 820) Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent). The amendments in this Update remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient thus eliminating the diversity that currently exists in the disclosure of these assets. Our effective date for adoption is our fiscal year beginning December 4, 2016. We are evaluating the effect that ASU No. 2015-07 will have on our condensed consolidated financial statements and related disclosures.

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-03, Interest-Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issue Costs. This guidance requires debt issue costs to be presented as a direct deduction from the carrying amount of debt, consistent with debt discounts. This is a change from the current presentation of classifying debt issue costs as a deferred charge. Our effective date for adoption is our fiscal year beginning December 3, 2017. We have evaluated the effect that ASU No. 2015-03 will have on our condensed consolidated financial statements and related disclosures and determined it will not have a material impact.

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. The Update 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 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

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 acquisition supports our growth strategy for emerging markets and delivers specialty adhesive products to key customers in East and Central Africa. The purchase price of 1,459 or approximately $1,647, net of cash acquired of 329 or $371, was funded through existing cash and was recorded in our EIMEA (Europe, India, Middle East and Africa) operating segment. We incurred acquisition related costs of approximately $16, which were recorded as selling, general and administrative expenses in the Condensed Consolidated Statements of Income.

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

	Preliminary Valuation February 28, 2015	Fair Value Adjustments	Final Valuation
Current assets	$ 1,439	$ (82)	$ 1,357
Property, plant and equipment	183	(40)	143
Goodwill	418	44	462
Other intangibles			
Customer relationships	416		416
Noncompetition agreements	30		30
Other assets	7		7
Current liabilities	(591)		(591)
Other liabilities	(189)	12	(177)
Total purchase price	$ 1,713	$ (66)	$ 1,647

The expected lives of the acquired intangible assets are 13 years for customer relationships and 3 years for noncompetition agreements.

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 acquisition strengthens our customer relationships in the high-value, fast growing engineering adhesives markets. 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 January 28, 2015 term loan and was recorded in our Asia Pacific operating segment. We incurred acquisition related costs of approximately $373, which were recorded as selling, general and administrative expenses in the Condensed Consolidated Statements of Income.

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 the 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 were $11,773 and $37,630, respectively.

The acquisition fair value measurement was preliminary as of August 29, 2015, subject to the completion of the valuation of Tonsan Adhesive Inc. and further management reviews and assessment of the preliminary fair values of the assets acquired and liabilities assumed. We expect the fair value measurement process to be completed in the fourth quarter of 2015.

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

	Preliminary Valuation February 28, 2015	Purchase Price and Fair Value Adjustments	Preliminary Valuation August 29, 2015
Current assets	$ 50,922	$ (500)	$ 50,422
Property, plant and equipment	58,549	(1,022)	57,527
Goodwill	155,232	(4,913)	150,319
Other intangibles			
Developed technology	18,500	100	18,600
Customer relationships	12,400	13,300	25,700
Trademarks/trade names	10,900	100	11,000
Other assets	139	13,819	13,958
Current liabilities	(30,590)	(2,210)	(32,800)
Other liabilities	(49,497)	(17,531)	(67,028)
Redeemable non-controlling interests	(10,630)	(1,143)	(11,773)
Total purchase price	$ 215,925	$	$ 215,925

The expected lives of the acquired intangible assets are 7 years for developed technology, 11 years for customer relationships and 14 years for trademarks/trade names.

Based on fair value measurement of the assets acquired and liabilities assumed, we allocated $150,319 to goodwill for the expected synergies from combining Tonsan with our existing business. The goodwill was assigned to our Asia Pacific operating segment.

We have analyzed Tonsan s results of operations and concluded that it does not represent a material business combination. Therefore, unaudited pro forma consolidated results of operations, as if the acquisition of Tonsan had occurred at the beginning of fiscal 2015, have not been presented.

ProSpec® Construction Products: On September 3, 2014 we acquired the ProSpec construction products business, a provider of tile and stone installation products. The acquisition was an asset purchase and strengthens our customer profile in the southeastern and western regions of the United States. The purchase price of $26,183 was funded through existing cash and was recorded in our Construction Products operating segment.

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

	Final Valuation
Current assets	$ 6,502
Property, plant and equipment	7,976
Goodwill	7,443
Other intangibles	
Customer relationships	4,300

Technology		1,500
Trademarks/trade names		200
Current liabilities		(1,738)
Total purchase price	$	26,183

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 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 original contingent consideration in the amount of $5,000 was included in current liabilities of discontinued operations in the Consolidated Balance Sheets at November 29, 2014. On June 15, 2015, we entered into an agreement to settle various matters related to the divesture of the Paints business, including the settlement of the contingent consideration, for $8,000. As a result of this agreement, we recorded a loss from discontinued operations, net of tax of $1,300, in the second quarter of 2015. We paid $8,000 related to this agreement in the third quarter of 2015.

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 29, 2014.

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 third quarter of 2015. The fair value of options granted during the 39 weeks ended August 29, 2015 and during the 13 weeks and 39 weeks ended August 30, 2014 were calculated using the following weighted average assumptions:

	13 Weeks Ended	39 Weeks Ended	
	August 30, 2014	**August 29, 2015**	**August 30, 2014**
Expected life (in years)	4.75	**4.61**	4.75
Weighted-average expected volatility	31.68%	**30.91%**	34.13%
Expected volatility	31.68%	**25.50% - 31.67%**	31.68% - 37.06%
Risk-free interest rate	1.61%	**1.26%**	1.52%
Expected dividend yield	0.96%	**1.17%**	0.82%
Weighted-average fair value of grants	$ 12.89	**$10.21**	$14.19

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, 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 $3,006 and $3,015 was included in our Condensed Consolidated Statements of Income for the 13 weeks ended August 29, 2015 and August 30, 2014, respectively. Total share-based compensation expense of $10,325 and $10,163 was included in our Condensed Consolidated Statements of Income for the 39 weeks ended August 29, 2015 and August 30, 2014, respectively. All share-based compensation expense was recorded as selling, general and administrative expense. For the 13 weeks ended August 29, 2015 and August 30, 2014 there was $411 and $673 of excess tax benefit recognized, respectively. For the 39 weeks ended August 29, 2015 and August 30, 2014 there was $1,321 and $3,123 of excess tax benefit recognized, respectively.

As of August 29, 2015, there was $8,459 of unrecognized compensation costs related to unvested stock option awards, which is expected to be recognized over a weighted-average period of 1.2 years. Unrecognized compensation costs related to unvested restricted stock shares was $1,420 which is expected to be recognized over a weighted-average period of 0.7 years. Unrecognized compensation costs related to unvested restricted stock units was $6,687 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 29, 2015 and changes during the 39 weeks then ended is presented below:

	Options	Weighted-Average Exercise Price
Outstanding at November 29, 2014	2,534,473	$ 30.39
Granted	704,180	41.17
Exercised	(261,914)	22.69
Forfeited or cancelled	(88,971)	42.15
Outstanding at August 29, 2015	2,887,768	$ 33.36

There were no options granted during the 13 weeks ended August 29, 2015. The total fair values of options granted during the 13 weeks ended August 30, 2014 were $73. Total intrinsic values of options exercised during the 13 weeks ended August 29, 2015 and August 30, 2014 were $1,565 and $1,925, 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 29, 2015 and August 30, 2014 were $7,189 and $5,972, respectively. Total intrinsic values of options exercised during the 39 weeks ended August 29, 2015 and August 30, 2014 were $5,114 and $6,855, respectively. Proceeds received from option exercises during the 13 weeks ended August 29, 2015 and August 30, 2014 were $391 and $1,680, respectively and $4,342 and $6,331 during the 39 weeks ended August 29, 2015 and August 30, 2014, respectively.

A summary of nonvested restricted stock as of August 29, 2015 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 29, 2014	188,661	188,622	377,283	$ 40.70	1.0
Granted	142,260		142,260	41.00	1.4
Vested	(82,333)	(67,294)	(149,627)	37.53	
Forfeited	(9,814)	(8,882)	(18,696)	40.05	1.1
Nonvested at August 29, 2015	238,774	112,446	351,220	$ 42.24	1.0

Total fair values of restricted stock vested during the 13 weeks ended August 29, 2015 and August 30, 2014 were $57 and $217, respectively. Total fair values of restricted stock vested during the 39 weeks ended August 29, 2015 and August 30, 2014 were $6,121 and $8,758, respectively. The total fair value of nonvested restricted stock at August 29, 2015 was $14,836.

We repurchased 193 and 1,095 restricted stock shares during the 13 weeks ended August 29, 2015 and August 30, 2014, respectively and 54,196 and 67,407 during the 39 weeks ended August 29, 2015 and August 30, 2014, 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 29, 2015, and changes during the 39 weeks then ended is presented below:

	Non-employee Directors	**Employees**	**Total**
Units outstanding November 29, 2014	342,547	52,303	394,850
Participant contributions	15,136	3,614	18,750
Company match contributions[1]	21,519	361	21,880
Payouts	(325)	(10,580)	(10,905)
Units outstanding August 29, 2015	378,877	45,698	424,575

[1] The non-employee directors company match includes 20,005 deferred compensation units paid as discretionary awards to all non-employee directors in the third quarter of 2015.

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 August 29, 2015	13 Weeks Ended August 30, 2014	39 Weeks Ended August 29, 2015	39 Weeks Ended August 30, 2014
Weighted-average common shares - basic	**50,421**	50,053	**50,318**	49,973
Equivalent shares from share-based compensations plans	**1,109**	1,244	**1,142**	1,269
Weighted-average common and common equivalent shares - diluted	**51,530**	51,297	**51,460**	51,242

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 1,533,690 and 806,307 shares of common stock at a weighted-average exercise price of $42.88 and $44.97 for the 13 weeks and 39 weeks ended August 29, 2015, respectively, were excluded from the diluted earnings per share calculations because they were antidilutive. 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.

Note 5: Accumulated Other Comprehensive Income (Loss)

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

	13 Weeks Ended August 29, 2015				13 Weeks Ended August 30, 2014			
	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			**$ 26,807**	**$ 79**			$ 3,987	$ 97

Other comprehensive income (loss)								
Foreign currency translation adjustment[1]	**$ (10,621)**		**(10,621)**	**(98)**	$ (9,346)		(9,346)	2
Reclassification to earnings:								
Defined benefit pension plans adjustment[2]	**2,325**	**$ (798)**	**1,527**		1,658	$ (639)	1,019	
Interest rate swap[3]	**15**	**(5)**	**10**		15	(4)	11	
Cash-flow hedges[3]					62	(14)	48	
Other comprehensive income (loss)	**$ (8,281)**	**$ (803)**	**(9,084)**	**(98)**	$ (7,611)	$ (657)	(8,268)	2
Comprehensive income (loss)			**$ 17,723**	**$ (19)**			$ (4,281)	$ 99

	39 Weeks Ended August 29, 2015				39 Weeks Ended August 30, 2014			
				Non-controlling				Non-controlling
	H.B. Fuller Stockholders			Interests	H.B. Fuller Stockholders			Interests
	Pretax	Tax	Net	Net	Pretax	Tax	Net	Net
Net income including non-controlling interests			**$ 61,689**	**$ 308**			$ 39,095	$ 264
Other comprehensive income (loss)								
Foreign currency translation adjustment[1]	**$ (48,625)**		**(48,625)**	**(14)**	$ (10,173)		(10,173)	(1)
Reclassification to earnings:								
Defined benefit pension plans adjustment[2]	**6,976**	**$ (2,394)**	**4,582**		4,984	$ (1,926)	3,058	
Interest rate swap[3]	**37**	**(7)**	**30**		43	(12)	31	
Cash-flow hedges[3]	**(31)**	**6**	**(25)**		115	(35)	80	
Other comprehensive income (loss)	**$ (41,643)**	**$ (2,395)**	**(44,038)**	**(14)**	$ (5,031)	$ (1,973)	(7,004)	(1)
Comprehensive income (loss)			**$ 17,651**	**$ 294**			$ 32,091	$ 263

[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 loss follow:

	August 29, 2015		
	Total	H.B. Fuller Stockholders	Non-controlling Interests
Foreign currency translation adjustment	**$ (37,455)**	$ **(37,420)**	**$ (35)**
Defined benefit pension plans adjustment, net of taxes of $60,593	**(153,947)**	**(153,947)**	
Interest rate swap, net of taxes of $14	**(23)**	**(23)**	
Accumulated other comprehensive income (loss)	**$ (191,425)**	$ **(191,390)**	**$ (35)**

	November 29, 2014		
	Total	H.B. Fuller Stockholders	Non-controlling Interests
Foreign currency translation adjustment	$ 11,184	$ 11,205	$ (21)
Defined benefit pension plans adjustment, net of taxes of $84,604	(158,529)	(158,529)	
Interest rate swap, net of taxes of $21	(53)	(53)	
Cash-flow hedges, net of taxes of $15	25	25	
Accumulated other comprehensive income (loss)	$ (147,373)	$ (147,352)	$ (21)

Note 6: Special Charges, net

The integration of the Forbo 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 13 weeks ended August 29, 2015 and August 30, 2014, we incurred special charges, net of $1,297 and $12,343, respectively, for costs related to the Business Integration Project. During the 39 weeks ended August 29, 2015 and August 30, 2014, we incurred special charges, net of $4,592 and $37,615, 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 29, 2015	August 30, 2014	August 29, 2015	August 30, 2014
Acquisition and transformation related costs	**$ 48**	$ 1,864	**$ 595**	$ 6,150
Workforce reduction costs	**216**	(55)	**2**	2,903
Facility exit costs	**1,043**	8,802	**3,683**	21,254
Other related costs	**(10)**	1,732	**312**	7,308
Special charges, net	**$ 1,297**	$ 12,343	**$ 4,592**	$ 37,615

Acquisition and transformation related costs of $48 for the 13 weeks ended August 29, 2015 and $1,864 for the 13 weeks ended August 30, 2014 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 29, 2015 and August 30, 2014 we incurred acquisition and transformation related costs of $595 and $6,150, respectively. During the 13 weeks ended August 29, 2015, we incurred workforce reduction costs of $216, cash facility exit costs of $595 and non-cash facility exit costs of $448 and we recorded a net reversal of other incremental transformation related costs of $10 including the cost of personnel directly working on the integration. During the 13 weeks ended August 30, 2014, we recorded a net reversal of workforce reduction costs of $55 and we incurred cash facility exit costs of $7,340, 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 29, 2015, we incurred workforce reduction costs of $2, cash facility exit costs of $2,419, non-cash facility exit costs of $1,264 and other incremental transformation related costs of $312 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, 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.

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

	13 Weeks Ended August 29, 2015 and August 30, 2014					
	Pension Benefits				Other Postretirement Benefits	
	U.S. Plans		Non-U.S. Plans			
Net periodic cost (benefit):	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Service cost	**$ 27**	$ 23	**$ 467**	$ 430	**$ 112**	$ 108
Interest cost	**4,081**	4,022	**1,471**	1,920	**510**	535
Expected return on assets	**(6,421)**	(5,967)	**(2,590)**	(2,735)	**(1,377)**	(1,185)
Amortization:						
Prior service cost	**8**	8	**(1)**	(1)	**(626)**	(942)
Actuarial loss (gain)	**1,407**	1,144	**775**	775	**607**	677
Net periodic (benefit) cost	**$ (898)**	$ (770)	**$ 122**	$ 389	**$ (774)**	$ (807)

	39 Weeks Ended August 29, 2015 and August 30, 2014					
	Pension Benefits				Other Postretirement Benefits	
	U.S. Plans		Non-U.S. Plans			
Net periodic cost (benefit):	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Service cost	**$ 80**	$ 70	**$ 1,447**	$ 1,298	**$ 336**	$ 325
Interest cost	**12,242**	12,065	**4,448**	5,737	**1,531**	1,607
Expected return on assets	**(19,262)**	(17,900)	**(7,830)**	(8,161)	**(4,132)**	(3,556)
Amortization:						
Prior service cost	**22**	22	**(3)**	(3)	**(1,878)**	(2,828)
Actuarial loss (gain)	**4,221**	3,432	**2,387**	2,331	**1,823**	2,032
Net periodic (benefit) cost	**$ (2,697)**	$ (2,311)	**$ 449**	$ 1,202	**$ (2,320)**	$ (2,420)

Note 8: Inventories

The composition of inventories follows:

	August 29, 2015	**November 30, 2014**
Raw materials	**$ 130,586**	$ 133,476
Finished goods	**151,427**	140,014
LIFO reserve	**(15,117)**	(22,200)
Total inventories	**$ 266,896**	$ 251,290

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.

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 29, 2015, we had forward foreign currency contracts maturing between September 11, 2015 and February 16, 2016. The mark-to-market effect associated with these contracts, on a net basis, was a gain of $8,546 at August 29, 2015. 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 $3,776 at August 29, 2015 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 $3,829 at August 29, 2015 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 29, 2015 resulted in a pretax gain of $62 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 29, 2015, 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 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)	39 Weeks Ended August 29, 2015	39 Weeks Ended August 30, 2014	3 Years Ended November 29, 2014
Lawsuits and claims settled	**6**	4	24
Settlement amounts	**$ 463**	$ 190	$ 1,754
Insurance payments received or expected to be received	**$ 373**	$ 155	$ 1,357

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.

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

	13 Weeks Ended					
	August 29, 2015			August 30, 2014		
	Trade Revenue	Inter-Segment Revenue	Segment Operating Income	Trade Revenue	Inter-Segment Revenue	Segment Operating Income
Americas Adhesives	**$ 218,844**	**$ 4,725**	**$ 33,549**	$ 237,657	$ 6,844	$ 21,854
EIMEA	**147,434**	**4,513**	**4,553**	177,478	4,695	3,139
Asia Pacific	**95,877**	**1,137**	**6,921**	63,847	4,222	897
Construction Products	**61,978**	**119**	**3,520**	47,783	309	2,485
Total	**$ 524,133**		**$ 48,543**	$ 526,765		$ 28,375

	39 Weeks Ended					
	August 29, 2015			August 30, 2014		
	Trade Revenue	Inter-Segment Revenue	Segment Operating Income	Trade Revenue	Inter-Segment Revenue	Segment Operating Income
Americas Adhesives	**$ 651,313**	**$ 16,428**	**$ 89,146**	$ 684,308	$ 18,297	$ 78,949
EIMEA	**446,516**	**12,174**	**5,478**	538,693	13,228	21,735
Asia Pacific	**260,971**	**8,570**	**11,760**	196,842	10,800	4,443
Construction Products	**176,756**	**541**	**11,887**	136,937	1,272	5,777
Total	**$ 1,535,556**		**$ 118,271**	$ 1,556,780		$ 110,904

	13 Weeks Ended		39 Weeks Ended	
	August 29, 2015	August 30, 2014	August 29, 2015	August 30, 2014
Segment operating income	**$ 48,543**	$ 28,375	**$ 118,271**	$ 110,904
Special charges, net	**(1,297)**	(12,343)	**(4,592)**	(37,615)
Other income (expense), net	**(1,040)**	(289)	**(1,246)**	(1,543)
Interest expense	**(6,448)**	(5,292)	**(18,765)**	(14,178)
Income from continuing operations before income taxes and income from equity method investments	**$ 39,758**	$ 10,451	**$**	