

FULLER H B CO  
Form 10-Q  
June 30, 2015

**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 30, 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**  
**(State or other jurisdiction of**  
**incorporation or organization)**

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

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

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

**(Registrant's telephone number, including area code)**

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

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

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

Large accelerated filer  Accelerated filer

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

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

The number of shares outstanding of the Registrant's Common Stock, par value \$1.00 per share, was 50,514,295 as of June 18, 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    |                 | 26 Weeks Ended      |                 |
|--|-------------------|-----------------|---------------------|-----------------|
|  | May 30,<br>2015   | May 31,<br>2014 | May 30,<br>2015     | May 31,<br>2014 |
| <b>Net revenue</b>   | <b>\$ 540,762</b> | \$ 544,034      | <b>\$ 1,011,423</b> | \$ 1,030,015    |
| Cost of sales  | (391,825)         | (401,379)       | (746,280)           | (754,315)       |
| <b>Gross profit</b>  | <b>148,937</b>    | 142,655         | <b>265,143</b>      | 275,700         |
| Selling, general and administrative expenses   | (100,582)         | (96,372)        | (195,415)           | (193,171)       |
| Special charges, net   | (934)             | (13,538)        | (3,295)             | (25,272)        |
| Other income (expense), net  | (569)             | (204)           | (206)               | (1,254)         |
| Interest expense   | (6,215)           | (4,760)         | (12,317)            | (8,886)         |
| <b>Income from continuing operations before income taxes<br/>and income from equity method investments</b> | <b>40,637</b>     | 27,781          | <b>53,910</b>       | 47,117          |
| Income taxes   | (15,387)          | (8,838)         | (20,156)            | (15,379)        |
| Income from equity method investments  | 1,366             | 1,683           | 2,657               | 3,537           |
| <b>Income from continuing operations</b>   | <b>26,616</b>     | 20,626          | <b>36,411</b>       | 35,275          |
| Loss from discontinued operations, net of tax  | (1,300)           |                 | (1,300)             |                 |
| <b>Net income including non-controlling interests</b>  | <b>25,316</b>     | 20,626          | <b>35,111</b>       | 35,275          |
| Net income attributable to non-controlling interests   | (144)             | (89)            | (229)               | (167)           |
| <b>Net income attributable to H.B. Fuller</b>  | <b>\$ 25,172</b>  | \$ 20,537       | <b>\$ 34,882</b>    | \$ 35,108       |

**Earnings per share attributable to H.B. Fuller common stockholders:****Basic**

|                                   |               |      |               |      |
|-----------------------------------|---------------|------|---------------|------|
| Income from continuing operations | <b>0.53</b>   | 0.41 | <b>0.72</b>   | 0.70 |
| Loss from discontinued operations | <b>(0.03)</b> |      | <b>(0.03)</b> |      |

|                                 |                |         |                |         |
|---------------------------------|----------------|---------|----------------|---------|
| <b>Basic earnings per share</b> | <b>\$ 0.50</b> | \$ 0.41 | <b>\$ 0.69</b> | \$ 0.70 |
|---------------------------------|----------------|---------|----------------|---------|

**Diluted<sup>1</sup>**

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|  |                 |          |                 |          |
|--|-----------------|----------|-----------------|----------|
| Income from continuing operations                  | <b>0.51</b>     | 0.40     | <b>0.70</b>     | 0.69     |
| Loss from discontinued operations                  | <b>(0.03)</b>   |          | <b>(0.03)</b>   |          |
| <b>Diluted earnings per share</b>                  | <b>\$ 0.49</b>  | \$ 0.40  | <b>\$ 0.68</b>  | \$ 0.69  |
| <b>Weighted-average common shares outstanding:</b> |                 |          |                 |          |
| Basic  | <b>50,345</b>   | 49,956   | <b>50,267</b>   | 49,933   |
| Diluted  | <b>51,471</b>   | 51,175   | <b>51,425</b>   | 51,215   |
| <b>Dividends declared per common share</b>         | <b>\$ 0.130</b> | \$ 0.120 | <b>\$ 0.250</b> | \$ 0.220 |

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)

|  | <b>13 Weeks Ended</b>   |                         | <b>26 Weeks Ended</b>   |                         |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
|  | <b>May 30,<br/>2015</b> | <b>May 31,<br/>2014</b> | <b>May 30,<br/>2015</b> | <b>May 31,<br/>2014</b> |
| <b>Net income including non-controlling interests</b>                | <b>\$ 25,316</b>        | <b>\$ 20,626</b>        | <b>\$ 35,111</b>        | <b>\$ 35,275</b>        |
| Other comprehensive income (loss)                                    |                         |                         |                         |                         |
| Foreign currency translation   | <b>(4,651)</b>          | (1,377)                 | <b>(37,920)</b>         | (830)                   |
| Defined benefit pension plans adjustment, net of tax                 | <b>1,528</b>            | 1,021                   | <b>3,055</b>            | 2,039                   |
| Interest rate swaps, net of tax                                      | <b>10</b>               | 10                      | <b>20</b>               | 20                      |
| Cash-flow hedges, net of tax   |                         | 29                      | <b>(25)</b>             | 32                      |
| <b>Other comprehensive income (loss)</b>                             | <b>(3,113)</b>          | (317)                   | <b>(34,870)</b>         | 1,261                   |
| Comprehensive income (loss)  | <b>22,203</b>           | 20,309                  | <b>241</b>              | 36,536                  |
| Less: Comprehensive income attributable to non-controlling interests | <b>218</b>              | 97                      | <b>313</b>              | 164                     |
| <b>Comprehensive income (loss) attributable to H.B. Fuller</b>       | <b>\$ 21,985</b>        | <b>\$ 20,212</b>        | <b>\$ (72)</b>          | <b>\$ 36,372</b>        |

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)

|  | May 30,<br>2015     | November 29,<br>2014 |
|--|---------------------|----------------------|
| <b>Assets</b>  |                     |                      |
| <b>Current assets:</b>   |                     |                      |
| Cash and cash equivalents  | \$ 79,463           | \$ 77,569            |
| Trade receivables (net of allowances - \$9,743 and \$10,246, for May 30, 2015 and November 29, 2014, respectively) | 356,409             | 341,307              |
| Inventories  | 265,620             | 251,290              |
| Other current assets   | 90,518              | 93,105               |
| Current assets of discontinued operations  | 2,706               | 1,865                |
| <b>Total current assets</b>  | <b>794,716</b>      | <b>765,136</b>       |
| Property, plant and equipment  | 1,129,060           | 1,106,506            |
| Accumulated depreciation   | (596,326)           | (603,872)            |
| <b>Property, plant and equipment, net</b>  | <b>532,734</b>      | <b>502,634</b>       |
| Goodwill   | 401,012             | 255,972              |
| Other intangibles, net   | 218,415             | 195,938              |
| Other assets   | 143,882             | 149,326              |
| <b>Total assets</b>  | <b>\$ 2,090,759</b> | <b>\$ 1,869,006</b>  |
| <b>Liabilities, redeemable non-controlling interest and total equity</b>   |                     |                      |
| <b>Current liabilities:</b>  |                     |                      |
| Notes payable  | \$ 36,527           | \$ 27,149            |
| Current maturities of long-term debt   | 18,750              |                      |
| Trade payables   | 191,930             | 174,494              |
| Accrued compensation   | 41,909              | 45,746               |
| Income taxes payable   | 11,307              | 13,761               |
| Other accrued expenses   | 49,410              | 51,049               |
| Current liabilities of discontinued operations   | 8,000               | 5,000                |
| <b>Total current liabilities</b>   | <b>357,833</b>      | <b>317,199</b>       |
| Long-term debt, excluding current maturities   | 681,622             | 547,735              |
| Accrued pension liabilities  | 58,292              | 67,193               |

|   |                     |              |
|---|---------------------|--------------|
| Other liabilities   | <b>98,091</b>       | 41,775       |
| <b>Total liabilities</b>  | <b>1,195,838</b>    | 973,902      |
| Commitments and contingencies   |                     |              |
| <b>Redeemable non-controlling interest</b>  | <b>4,249</b>        | 4,654        |
| <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 50,509,286 and 50,310,803, for May 30, 2015 and November 29, 2014, respectively | <b>50,509</b>       | 50,311       |
| Additional paid-in capital  | <b>63,558</b>       | 53,269       |
| Retained earnings   | <b>955,998</b>      | 933,819      |
| Accumulated other comprehensive income (loss)   | <b>(182,306)</b>    | (147,352)    |
| <b>Total H.B. Fuller stockholders' equity</b>   | <b>887,759</b>      | 890,047      |
| Non-controlling interests   | <b>2,913</b>        | 403          |
| <b>Total equity</b>   | <b>890,672</b>      | 890,450      |
| <b>Total liabilities, redeemable non-controlling interest and total equity</b>  | <b>\$ 2,090,759</b> | \$ 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**

|   | <b>Common<br/>Stock</b> | <b>Additional<br/>Paid-in<br/>Capital</b> | <b>Retained<br/>Earnings</b> | <b>Accumulated<br/>Other<br/>Comprehensive<br/>Income<br/>(Loss)</b> | <b>Non-<br/>Controlling<br/>Interests</b> | <b>Total</b>      |
|---|-------------------------|---|------------------------------|--|---|-------------------|
| <b>Balance at November 30, 2013</b>                             | 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<br>other, net                    | 70                      | 14,092                                    |                              |  |   | 14,162            |
| Tax benefit on share-based<br>compensation plans                |                         | 3,357                                     |                              |  |   | 3,357             |
| Repurchases of common stock                                     | (318)                   | (15,192)                                  |                              |  |   | (15,510)          |
| Redeemable non-controlling interest                             |                         |   |                              |  | (357)                                     | (357)             |
| <b>Balance at November 29, 2014</b>                             | 50,311                  | 53,269                                    | 933,819                      | (147,352)  | 403                                       | 890,450           |
| Comprehensive income (loss)                                     |                         |   | 34,882                       | (34,954)   | 313                                       | 241               |
| Dividends   |                         |   | (12,703)                     |  |   | (12,703)          |
| Stock option exercises  | 174                     | 3,777                                     |                              |  |   | 3,951             |
| Share-based compensation plans<br>other, net                    | 78                      | 7,755                                     |                              |  |   | 7,833             |
| Tax benefit on share-based<br>compensation plans                |                         | 910                                       |                              |  |   | 910               |
| Repurchases of common stock                                     | (54)                    | (2,153)                                   |                              |  |   | (2,207)           |
| Non-controlling interest assumed                                |                         |   |                              |  | 14,197                                    | 14,197            |
| Recognition of non-controlling<br>interest redemption liability |                         |   |                              |  | (11,773)                                  | (11,773)          |
| Non-controlling interest  |                         |   |                              |  | (76)                                      | (76)              |
| Redeemable non-controlling interest                             |                         |   |                              |  | (151)                                     | (151)             |
| <b>Balance at May 30, 2015</b>                                  | <b>\$ 50,509</b>        | <b>\$ 63,558</b>                          | <b>\$ 955,998</b>            | <b>\$ (182,306)</b>  | <b>\$ 2,913</b>                           | <b>\$ 890,672</b> |

See accompanying Notes to unaudited 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 30, 2015</b>   | <b>May 31, 2014</b> |
| <b>Cash flows from operating activities:</b>  |                       |                     |
| Net income including non-controlling interests  | \$ 35,111             | \$ 35,275           |
| 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  | 23,603                | 22,073              |
| Amortization  | 13,147                | 11,578              |
| Deferred income taxes   | 1,916                 | (586)               |
| (Income) from equity method investments, net of dividends received  | (2,657)               | (3,537)             |
| Share-based compensation  | 7,319                 | 7,148               |
| Excess tax benefit from share-based compensation  | (910)                 | (2,450)             |
| 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  | 2,542                 | (23,847)            |
| Inventories   | (14,293)              | (60,635)            |
| Other assets  | 5,817                 | (12,569)            |
| Trade payables  | 30,326                | 27,122              |
| Accrued compensation  | (3,573)               | (24,921)            |
| Other accrued expenses  | 2,401                 | 5,601               |
| Income taxes payable  | (1,033)               | (3,990)             |
| Accrued / prepaid pensions  | (4,990)               | (9,071)             |
| Other liabilities   | (1,882)               | (3,211)             |
| Other   | 19,656                | 2,180               |
| <b>Net cash provided by (used in) operating activities</b>  | <b>116,216</b>        | <b>(33,840)</b>     |
| <b>Cash flows from investing activities:</b>  |                       |                     |
| Purchased property, plant and equipment   | (38,917)              | (82,142)            |
| Purchased businesses, net of cash acquired  | (217,572)             | (151)               |
| Proceeds from sale of property, plant and equipment   | 1,073                 | 1,797               |
| <b>Net cash used in investing activities</b>  | <b>(255,416)</b>      | <b>(80,496)</b>     |
| <b>Cash flows from financing activities:</b>  |                       |                     |
| Proceeds from long-term debt  | 337,000               | 175,000             |
| Repayment of long-term debt   | (183,750)             | (110,000)           |
| Net proceeds from (payments on) notes payable   | 2,485                 | 9,039               |

|   |                  |                  |
|---|------------------|------------------|
| Dividends paid                                    | (12,605)         | (11,024)         |
| Proceeds from stock options exercised             | 3,951            | 4,651            |
| Excess tax benefit from share-based compensation  | 910              | 2,450            |
| Repurchases of common stock                       | (2,207)          | (15,449)         |
| <b>Net cash provided by financing activities</b>  | <b>145,784</b>   | <b>54,667</b>    |
| Effect of exchange rate changes                   | (4,690)          | (408)            |
| <b>Net change in cash and cash equivalents</b>    | <b>1,894</b>     | <b>(60,077)</b>  |
| Cash and cash equivalents at beginning of period  | 77,569           | 155,121          |
| <b>Cash and cash equivalents at end of period</b> | <b>\$ 79,463</b> | <b>\$ 95,044</b> |

## Supplemental disclosure of cash flow information:

|   |           |           |
|---|-----------|-----------|
| Dividends paid with company stock   | \$ 98     | \$ 81     |
| Cash paid for interest, net of amount capitalized of \$36 and \$1,950 for the periods ended May 30, 2015 and May 31, 2014, respectively | \$ 13,624 | \$ 11,844 |
| Cash paid for income taxes, net of refunds  | \$ 12,041 | \$ 9,493  |

See accompanying Notes to unaudited Condensed Consolidated Financial Statements.

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

**Note 2: Acquisitions and Divestitures**

**Acquisitions**

**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:

|                               | <b>Preliminary<br/>Valuation<br/>February 28, 2015</b> | <b>Fair<br/>Value<br/>Adjustments</b> | <b>Final<br/>Valuation</b> |
|-------------------------------|--|---------------------------------------|----------------------------|
| 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)                      |
| <br>Total purchase price      | <br>\$ 1,713   | <br>\$ (66)                           | <br>\$ 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 May 30, 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 third 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:

|  | <b>Preliminary<br/>Valuation</b> | <b>Purchase Price<br/>and Fair Value</b> | <b>Preliminary<br/>Valuation</b> |
|--|----------------------------------|--|----------------------------------|
|--|----------------------------------|--|----------------------------------|

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|                                      | <b>February 28, 2015</b> | <b>Adjustments</b> | <b>May 30, 2015</b> |
|--------------------------------------|--------------------------|--------------------|---------------------|
| Current assets                       | \$ 50,922                | \$ (1,090)         | \$ 49,832           |
| Property, plant and equipment        | 58,549                   |                    | 58,549              |
| Goodwill                             | 155,232                  | 3,115              | 158,347             |
| Other intangibles                    |                          |                    |                     |
| Developed technology                 | 18,500                   |                    | 18,500              |
| Customer relationships               | 12,400                   |                    | 12,400              |
| Trademarks/trade names               | 10,900                   |                    | 10,900              |
| Other assets                         | 139                      |                    | 139                 |
| Current liabilities                  | (30,590)                 | (428)              | (31,018)            |
| Other liabilities                    | (49,497)                 | (454)              | (49,951)            |
| 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, 6 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 \$158,347 to goodwill for the expected synergies from combining Tonsan with our existing business. The goodwill was assigned to our Asia Pacific operating segment.

**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:

|                               | <b>Final Valuation</b> |
|-------------------------------|------------------------|
| 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)                |
| <b>Total purchase price</b>   | <b>\$ 26,183</b>       |

## 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. Subsequent to the end of the second quarter, we entered into an agreement to settle various matters related to the divestiture 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. On June 26, 2015, \$8,000 was paid related to this agreement.

## 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. The fair value of options granted during the 13 weeks and 26 weeks ended May 30, 2015 and May 31, 2014

were calculated using the following weighted average assumptions:

|                                       | 13 Weeks Ended  |              | 26 Weeks Ended         |                 |
|---------------------------------------|-----------------|--------------|------------------------|-----------------|
|                                       | May 30, 2015    | May 31, 2014 | May 30, 2015           | May 31, 2014    |
| Expected life (in years)              | <b>4.75</b>     | 4.75         | <b>4.61</b>            | 4.75            |
| Weighted-average expected volatility  | <b>30.23%</b>   | 32.70%       | <b>30.91%</b>          | 34.17%          |
| Expected volatility                   | <b>30.23%</b>   | 32.70%       | <b>25.50% - 31.67%</b> | 32.70% - 37.06% |
| Risk-free interest rate               | <b>1.43%</b>    | 1.64%        | <b>1.26%</b>           | 1.51%           |
| Expected dividend yield               | <b>1.22%</b>    | 0.84%        | <b>1.17%</b>           | 0.82%           |
| Weighted-average fair value of grants | <b>\$ 10.31</b> | \$ 13.33     | <b>\$10.21</b>         | \$14.21         |



**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 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 \$3,058 and \$3,163 was included in our Condensed Consolidated Statements of Income for the 13 weeks ended May 30, 2015 and May 31, 2014, respectively. Total share-based compensation expense of \$7,319 and \$7,148 was included in our Condensed Consolidated Statements of Income for the 26 weeks ended May 30, 2015 and May 31, 2014, respectively. All share-based compensation expense was recorded as selling, general and administrative expense. For the 13 weeks ended May 30, 2015 and May 31, 2014 there was \$513 and \$837 of excess tax benefit recognized, respectively. For the 26 weeks ended May 30, 2015 and May 31, 2014 there was \$910 and \$2,450 of excess tax benefit recognized, respectively.

As of May 30, 2015, there was \$10,521 of unrecognized compensation costs related to unvested stock option awards, which is expected to be recognized over a weighted-average period of 2.1 years. Unrecognized compensation costs related to unvested restricted stock shares was \$1,994 which is expected to be recognized over a weighted-average period of 1.3 years. Unrecognized compensation costs related to unvested restricted stock units was \$7,861 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 May 30, 2015 and changes during the 26 weeks then ended is presented below:

|                                  | <b>Options</b> | <b>Weighted-Average<br/>Exercise Price</b> |
|----------------------------------|----------------|--|
| Outstanding at November 29, 2014 | 2,534,473      | \$ 30.39                                   |
| Granted                          | 704,180        | 41.17                                      |
| Exercised                        | (173,576)      | 22.76                                      |
| Forfeited or cancelled           | (43,927)       | 41.66                                      |
| Outstanding at May 30, 2015      | 3,021,150      | \$ 33.18                                   |

The total fair values of options granted during the 13 weeks ended May 30, 2015 and May 31, 2014 were \$9 and \$106, respectively. Total intrinsic values of options exercised during the 13 weeks ended May 30, 2015 and May 31, 2014 were \$2,223 and \$3,119, 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 26 weeks ended May 30, 2015 and May 31, 2014 were \$7,189 and \$5,899, respectively. Total intrinsic values of options exercised during the 26 weeks ended May 30, 2015 and May 31, 2014 were \$3,549 and \$5,792, respectively. Proceeds received from option exercises during the 13 weeks ended May 30, 2015 and May 31, 2014 were \$2,267 and \$2,646, respectively and \$3,951 and \$4,651 during the 26 weeks ended May 30, 2015 and May 31, 2014, respectively.

A summary of nonvested restricted stock as of May 30, 2015 and changes during the 26 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                                  | 1.7  |
| Vested                         | (80,959) | (67,294) | (148,253) | 40.90                                  |  |
| Forfeited                      | (7,353)  | (8,638)  | (15,991)  | 39.49                                  | 1.1  |
| Nonvested at May 30, 2015      | 242,609  | 112,690  | 355,299   | \$ 42.20                               | 1.5  |

Total fair values of restricted stock vested during the 13 weeks ended May 30, 2015 and May 31, 2014 were \$64 and \$251, respectively. Total fair values of restricted stock vested during the 26 weeks ended May 30, 2015 and May 31, 2014 were \$6,064 and \$8,541, respectively. The total fair value of nonvested restricted stock at May 30, 2015 was \$14,993.

We repurchased 86 and 2,249 restricted stock shares during the 13 weeks ended May 30, 2015 and May 31, 2014, respectively and 54,003 and 66,312 during the 26 weeks ended May 30, 2015 and May 31, 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 May 30, 2015, and changes during the 26 weeks then ended is presented below:

|                                     | Non-employee |           | Total   |
|-------------------------------------|--------------|-----------|---------|
|                                     | Directors    | Employees |         |
| Units outstanding November 29, 2014 | 342,547      | 52,303    | 394,850 |
| Participant contributions           | 9,438        | 2,310     | 11,748  |
| Company match contributions         | 944          | 231       | 1,175   |
| Payouts                             | (302)        | (7,627)   | (7,929) |
| Units outstanding May 30, 2015      | 352,627      | 47,217    | 399,844 |

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  |                 | 26 Weeks Ended  |                 |
|--|-----------------|-----------------|-----------------|-----------------|
|  | May 30,<br>2015 | May 31,<br>2014 | May 30,<br>2015 | May 31,<br>2014 |
| Weighted-average common shares - basic                         | <b>50,345</b>   | 49,956          | <b>50,267</b>   | 49,933          |
| Equivalent shares from share-based compensations plans         | <b>1,126</b>    | 1,219           | <b>1,158</b>    | 1,282           |
| Weighted-average common and common equivalent shares - diluted | <b>51,471</b>   | 51,175          | <b>51,425</b>   | 51,215          |

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 437,798 and 442,616 shares of common stock at a weighted-average exercise price of \$48.59 for the 13 weeks and 26 weeks ended May 30, 2015, respectively, were excluded from the diluted earnings per share calculations because they were antidilutive. Options to purchase 407,145 shares of common stock at a weighted-average exercise price of \$48.93 for the 13 weeks and 26 weeks ended May 31, 2014 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 May 30, 2015 |          |           |                  | 13 Weeks Ended May 31, 2014 |          |           |                  |
|---|-----------------------------|----------|-----------|------------------|-----------------------------|----------|-----------|------------------|
|   | H.B. Fuller Stockholders    |          |           | Non-controlling  | H.B. Fuller Stockholders    |          |           | Non-controlling  |
|   | Pretax                      | Tax      | Net       | Interests<br>Net | Pretax                      | Tax      | Net       | Interests<br>Net |
| <b>Net income including non-controlling interests</b> |                             |          | \$ 25,172 | \$ 144           |                             |          | \$ 20,537 | \$ 89            |
| Other comprehensive income (loss)                     |                             |          |           |                  |                             |          |           |                  |
| Foreign currency translation adjustment <sup>1</sup>  | \$ (4,725)                  |          | (4,725)   | 74               | \$ (1,385)                  |          | (1,385)   | 8                |
| Reclassification to earnings:                         |                             |          |           |                  |                             |          |           |                  |
| Defined benefit pension plans adjustment <sup>2</sup> | 2,326                       | (798)    | 1,528     |                  | 1,670                       | (649)    | 1,021     |                  |
| Interest rate swap <sup>3</sup>                       | 5                           | 5        | 10        |                  | 14                          | (4)      | 10        |                  |
| Cash-flow hedges <sup>3</sup>                         |                             |          |           |                  | 47                          | (18)     | 29        |                  |
| <b>Other comprehensive income (loss)</b>              | \$ (2,394)                  | \$ (793) | (3,187)   | 74               | \$ 346                      | \$ (671) | (325)     | 8                |
| <b>Comprehensive income (loss)</b>                    |                             |          | \$ 21,985 | \$ 218           |                             |          | \$ 20,212 | \$ 97            |

|   | 26 Weeks Ended May 30, 2015 |            |           |                                 | 26 Weeks Ended May 31, 2014 |            |           |                                 |
|---|-----------------------------|------------|-----------|---------------------------------|-----------------------------|------------|-----------|---------------------------------|
|   | H.B. Fuller Stockholders    |            |           | Non-                            | H.B. Fuller Stockholders    |            |           | Non-                            |
|   | Pretax                      | Tax        | Net       | controlling<br>Interests<br>Net | Pretax                      | Tax        | Net       | controlling<br>Interests<br>Net |
| <b>Net income including non-controlling interests</b> |                             |            | \$ 34,882 | \$ 229                          |                             |            | \$ 35,108 | \$ 167                          |
| Other comprehensive income (loss)                     |                             |            |           |                                 |                             |            |           |                                 |
| Foreign currency translation adjustment <sup>1</sup>  | \$ (38,004)                 |            | (38,004)  | 84                              | \$ (827)                    |            | (827)     | (3)                             |
| Reclassification to earnings:                         |                             |            |           |                                 |                             |            |           |                                 |
| Defined benefit pension plans adjustment <sup>2</sup> | 4,651                       | (1,596)    | 3,055     |                                 | 3,326                       | (1,287)    | 2,039     |                                 |
| Interest rate swap <sup>3</sup>                       | 21                          | (1)        | 20        |                                 | 28                          | (8)        | 20        |                                 |
| Cash-flow hedges <sup>3</sup>                         | (31)                        | 6          | (25)      |                                 | 53                          | (21)       | 32        |                                 |
| <b>Other comprehensive income (loss)</b>              | \$ (33,363)                 | \$ (1,591) | (34,954)  | 84                              | \$ 2,580                    | \$ (1,316) | 1,264     | (3)                             |
| <b>Comprehensive income</b>                           |                             |            | \$ (72)   | \$ 313                          |                             |            | \$ 36,372 | \$ 164                          |

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

<sup>2</sup> 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.

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

The components of accumulated other comprehensive loss follow:

|  | May 30, 2015 |                          |                           |
|--|--------------|--------------------------|---------------------------|
|  | Total        | H.B. Fuller Stockholders | Non-controlling Interests |
| Foreign currency translation adjustment                            | \$ (26,736)  | \$ (26,799)              | \$ 63                     |
| Defined benefit pension plans adjustment, net of taxes of \$83,007 | (155,474)    | (155,474)                |                           |
| Interest rate swap, net of taxes of \$20                           | (33)         | (33)                     |                           |
| Accumulated other comprehensive income (loss)                      | \$ (182,243) | \$ (182,306)             | \$ 63                     |

November 29, 2014

|  | <b>Total</b> | <b>H.B. Fuller<br/>Stockholders</b> | <b>Non-<br/>controlling<br/>Interests</b> |
|--|--------------|-------------------------------------|---|
| 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 May 30, 2015 and May 31, 2014, we incurred special charges, net of \$934 and \$13,538, respectively for costs related to the Business Integration Project. During the 26 weeks ended May 30, 2015 and May 31, 2014, we incurred special charges, net of \$3,295 and \$25,272, respectively for costs related to the Business Integration Project.

The following table provides detail of special charges, net:

|  | 13 Weeks Ended |                  | 26 Weeks Ended  |                  |
|--|----------------|------------------|-----------------|------------------|
|  | May 30, 2015   | May 31, 2014     | May 30, 2015    | May 31, 2014     |
| Acquisition and transformation related costs | \$ 75          | \$ 2,578         | \$ 547          | \$ 4,286         |
| Workforce reduction costs                    | (270)          | 899              | (214)           | 2,958            |
| Facility exit costs                          | 1,111          | 7,326            | 2,640           | 12,452           |
| Other related costs                          | 18             | 2,735            | 322             | 5,576            |
| <b>Special charges, net</b>                  | <b>\$ 934</b>  | <b>\$ 13,538</b> | <b>\$ 3,295</b> | <b>\$ 25,272</b> |

Acquisition and transformation related costs of \$75 for the 13 weeks ended May 30, 2015 and \$2,578 for the 13 weeks ended May 31, 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 26 weeks ended May 30, 2015 and May 31, 2014 we incurred acquisition and transformation related costs of \$547 and \$4,286, respectively. During the 13 weeks ended May 30, 2015, we recorded a net reversal of workforce reduction costs of \$270 and we incurred cash facility exit costs of \$429 and a non-cash facility exit costs of \$682 and other incremental transformation related costs of \$18 including the cost of personnel directly working on the integration. During the 13 weeks ended May 31, 2014, we incurred workforce reduction costs of \$899, cash facility exit costs of \$5,708, non-cash facility exit costs of \$1,618 and other incremental transformation related costs of \$2,735 including the cost of personnel directly working on the integration. During the 26 weeks ended May 30, 2015, we recorded a net reversal of workforce reduction costs of \$214 and we incurred cash facility exit costs of \$1,823 and a non-cash facility exit costs of \$817 and other incremental transformation related costs of \$322 including the cost of personnel directly working on the integration. During the 26 weeks ended May 31, 2014, we incurred workforce reduction costs of \$2,958, cash facility exit costs of \$9,282, non-cash facility exit costs of \$3,170 and other incremental transformation related costs of \$5,576 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 May 30, 2015 and May 31, 2014 |         |                |         |                               |         |
|------------------------------|--|---------|----------------|---------|-------------------------------|---------|
|                              | Pension Benefits                             |         |                |         | Other Postretirement Benefits |         |
|                              | U.S. Plans                                   |         | Non-U.S. Plans |         | 2015                          | 2014    |
| Net periodic cost (benefit): | 2015   | 2014    | 2015           | 2014    | 2015                          | 2014    |
| Service cost                 | \$ 26  | \$ 24   | \$ 473         | \$ 438  | \$ 112                        | \$ 109  |
| Interest cost                | 4,080  | 4,021   | 1,461          | 1,924   | 511                           | 536     |
| Expected return on assets    | (6,421)                                      | (5,967) | (2,573)        | (2,736) | (1,378)                       | (1,185) |
| Amortization:                |  |         |                |         |                               |         |
| Prior service cost           | 7  | 7       | (1)            | (1)     | (626)                         | (943)   |
| Actuarial loss (gain)        | 1,407  | 1,144   | 781            | 784     | 608                           | 678     |



|                             |    |       |    |       |    |     |    |     |    |       |    |       |
|-----------------------------|----|-------|----|-------|----|-----|----|-----|----|-------|----|-------|
| Net periodic (benefit) cost | \$ | (901) | \$ | (771) | \$ | 141 | \$ | 409 | \$ | (773) | \$ | (805) |
|-----------------------------|----|-------|----|-------|----|-----|----|-----|----|-------|----|-------|

## 26 Weeks Ended May 30, 2015 and May 31, 2014

|                              | Pension Benefits |            |                |         | Other Postretirement Benefits |            |
|------------------------------|------------------|------------|----------------|---------|-------------------------------|------------|
|                              | U.S. Plans       |            | Non-U.S. Plans |         | 2015                          | 2014       |
|                              | 2015             | 2014       | 2015           | 2014    |                               |            |
| Net periodic cost (benefit): |                  |            |                |         |                               |            |
| Service cost                 | \$ 53            | \$ 47      | \$ 980         | \$ 868  | \$ 224                        | \$ 217     |
| Interest cost                | 8,161            | 8,043      | 2,977          | 3,817   | 1,021                         | 1,072      |
| Expected return on assets    | (12,841)         | (11,933)   | (5,240)        | (5,426) | (2,755)                       | (2,371)    |
| Amortization:                |                  |            |                |         |                               |            |
| Prior service cost           | 14               | 14         | (2)            | (2)     | (1,252)                       | (1,886)    |
| Actuarial loss (gain)        | 2,814            | 2,288      | 1,612          | 1,556   | 1,216                         | 1,355      |
| Net periodic (benefit) cost  | \$ (1,799)       | \$ (1,541) | \$ 327         | \$ 813  | \$ (1,546)                    | \$ (1,613) |

**Note 8: Inventories**

The composition of inventories follows:

|                   | <b>May 30,<br/>2015</b> | <b>November 30,<br/>2014</b> |
|-------------------|-------------------------|------------------------------|
| Raw materials     | <b>\$ 135,260</b>       | \$ 133,476                   |
| Finished goods    | <b>147,985</b>          | 140,014                      |
| LIFO reserve      | <b>(17,625)</b>         | (22,200)                     |
| Total inventories | <b>\$ 265,620</b>       | \$ 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 May 30, 2015, we had forward foreign currency contracts maturing between June 5, 2015 and January 28, 2016. The mark-to-market effect associated with these contracts, on a net basis, was a gain of \$7,430 at May 30, 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 \$4,065 at May 30, 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 \$4,108 at May 30, 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 May 30, 2015 resulted in a pretax gain of \$52 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 May 30, 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 under certain circumstances, settlements and judgments, in asbestos-related lawsuits. Under these agreements, we are required under certain circumstances to fund a share of settlements and judgments allocable to years in which the responsible insurer is insolvent. In addition, to delineate our rights under certain insurance policies, in October 2009, we commenced a declaratory judgment action against one of our insurers in the United States District Court

for the District of Minnesota. Additional insurers were brought into the action to address issues related to the scope of their coverage. In 2013, we entered into a settlement agreement with the defendant insurers in this case that provided for the allocation of defense costs and settlements in the future. The allocation under the settlement agreement depended on the outcome of an appeal of two issues to the United States Eighth Circuit Court of Appeals. During the second quarter of 2015, we entered into an additional settlement with the parties to the coverage litigation, which resulted in the appeal being dismissed. Therefore, this litigation has now been fully resolved.

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

| (\$ in thousands)                                      | 26 Weeks Ended |              | 3 Years Ended     |
|--|----------------|--------------|-------------------|
|  | May 30, 2015   | May 31, 2014 | November 29, 2014 |
| Lawsuits and claims settled                            | 5              | 4            | 24                |
| Settlement amounts                                     | \$ 438         | \$ 178       | \$ 1,754          |
| Insurance payments received or expected to be received | \$ 354         | \$ 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 |                       |                          |               |                       |                          |
|--------------------|----------------|-----------------------|--------------------------|---------------|-----------------------|--------------------------|
|                    | May 30, 2015   |                       |                          | May 31, 2014  |                       |                          |
|                    | Trade Revenue  | Inter-Segment Revenue | Segment Operating Income | Trade Revenue | Inter-Segment Revenue | Segment Operating Income |
| Americas Adhesives | \$ 228,526     | \$ 6,320              | \$ 34,809                | \$ 236,985    | \$ 5,774              | \$ 31,889                |
| EIMEA              | 151,520        | 3,111                 | 1,647                    | 189,656       | 4,427                 | 10,156                   |

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|                       |                   |              |                  |                   |       |                  |
|-----------------------|-------------------|--------------|------------------|-------------------|-------|------------------|
| Asia Pacific          | <b>95,101</b>     | <b>3,967</b> | <b>5,325</b>     | 67,948            | 3,107 | 1,758            |
| Construction Products | <b>65,615</b>     | <b>247</b>   | <b>6,574</b>     | 49,445            | 691   | 2,480            |
| <b>Total</b>          | <b>\$ 540,762</b> |              | <b>\$ 48,355</b> | <b>\$ 544,034</b> |       | <b>\$ 46,283</b> |

|                       | 26 Weeks Ended      |                              |                                |                     |                              |                                |
|-----------------------|---------------------|------------------------------|--------------------------------|---------------------|------------------------------|--------------------------------|
|                       | May 30, 2015        |                              |                                | May 31, 2014        |                              |                                |
|                       | Trade<br>Revenue    | Inter-<br>Segment<br>Revenue | Segment<br>Operating<br>Income | Trade<br>Revenue    | Inter-<br>Segment<br>Revenue | Segment<br>Operating<br>Income |
| Americas Adhesives    | <b>\$ 432,469</b>   | <b>\$ 11,703</b>             | <b>\$ 55,597</b>               | \$ 446,651          | \$ 11,453                    | \$ 57,095                      |
| EIMEA                 | <b>299,082</b>      | <b>7,661</b>                 | <b>925</b>                     | 361,215             | 8,533                        | 18,596                         |
| Asia Pacific          | <b>165,094</b>      | <b>7,433</b>                 | <b>4,839</b>                   | 132,995             | 6,579                        | 3,546                          |
| Construction Products | <b>114,778</b>      | <b>423</b>                   | <b>8,367</b>                   | 89,154              | 963                          | 3,292                          |
| <b>Total</b>          | <b>\$ 1,011,423</b> |                              | <b>\$ 69,728</b>               | <b>\$ 1,030,015</b> |                              | <b>\$ 82,529</b>               |

|   | 13 Weeks Ended  |                 | 26 Weeks Ended  |                 |
|---|-----------------|-----------------|-----------------|-----------------|
|   | May 30,<br>2015 | May 31,<br>2014 | May 30,<br>2015 | May 31,<br>2014 |
| Segment operating income  | \$ 48,355       | \$ 46,283       | \$ 69,728       | \$ 82,529       |
| Special charges, net  | (934)           | (13,538)        | (3,295)         | (25,272)        |
| Other income (expense), net   | (569)           | (204)           | (206)           | (1,254)         |
| Interest expense  | (6,215)         | (4,760)         | (12,317)        | (8,886)         |
| Income from continuing operations before income taxes and income from equity method investments | \$ 40,637       | \$ 27,781       | \$ 53,910       | \$ 47,117       |

**Note 12: Income Taxes**

As of May 30, 2015, we had a \$5,499 liability recorded under FASB ASC 740, Income Taxes for gross unrecognized tax benefits (excluding interest) compared to \$4,787 as of November 29, 2014. As of May 30, 2015, we had accrued \$545 of gross interest relating to unrecognized tax benefits. During the second quarter of 2015 our recorded liability for gross unrecognized tax benefits increased by \$395.

**Note 13: Goodwill**

A summary of goodwill activity for the first six months of 2015 is presented below:

|  |            |
|--|------------|
| Balance at November 29, 2014             | \$ 255,972 |
| Tonsan Adhesive, Inc. acquisition        | 158,347    |
| Continental Products Limited acquisition | 462        |
| Currency impact                          | (13,769)   |
| Balance at May 30, 2015                  | \$ 401,012 |

**Note 14: Fair Value Measurements**

The following tables present information about our financial assets and liabilities that are measured at fair value on a recurring basis as of May 30, 2015 and November 29, 2014, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value. The hierarchy is broken down into three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs include data points that are observable such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs (other than quoted prices) such as interest rates and yield curves that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

| Description           | May 30,<br>2015 | Fair Value Measurements Using: |         |         |
|-----------------------|-----------------|--------------------------------|---------|---------|
|                       |                 | Level 1                        | Level 2 | Level 3 |
| Assets:               |                 |                                |         |         |
| Marketable securities | \$ 909          | \$ 909                         | \$      | \$      |



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|   |    |               |    |    |               |
|---|----|---------------|----|----|---------------|
| Derivative assets   |    | <b>8,577</b>  |    |    | <b>8,577</b>  |
| Interest rate swaps   |    | <b>4,108</b>  |    |    | <b>4,108</b>  |
| <b>Liabilities:</b>   |    |               |    |    |               |
| Derivative liabilities                                      | \$ | <b>1,147</b>  | \$ | \$ | <b>1,147</b>  |
| Contingent consideration liability, continuing operations   |    | <b>38,216</b> |    |    | <b>38,216</b> |
| Contingent consideration liability, discontinued operations |    | <b>8,000</b>  |    |    | <b>8,000</b>  |

| Description   | November 29, |                                |         |         |
|---|--------------|--------------------------------|---------|---------|
|   | 2014         | Fair Value Measurements Using: |         |         |
|   |              | Level 1                        | Level 2 | Level 3 |
| <b>Assets:</b>  |              |                                |         |         |
| Marketable securities                                       | \$ 748       | \$ 748                         | \$      | \$      |
| Derivative assets   | 1,007        |                                | 1,007   |         |
| Interest rate swaps   | 4,726        |                                | 4,726   |         |
| Cash-flow hedges  | 5,408        |                                | 5,408   |         |
| <b>Liabilities:</b>   |              |                                |         |         |
| Derivative liabilities                                      | \$ 433       | \$                             | \$ 433  | \$      |
| Contingent consideration liability, continuing operations   | 196          |                                |         | 196     |
| Contingent consideration liability, discontinued operations | 5,000        |                                |         | 5,000   |

**Note 15: Share Repurchase Program**

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

Under this program, we did not repurchase any shares during the first six months of 2015 or during the second quarter of 2014. During the first six months of 2014 we repurchased shares under this program, with an aggregate value of \$12,254. Of this amount, \$250 reduced common stock and \$12,004 reduced additional paid-in capital.

**Note 16: Redeemable Non-Controlling Interest**

We account for the non-controlling interest in H.B. Fuller Kimya San. Tic A.S. (HBF Kimya) as a redeemable non-controlling interest because both the non-controlling shareholder and H.B. Fuller have an option, exercisable beginning August 1, 2018, to require the redemption of the shares owned by the non-controlling shareholder at a price determined by a formula based on 24 months trailing EBITDA. Since the option makes the redemption of the non-controlling ownership shares of HBF Kimya outside of our control, these shares are classified as a redeemable non-controlling interest in temporary equity in the Condensed Consolidated Balance Sheets. The non-controlling shareholder is entitled to increase his ownership by 1 percent per year for 5 years up to a maximum of 13 percent ownership based on the achievement of profitability targets in each year. The option is subject to a minimum price of 3,500. The redemption value of the option, if it were currently redeemable, is estimated to be 3,500.

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.

The acquisition of the 95 percent of the equity of Tonsan Adhesive, Inc. and concurrent agreement to acquire the remaining 5 percent in the future, resulted in the assumption of a non-controlling interest for the remaining equity.

Based on requirements to redeem this non-controlling interest beginning February 1, 2019, the non-controlling interest was immediately recognized as a liability and reclassified to other liabilities. The fair value of the non-controlling interest as of the date of acquisition was \$11,773.

As of May 30, 2015 the redeemable non-controlling interests were:

|   | <b>Total</b> |
|---|--------------|
| Balance at November 29, 2014  | \$ 4,654     |
| Non-controlling interest assumed                                    | 11,773       |
| Recognition of non-controlling interest redemption liability        | (11,773)     |
| Net income (loss) attributed to redeemable non-controlling interest | 151          |
| Foreign currency translation adjustment                             | (556)        |
| Balance at May 30, 2015   | \$ 4,249     |

## 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 29, 2014 for important background information related to our business.

Net revenue in the second quarter of 2015 decreased 0.6 percent from the second quarter of 2014. Sales volume increased 5.5 percent and product pricing increased 0.9 percent compared to the second quarter of last year. A weaker Euro, Turkish lira, Canadian dollar and Australian dollar compared to the U.S. dollar, for the second quarter of 2015 compared to the second quarter of 2014 were the main drivers of a negative 7.0 percent currency effect. Gross profit margin increased 130 basis points due to lower raw material and delivery costs, partially offset by production inefficiencies related to the Business Integration Project. We incurred special charges, net of \$0.9 million for costs related to the Business Integration Project in the second quarter of 2015 and \$13.5 million in the second quarter of 2014. The second quarter of 2015 included a loss from discontinued operations, net of tax of \$1.3 million.

Net income attributable to H.B. Fuller in the second quarter of 2015 was \$25.2 million as compared to \$20.5 million in the second quarter of 2014. On a diluted earnings per share basis, the second quarter of 2015 was \$0.49 per share as compared to \$0.40 per share for the same period last year.

Net revenue in the first six months of 2015 decreased 1.8 percent compared to the first six months of 2014. Sales volume increased 3.4 percent and product pricing increased 0.7 percent compared to the same period last year. A weaker Euro, Turkish lira, Canadian dollar and Australian dollar compared to the U.S. dollar, for the first six months of 2015 compared to the first six months of 2014 were the main drivers of a negative 5.9 percent currency effect. Gross profit margin decreased 60 basis points mainly due to production inefficiencies related to the Business Integration Project and the impact of the inventory step up related to our recent acquisitions. We incurred special charges, net of \$3.3 million for costs related to the Business Integration Project in the first six months of 2015 and \$25.3 million in the first six months of 2014. The first six months of 2015 included a loss from discontinued operations, net of tax of \$1.3 million.

Net income attributable to H.B. Fuller in the first six months of 2015 was \$34.9 million as compared to \$35.1 million in the first six months of 2014. On a diluted earnings per share basis, the first six months of 2015 was \$0.68 per share as compared to \$0.69 per share for the same period last year.

### Results of Operations

#### Net revenue:

| (\$ in millions) | 13 Weeks Ended |              |              | 26 Weeks Ended |              |              |
|------------------|----------------|--------------|--------------|----------------|--------------|--------------|
|                  | May 30, 2015   | May 31, 2014 | 2015 vs 2014 | May 30, 2015   | May 31, 2014 | 2015 vs 2014 |
| Net revenue      | \$ 540.8       | \$ 544.0     | (0.6%)       | \$ 1,011.4     | \$ 1,030.0   | (1.8%)       |

We review variances in net revenue in terms of changes related to product pricing, sales volume, changes in foreign currency exchange rates and large acquisitions. The product pricing/sales volume variance and small acquisitions, including Tonsan Adhesive, Inc., Continental Products Limited and ProSpec construction products are viewed as constant currency growth. The following table shows the net revenue variance analysis for the second quarter and first six months of 2015 compared to the same periods in 2014:

|                 | <b>13 Weeks Ended May 30, 2015</b> | <b>26 Weeks Ended May 30, 2015</b> |
|-----------------|------------------------------------|------------------------------------|
|                 | <b>vs May 31, 2014</b>             | <b>vs May 31, 2014</b>             |
| Product pricing | 0.9%                               | 0.7%                               |
| Sales volume    | 5.5%                               | 3.4%                               |
| Currency        | (7.0%)                             | (5.9%)                             |
|                 | (0.6%)                             | (1.8%)                             |

Constant currency growth, which we define as the combined variances from product pricing, sales volume and small acquisitions was 6.4 percent in the second quarter of 2015 compared to the second quarter of 2014. Sales volume increased 5.5 percent and product pricing increased 0.9 percent compared to last year. The 6.4 percent constant currency growth in the second quarter of 2015 was driven by 44.2 percent growth in Asia Pacific and 32.7 percent growth in Construction Products partially offset by decreases in Americas and EIMEA of 2.8 percent and 2.5 percent respectively. The currency impacts were primarily driven by the devaluation of the Euro, Turkish lira, Canadian dollar and Australian dollar compared to the U.S. dollar.

Constant currency growth was 4.1 percent in first six months of 2015 compared to the first six months of 2014. Sales volume increased 3.4 percent and product pricing increased 0.7 percent compared to last year. The 4.1 percent constant currency growth in first six months of 2015 was driven by 28.7 percent growth in Construction Products and 28.0 percent growth in Asia Pacific, partially offset by decreases in EIMEA and Americas of 2.7 percent and 2.5 percent respectively. The currency impacts were primarily driven by the devaluation of the Euro, Turkish lira, Canadian dollar and Australian dollar compared to the U.S. dollar.

#### Cost of sales:

| (\$ in millions)          | 13 Weeks Ended  |                 |                 | 26 Weeks Ended  |                 |                 |
|---------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|                           | May 30,<br>2015 | May 31,<br>2014 | 2015 vs<br>2014 | May 30,<br>2015 | May 31,<br>2014 | 2015 vs<br>2014 |
| Raw materials             | \$ 302.2        | \$ 310.8        | (2.7%)          | \$ 574.0        | \$ 585.8        | (2.0%)          |
| Other manufacturing costs | 89.6            | 90.6            | (1.1%)          | 172.3           | 168.5           | 2.3%            |
| Cost of sales             | \$ 391.8        | \$ 401.4        | (2.4%)          | \$ 746.3        | \$ 754.3        | (1.1%)          |
| Percent of net revenue    | 72.5%           | 73.8%           |                 | 73.8%           | 73.2%           |                 |

Cost of sales in the second quarter of 2015 compared to second quarter of 2014 decreased 130 basis points as a percentage of net revenue. Raw material cost as a percentage of net revenue decreased 120 basis points compared to last year due to lower raw material costs and sales mix. Other manufacturing costs as a percentage of revenue decreased 10 basis points compared to last year as lower delivery costs were offset by production inefficiencies.

Cost of sales in the first six months of 2015 compared to first six months of 2014 increased 60 basis points as a percentage of net revenue. Raw material cost as a percentage of net revenue decreased 10 basis points compared to last year due to lower raw material costs and sales mix offset by the impact of the inventory step up related to our recent acquisitions. Other manufacturing costs as a percentage of revenue increased 70 basis points compared to last year mainly due to production inefficiencies related to the Business Integration Project partially offset by lower delivery costs.

#### Gross profit:

| (\$ in millions)       | 13 Weeks Ended  |                 |                 | 26 Weeks Ended  |                 |                 |
|------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|                        | May 30,<br>2015 | May 31,<br>2014 | 2015 vs<br>2014 | May 30,<br>2015 | May 31,<br>2014 | 2015 vs<br>2014 |
| Gross profit           | \$ 148.9        | \$ 142.7        | 4.4%            | \$ 265.1        | \$ 275.7        | (3.8%)          |
| Percent of net revenue | 27.5%           | 26.2%           |                 | 26.2%           | 26.8%           |                 |

Gross profit in the second quarter of 2015 increased \$6.2 million or 4.4 percent and gross profit margin increased 130 basis points compared to the second quarter of 2014. Reductions in raw material cost and better sales mix in the

second quarter of 2015 resulted in the increase in gross profit.

Gross profit in the first six months of 2015 decreased \$10.6 million or 3.8 percent and gross profit margin decreased 60 basis points compared to the first six months of 2014. Lower sales volumes, production inefficiencies related to the Business Integration Project and the impact of the inventory step up related to our recent acquisitions partially offset by lower raw material costs are the main drivers to the gross margin reduction.

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

| (\$ in millions)       | 13 Weeks Ended  |                 |                 | 26 Weeks Ended  |                 |                 |
|------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|                        | May 30,<br>2015 | May 31,<br>2014 | 2015 vs<br>2014 | May 30,<br>2015 | May 31,<br>2014 | 2015 vs<br>2014 |
| SG&A                   | \$ 100.6        | \$ 96.4         | 4.4%            | \$ 195.4        | \$ 193.2        | 1.2%            |
| Percent of net revenue | 18.6%           | 17.7%           |                 | 19.3%           | 18.8%           |                 |

SG&A expenses for the second quarter of 2015 increased \$4.2 million or 4.4 percent, compared to the second quarter of 2014 mainly due to incremental expenses from Tonsan acquisition partially offset by lower expenses related to Project ONE and foreign currency exchange rate benefits.

SG&A expenses for the first six months of 2015 increased \$2.2 million or 1.2 percent, compared to the first six months of 2014 due to incremental expenses from Tonsan acquisition partially offset by lower expenses related to Project ONE and foreign currency exchange rate benefits.

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

**Special charges, net:**

| (\$ in millions)     | 13 Weeks Ended  |                 |                 | 26 Weeks Ended  |                 |                 |
|----------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|                      | May 30,<br>2015 | May 31,<br>2014 | 2015 vs<br>2014 | May 30,<br>2015 | May 31,<br>2014 | 2015 vs<br>2014 |
| Special charges, net | \$ 0.9          | \$ 13.5         | (93.1%)         | \$ 3.3          | \$ 25.3         | (87.0%)         |

The following table provides detail of special charges, net:

| (\$ in millions)                             | 13 Weeks Ended  |                 | 26 Weeks Ended  |                 |
|--|-----------------|-----------------|-----------------|-----------------|
|  | May 30,<br>2015 | May 31,<br>2014 | May 30,<br>2015 | May 31,<br>2014 |
| Acquisition and transformation related costs | \$ 0.1          | \$ 2.6          | \$ 0.6          | \$ 4.3          |
| Workforce reduction costs                    | (0.3)           | 0.9             | (0.2)           | 3.0             |
| Facility exit costs                          | 1.1             | 7.3             | 2.6             | 12.4            |
| Other related costs                          |                 | 2.7             | 0.3             | 5.6             |
| Special charges, net                         | \$ 0.9          | \$ 13.5         | \$ 3.3          | \$ 25.3         |

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 13 weeks ended May 30, 2015 and May 31, 2014, we incurred special charges, net of \$0.9 million and \$13.5 million respectively, for costs related to the Business Integration Project. During the 26 weeks ended May 30, 2015 and May 31, 2014, we incurred special charges, net of \$3.3 million and \$25.3 million respectively, for costs related to the Business Integration Project.

Acquisition and transformation related costs of \$0.1 million for the 13 weeks ended May 30, 2015 and \$2.6 million for the 13 weeks ended May 31, 2014 include costs related to organization consulting, financial advisory and legal services necessary to integrate the acquired business into our existing operating segments. During the 13 weeks ended May 30, 2015, we recorded a net reversal of workforce reduction costs of \$0.3 million and we incurred cash facility exit costs of \$0.4 million and non-cash facility exit costs of \$0.7 million. During the 13 weeks ended May 31, 2014, we incurred workforce reduction costs of 0.9 million, cash facility exit costs of \$5.7 million, non-cash facility exit costs of \$1.6 million and other incremental transformation related costs of \$2.7 million including the cost of personnel directly working on the integration.

Acquisition and transformation related costs of \$0.6 million for the 26 weeks ended May 30, 2015 and \$4.3 million for the 26 weeks ended May 31, 2014 include costs related to organization consulting, financial advisory and legal services necessary to integrate the acquired business into our existing operating segments. During the 26 weeks ended May 30, 2015, we recorded a net reversal of workforce reduction costs of \$0.2 million and we incurred cash facility exit costs of \$1.8 million and non-cash facility exit costs of \$0.8 million and other incremental transformation related costs of \$0.3 million including the cost of personnel directly working on the integration. During the 26 weeks ended May 31, 2014, we incurred workforce reduction costs of \$3.0 million, cash facility exit costs of \$9.3 million, non-cash facility exit costs of \$3.1 million and other incremental transformation related costs of \$5.6 million including the cost of personnel directly working on the integration.

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

| (\$ in millions)     | 13 Weeks Ended  |                 | 26 Weeks Ended  |                 |
|----------------------|-----------------|-----------------|-----------------|-----------------|
|                      | May 30,<br>2015 | May 31,<br>2014 | May 30,<br>2015 | May 31,<br>2014 |
| Americas Adhesives   | \$ (0.6)        | \$ 0.8          | \$ (0.9)        | \$ 1.3          |
| EIMEA                | 1.5             | 11.2            | 3.9             | 21.7            |
| Asia Pacific         |                 | 1.0             |                 | 1.4             |
| Company-wide         |                 | 0.5             | 0.3             | 0.9             |
| Special Charges, net | \$ 0.9          | \$ 13.5         | \$ 3.3          | \$ 25.3         |

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

We originally estimated the total costs of the Business Integration Project to be approximately \$125.0 million. Primarily due to delays in completing the EIMEA portion of the project, we now expect total project costs will be approximately \$164.0 million. The following table provides detail of costs incurred inception-to-date as of May 30, 2015 for the Business Integration Project:

| (\$ in millions)                             | Costs Incurred<br>Inception-to-Date<br>as of May<br>30, 2015 |      |
|--|--|------|
| Acquisition and transformation related costs | \$   | 42.9 |
| Work force reduction costs                   |  | 40.9 |
| Cash facility exit costs                     |  | 39.8 |

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|                              |    |       |
|------------------------------|----|-------|
| Non-cash facility exit costs |    | 17.0  |
| Other related costs          |    | 19.3  |
| Business Integration Project | \$ | 159.9 |

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

From the inception of the project we have focused on three key metrics which track the bulk of the Business Integration Project cost savings and profit improvement objectives: (1) cost savings achieved through workforce reductions, (2) cost reductions achieved through facility closures and consolidation and (3) the EBITDA margin of

the business relative to our expected trend over the timeframe of the project. Since the project commenced over three years ago many changes have occurred in the project and within the underlying business. These changes make it difficult to accurately measure the cost savings according to the original metrics that we established. Therefore, going forward we will focus on the EBITDA margin goal of 15 percent as the performance metric for this project. For the quarter ended May 30, 2015 and May 31, 2014, we achieved EBITDA margin of 12.4 percent and 11.5 percent, respectively. For the first six months ended May 30, 2015 and May 31, 2014, we achieved EBITDA margin of 10.5 percent and 11.0 percent, respectively.

**Other income (expense), net:**

| (\$ in millions)            | 13 Weeks Ended |              |              | 26 Weeks Ended |              |              |
|-----------------------------|----------------|--------------|--------------|----------------|--------------|--------------|
|                             | May 30, 2015   | May 31, 2014 | 2015 vs 2014 | May 30, 2015   | May 31, 2014 | 2015 vs 2014 |
| Other income (expense), net | \$ (0.6)       | \$ (0.2)     | NMP          | \$ (0.2)       | \$ (1.3)     | NMP          |

NMP = Non-meaningful percentage

Other income (expense), net in the second quarter of 2015 included \$0.6 million of currency translation and re-measurement losses. Other income (expense), net in the second quarter of 2014 included \$0.5 million of currency translation and re-measurement losses offset by \$0.2 million of net financing income and \$0.1 million of interest income.

Other income (expense), net for the first six months of 2015 included \$0.7 million of currency translation and re-measurement losses offset by \$0.4 million of net financing income and \$0.1 million of interest income. Other income (expense), net for the first six months of 2014 included \$1.8 million of currency translation and re-measurement losses offset by \$0.4 million of net financing income and \$0.1 million of interest income.

**Interest expense:**

| (\$ in millions) | 13 Weeks Ended |              |              | 26 Weeks Ended |              |              |
|------------------|----------------|--------------|--------------|----------------|--------------|--------------|
|                  | May 30, 2015   | May 31, 2014 | 2015 vs 2014 | May 30, 2015   | May 31, 2014 | 2015 vs 2014 |
| Interest expense | \$ 6.2         | \$ 4.8       | 30.6%        | \$ 12.3        | \$ 8.9       | 38.6%        |

Interest expense in the second quarter of 2015 as compared to the same period last year was higher due to higher average debt balances related to the Tonsan acquisition and lower capitalized interest, offset by lower average interest rates. We capitalized a minimal amount of interest expense in the second quarter of 2015 compared to \$1.0 million in the same period last year.

Interest expense for the first six months of 2015 as compared to the same period last year was higher due to higher average debt balances and lower capitalized interest, offset by lower average interest rates. We capitalized a minimal amount of interest expense in the first six months of 2015 compared to \$2.0 million in the same period last year.

**Income taxes:**

13 Weeks Ended

26 Weeks Ended

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| (\$ in millions)   | May 30,<br>2015 | May 31,<br>2014 | 2015 vs<br>2014 | May 30,<br>2015 | May 31,<br>2014 | 2015 vs<br>2014 |
|--------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Income taxes       | \$ 15.4         | \$ 8.8          | 74.1%           | \$ 20.2         | \$ 15.4         | 31.1%           |
| Effective tax rate | 37.9%           | 31.8%           |                 | 37.4%           | 32.6%           |                 |

Income tax expense of \$15.4 million in the second quarter of 2015 includes \$0.2 million of discrete tax expense and \$0.1 million of tax benefits relating to the special charges for costs related to the Business Integration

Project. Excluding the discrete benefits and the effects of items included in special charges, the overall effective tax rate was 37.0 percent.

Income tax expense of \$20.2 million in the first six months of 2015 includes \$0.2 million of discrete tax benefits and \$0.4 million of tax benefits relating to special charges for costs related to the Business Integration Project. Excluding the discrete tax benefits and the effects of items included in special charges, the overall effective tax rate was 36.4 percent.

**Income from equity method investments:**

| (\$ in millions)                      | 13 Weeks Ended |         |         | 26 Weeks Ended |         |         |
|---------------------------------------|----------------|---------|---------|----------------|---------|---------|
|                                       | May 30,        | May 31, | 2015 vs | May 30,        | May 31, | 2015 vs |
|                                       | 2015           | 2014    | 2014    | 2015           | 2014    | 2014    |
| Income from equity method investments | \$ 1.4         | \$ 1.7  | (18.8%) | \$ 2.7         | \$ 3.5  | (24.9%) |

The income from equity method investments relates to our 50 percent ownership of the Sekisui-Fuller joint venture in Japan. The lower 2015 income compared to 2014 is primarily related to lower profitability and the weakening of the Japanese yen compared to the U.S. dollar.

**Loss from discontinued operations, net of tax:**

| (\$ in millions)                              | 13 Weeks Ended |         |         | 26 Weeks Ended |         |         |
|---|----------------|---------|---------|----------------|---------|---------|
|   | May 30,        | May 31, | 2015 vs | May 30,        | May 31, | 2015 vs |
|   | 2015           | 2014    | 2014    | 2015           | 2014    | 2014    |
| Loss from discontinued operations, net of tax | \$ (1.3)       | \$      | NMP     | \$ (1.3)       | \$      | NMP     |

NMP = Non-meaningful percentage

The loss from discontinued operations, net of tax, relates to our Central America Paints business, which we sold on August 6, 2012. In the second quarter of 2015, we increased our liability \$2.1 million and adjusted the related deferred income tax. See Note 2 to the Condensed Consolidated Financial Statements.

**Net income attributable to non-controlling interests:**

| (\$ in millions)                                     | 13 Weeks Ended |          |         | 26 Weeks Ended |          |         |
|--|----------------|----------|---------|----------------|----------|---------|
|  | May 30,        | May 31,  | 2015 vs | May 30,        | May 31,  | 2015 vs |
|  | 2015           | 2014     | 2014    | 2015           | 2014     | 2014    |
| Net income attributable to non-controlling interests | \$ (0.1)       | \$ (0.1) | NMP     | \$ (0.2)       | \$ (0.2) | NMP     |

NMP = Non-meaningful percentage

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

**Net income attributable to H.B. Fuller:**

| (\$ in millions) | 13 Weeks Ended | 26 Weeks Ended |
|------------------|----------------|----------------|
|------------------|----------------|----------------|

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|  | <b>May 30,<br/>2015</b> | <b>May 31,<br/>2014</b> | <b>2015 vs<br/>2014</b> | <b>May 30,<br/>2015</b> | <b>May 31,<br/>2014</b> | <b>2015 vs<br/>2014</b> |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Net income attributable to H.B. Fuller | \$ 25.2                 | \$ 20.5                 | 19.9%                   | \$ 34.9                 | \$ 35.1                 | (2.2%)                  |
| Percent of net revenue                 | 4.7%                    | 3.8%                    |                         | 3.4%                    | 3.4%                    |                         |

The net income attributable to H.B. Fuller for the second quarter of 2015 was \$25.2 million compared to \$20.5 million for the second quarter of 2014. The second quarter of 2015 included \$0.9 million of special charges, net (\$0.8 million after tax) for costs related to the Business Integration Project and a loss from discontinued operations, net of tax of \$1.3 million. The second quarter of 2014 included \$13.5 million of special charges, net (\$12.0 million after tax) for costs related to the Business Integration Project. The diluted earnings per share for the second quarter of 2015 was \$0.49 per share as compared to \$0.40 per share for the second quarter of 2014.

The net income attributable to H.B. Fuller for the first six months of 2015 was \$34.9 million compared to \$35.1 million for the first six months of 2014. The first six months of 2015 included \$3.3 million of special charges, net (\$2.9 million after tax) for costs related to the Business Integration Project and a loss from discontinued operations, net of tax of \$1.3 million. The first six months of 2014 included \$25.3 million of special charges, net (\$21.4 million after tax) for costs related to the Business Integration Project. The diluted earnings per share for the first six months of 2015 was \$0.68 per share as compared to \$0.69 per share for the first six months of 2014.

### Operating Segment Results

We have four reportable segments: Americas Adhesives, EIMEA (Europe, India, Middle East and Africa), Asia Pacific and Construction Products. 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 and 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)      | 13 Weeks Ended  |             |                 |             | 26 Weeks Ended    |             |                   |             |
|-----------------------|-----------------|-------------|-----------------|-------------|-------------------|-------------|-------------------|-------------|
|                       | May 30, 2015    |             | May 31, 2014    |             | May 30, 2015      |             | May 31, 2014      |             |
|                       | Net Revenue     | % of Total  | Net Revenue     | % of Total  | Net Revenue       | % of Total  | Net Revenue       | % of Total  |
| Americas Adhesives    | \$ 228.6        | 42%         | \$ 236.9        | 44%         | \$ 432.4          | 43%         | \$ 446.6          | 43%         |
| EIMEA                 | 151.5           | 28%         | 189.6           | 35%         | 299.1             | 30%         | 361.2             | 36%         |
| Asia Pacific          | 95.1            | 18%         | 68.0            | 12%         | 165.1             | 16%         | 133.0             | 12%         |
| Construction Products | 65.6            | 12%         | 49.5            | 9%          | 114.8             | 11%         | 89.2              | 9%          |
| <b>Total</b>          | <b>\$ 540.8</b> | <b>100%</b> | <b>\$ 544.0</b> | <b>100%</b> | <b>\$ 1,011.4</b> | <b>100%</b> | <b>\$ 1,030.0</b> | <b>100%</b> |

#### Segment Operating Income:

| (\$ in millions) | 13 Weeks Ended           |            |                          |            | 26 Weeks Ended           |            |                          |            |
|------------------|--------------------------|------------|--------------------------|------------|--------------------------|------------|--------------------------|------------|
|                  | May 30, 2015             |            | May 31, 2014             |            | May 30, 2015             |            | May 31, 2014             |            |
|                  | Segment Operating Income | % of Total | Segment Operating Income | % of Total | Segment Operating Income | % of Total | Segment Operating Income | % of Total |
|                  |                          |            |                          |            |                          |            |                          |            |



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|                       |                |             |                |             |                |             |                |             |
|-----------------------|----------------|-------------|----------------|-------------|----------------|-------------|----------------|-------------|
| Americas Adhesives    | \$ 34.8        | 72%         | \$ 31.9        | 69%         | \$ 55.6        | 80%         | \$ 57.1        | 69%         |
| EIMEA                 | 1.7            | 3%          | 10.2           | 22%         | 0.9            | 1%          | 18.6           | 23%         |
| Asia Pacific          | 5.3            | 11%         | 1.7            | 4%          | 4.8            | 7%          | 3.5            | 4%          |
| Construction Products | 6.6            | 14%         | 2.5            | 5%          | 8.4            | 12%         | 3.3            | 4%          |
| <b>Total</b>          | <b>\$ 48.4</b> | <b>100%</b> | <b>\$ 46.3</b> | <b>100%</b> | <b>\$ 69.7</b> | <b>100%</b> | <b>\$ 82.5</b> | <b>100%</b> |

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

| (\$ in millions)   | 13 Weeks Ended  |                 | 26 Weeks Ended  |                 |
|--|-----------------|-----------------|-----------------|-----------------|
|  | May 30,<br>2015 | May 31,<br>2014 | May 30,<br>2015 | May 31,<br>2014 |
| Segment operating income   | \$ 48.4         | \$ 46.3         | \$ 69.7         | \$ 82.5         |
| Special charges, net   | (1.0)           | (13.5)          | (3.3)           | (25.3)          |
| Other income (expense), net  | (0.6)           | (0.2)           | (0.2)           | (1.2)           |
| Interest expense   | (6.2)           | (4.8)           | (12.3)          | (8.9)           |
| Income from continuing operations before income taxes<br>and income from equity method investments | \$ 40.6         | \$ 27.8         | \$ 53.9         | \$ 47.1         |

### Americas Adhesives

| (\$ in millions)         | 13 Weeks Ended  |                 |                 | 26 Weeks Ended  |                 |                 |
|--------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|                          | May 30,<br>2015 | May 31,<br>2014 | 2015 vs<br>2014 | May 30,<br>2015 | May 31,<br>2014 | 2015 vs<br>2014 |
| Net revenue              | \$ 228.6        | \$ 236.9        | (3.6%)          | \$ 432.4        | \$ 446.6        | (3.2%)          |
| Segment operating income | \$ 34.8         | \$ 31.9         | 9.2%            | \$ 55.6         | \$ 57.1         | (2.6%)          |
| Segment profit margin %  | 15.2%           | 13.5%           |                 | 12.9%           | 12.8%           |                 |

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

|                          | 13 Weeks Ended                        | 26 Weeks Ended                        |
|--------------------------|---------------------------------------|---------------------------------------|
|                          | May 30, 2015<br>vs<br>May 31,<br>2014 | May 30, 2015<br>vs<br>May 31,<br>2014 |
| Constant currency growth | (2.8%)                                | (2.5%)                                |
| Currency                 | (0.8%)                                | (0.7%)                                |
| Total                    | (3.6%)                                | (3.2%)                                |

Net revenue decreased 3.6 percent in the second quarter of 2015 compared to the second quarter of 2014. The 2.8 percent decrease in constant currency growth was attributable to a 3.9 percent decrease in sales volume partially offset by a 1.1 percent increase in product pricing. The weaker Canadian dollar compared to the U.S. dollar resulted in a 0.8 percent decrease in net revenue. As a percentage of net revenue, raw material costs decreased 20 basis points mainly due to reduction in raw material costs. Other manufacturing costs as a percentage of net revenue decreased 150 basis points mainly due to lower production and delivery costs compared to the second quarter of last year that was negatively impacted by the Project ONE implementation. Segment operating income increased 9.2 percent and segment profit margin as a percentage of net revenue increased 170 basis points in the second quarter compared to the second quarter last year.

Net revenue decreased 3.2 percent in the first six months of 2015 compared to the first six months of 2014. The 2.5 percent decrease in constant currency growth was attributable to a 3.2 percent decrease in sales volume partially offset by a 0.7 percent increase in product pricing. The weaker Canadian dollar compared to the U.S. dollar resulted in a 0.7 percent decrease in net revenue. As a percentage of net revenue, raw material costs increased 10 basis points mainly due to a lower price sales mix. Other manufacturing costs as a percentage of net revenue decreased 20 basis points compared to the first six months of 2014 mainly due to lower production and delivery costs compared to last year that was negatively impacted by the Project ONE implementation. Segment operating income decreased 2.6 percent and segment profit margin as a percentage of net revenue increased 10 basis points compared to the first six months of last year.

**EIMEA**

| (\$ in millions)         | 13 Weeks Ended  |                 |                 | 26 Weeks Ended  |                 |                 |
|--------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|                          | May 30,<br>2015 | May 31,<br>2014 | 2015 vs<br>2014 | May 30,<br>2015 | May 31,<br>2014 | 2015 vs<br>2014 |
| Net revenue              | \$ 151.5        | \$ 189.6        | (20.1%)         | \$ 299.1        | \$ 361.2        | (17.2%)         |
| Segment operating income | \$ 1.7          | \$ 10.2         | (83.8%)         | \$ 0.9          | \$ 18.6         | (95.0%)         |
| Segment profit margin%   | 1.1%            | 5.4%            |                 | 0.3%            | 5.1%            |                 |

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

|                          | <b>13 Weeks Ended<br/>May 30, 2015</b> | <b>26 Weeks Ended<br/>May 30, 2015</b> |
|--------------------------|--|--|
|                          | <b>vs<br/>May 31,<br/>2014</b>         | <b>vs<br/>May 31,<br/>2014</b>         |
| Constant currency growth | (2.5%)                                 | (2.7%)                                 |
| Currency                 | (17.6%)                                | (14.5%)                                |
| <b>Total</b>             | <b>(20.1%)</b>                         | <b>(17.2%)</b>                         |

Net revenue decreased 20.1 percent in the second quarter of 2015 compared to the second quarter of 2014. Sales volume decreased 2.6 percent and product pricing increased 0.1 percent. The negative currency effect of 17.6 percent was primarily the result of a weaker Euro and Turkish lira compared to the U.S. dollar. Sales volume was down in core Europe reflecting the generally soft end market conditions across most of the region and volume losses due to longer lead times caused by production inefficiencies related to the Business Integration Project. Sales volume growth was generated in the emerging markets, mainly in India, Turkey, Middle East and Egypt. Raw material cost as a percentage of net revenue decreased 80 basis points in the second quarter compared to the second quarter last year primarily due to raw material price reductions. Other manufacturing costs as a percentage of net revenue were 370 basis points higher than last year mainly driven by lower revenue and ongoing production inefficiencies related to the Business Integration Project. As a result, segment operating income decreased 83.8 percent and segment profit margin decreased 430 basis points compared to the second quarter last year.

Net revenue decreased 17.2 percent in the first six months of 2015 compared to the first six months of 2014. Sales volume decreased 2.8 percent and product pricing increased 0.1 percent. The negative currency effect of 14.5 percent was primarily the result of a weaker Euro and Turkish lira compared to the U.S. dollar. Sales volume was down in core Europe reflecting the generally soft end market conditions across most of the region and volume losses due to longer lead times caused by production inefficiencies related to the Business Integration Project. Sales volume growth was generated in the emerging markets, mainly in India, Turkey, Middle East and Egypt. Raw material cost as a percentage of net revenue increased 90 basis points in the first six months compared to the first six months last year primarily due to sales mix and higher raw material costs in the first quarter of 2015. Other manufacturing costs as a percentage of net revenue were 320 basis points higher than last year mainly driven by lower revenue and ongoing production inefficiencies related to the Business Integration Project. As a result, segment operating income decreased 95.0 percent and segment profit margin decreased 480 basis points compared to the first six months last year.

### Asia Pacific

| (\$ in millions)         | <b>13 Weeks Ended</b>   |                         |                         | <b>26 Weeks Ended</b>   |                         |                         |
|--------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
|                          | <b>May 30,<br/>2015</b> | <b>May 31,<br/>2014</b> | <b>2015 vs<br/>2014</b> | <b>May 30,<br/>2015</b> | <b>May 31,<br/>2014</b> | <b>2015 vs<br/>2014</b> |
| Net revenue              | \$ 95.1                 | \$ 68.0                 | 40.0%                   | \$ 165.1                | \$ 133.0                | 24.1%                   |
| Segment operating income | \$ 5.3                  | \$ 1.7                  | 202.9%                  | \$ 4.8                  | \$ 3.5                  | 36.5%                   |
| Segment profit margin %  | 5.6%                    | 2.6%                    |                         | 2.9%                    | 2.7%                    |                         |

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

|                          | <b>13 Weeks Ended<br/>May 30, 2015<br/>vs<br/>May 31,<br/>2014</b> | <b>26 Weeks Ended<br/>May 30, 2015<br/>vs<br/>May 31,<br/>2014</b> |
|--------------------------|--|--|
| Constant currency growth | 44.2%  | 28.0%  |
| Currency                 | (4.2%)   | (3.9%)   |
| <b>Total</b>             | <b>40.0%</b>   | <b>24.1%</b>   |

Net revenue in the second quarter of 2015 increased 40.0 percent compared to the second quarter of last year. The 44.2 percent increase in constant currency growth was attributable to a 44.5 percent increase in sales volume partially offset by a 0.3 percent decrease in product pricing. All Asian markets showed growth compared to the second quarter of last year. Sales volume growth was primarily driven by Southeast Asia, our legacy business in Greater China and the impact of the Tonsan acquisition. Negative currency effects of 4.2 percent compared to the second quarter of last year were primarily driven by the weaker Australian dollar and Malaysian ringgit. Raw material costs

as a percentage of net revenue decreased 570 basis points compared to the second quarter of last year due to raw material price reductions and changes in sales mix. Other manufacturing costs as a percentage of net revenue decreased 140 basis points compared to the second quarter of last year mainly due to increased sales volume and related manufacturing efficiencies. Segment operating income increased \$3.6 million or 202.9 percent compared to the second quarter of last year.

Net revenue in the first six months of 2015 increased 24.1 percent compared to the first six months of 2014. The 28.0 percent increase in constant currency growth was attributable to an increase in sales volume while product pricing was flat. All Asian markets showed growth compared to the first six months of last year. Sales volume growth was primarily driven by Southeast Asia, our legacy business in Greater China and the impact of the Tonsan acquisition. Negative currency effects of 3.9 percent compared to last year were primarily driven by the weaker Australian dollar and Malaysian ringgit. Raw material costs as a percentage of net revenue decreased 280 basis points compared to the first six months of last year due to raw material price reductions and changes in sales mix. Other manufacturing costs as a percentage of net revenue decreased 50 basis points compared to the first six months of last year mainly due to increased revenue and related manufacturing efficiencies. Segment operating income increased \$1.3 million or 36.5 percent compared to the first six months of last year.

### Construction Products

| (\$ in millions)         | 13 Weeks Ended  |                 |                 | 26 Weeks Ended  |                 |                 |
|--------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|                          | May 30,<br>2015 | May 31,<br>2014 | 2015 vs<br>2014 | May 30,<br>2015 | May 31,<br>2014 | 2015 vs<br>2014 |
| Net revenue              | \$ 65.6         | \$ 49.5         | 32.7%           | \$ 114.8        | \$ 89.2         | 28.7%           |
| Segment operating income | \$ 6.6          | \$ 2.5          | 165.1%          | \$ 8.4          | \$ 3.3          | 154.2%          |
| Segment profit margin %  | 10.0%           | 5.0%            |                 | 7.3%            | 3.7%            |                 |

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

|                          | 13 Weeks Ended                        | 26 Weeks Ended                        |
|--------------------------|---------------------------------------|---------------------------------------|
|                          | May 30, 2015<br>vs<br>May 31,<br>2014 | May 30, 2015<br>vs<br>May 31,<br>2014 |
| Constant currency growth | 32.7%                                 | 28.7%                                 |

Net revenue increased 32.7 percent in the second quarter of 2015 compared to the second quarter of 2014. The increase was driven by 27.7 percent increase in sales volume and a 5.0 percent increase in product pricing. The increase in sales volume was primarily attributed to continued market share gains with several key retail partners and the addition of the ProSpec construction products business acquired in the fourth quarter of 2014. The increase in pricing is mainly due to price increases related to certain product lines in certain channels. Raw material cost as a percentage of net revenue was basically flat in the second quarter of 2015 compared to last year as the impact of lower raw material costs were offset by product launch discounts at a key retail partner. Other manufacturing costs as a percentage of net revenue decreased 160 basis points compared to the second quarter of last year driven mainly by higher revenue and operation efficiencies partially offset by higher delivery costs related to a product launch at a key retail partner. Segment operating income increased 165.1 percent and segment profit margin increased 500 basis points in the second quarter compared to the second quarter last year.

Net revenue increased 28.7 percent in the first six months of 2015 compared to the first six months of 2014. The increase was driven by 25.1 percent increase in sales volume and a 3.6 percent increase in product pricing. The increase in sales volume was primarily attributed to continued market share gains with several key retail partners and the addition of the ProSpec construction products business acquired in the fourth quarter of 2014. The increase in pricing is mainly due to price increases related to certain product lines in certain channels. Raw material cost as a percentage of net revenue was 30 basis points higher in the first six months of 2015 compared to last year. Other manufacturing costs as a percentage of net revenue decreased 40 basis points compared to the first six months of last year mainly driven by higher revenue and operation efficiencies. Segment operating income increased 154.2 percent and segment profit margin increased 360 basis points in the first six months compared to the first six months last year.

## Financial Condition, Liquidity and Capital Resources

Total cash and cash equivalents as of May 30, 2015 were \$79.5 million as compared to \$77.6 million as of November 29, 2014 and \$95.0 million as of May 31, 2014. Of the \$79.5 million in cash and cash equivalents as of May 30, 2015, \$63.9 million was held outside the United States. Total long and short-term debt was \$736.9 million as of May 30, 2015, \$574.9 million as of November 29, 2014 and \$566.1 million as of May 31, 2014. The total debt to total capital ratio as measured by Total Debt divided by (Total Debt plus Total Equity) was 45.3 percent as of May 30, 2015 as compared to 39.2 percent as of November 29, 2014 and 37.2 percent as of May 31, 2014.

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 May 30, 2015, we were in compliance with all covenants of our contractual obligations as shown in the following table:

| Covenant                          | Debt Instrument      | Measurement           | Result as of<br>May 30, 2015 |
|-----------------------------------|----------------------|-----------------------|------------------------------|
| TTM EBITDA / TTM Interest Expense | All Debt Instruments | Not less than 2.5     | 9.1                          |
| Total Indebtedness / TTM EBITDA   | All Debt Instruments | Not greater than 3.75 | 3.3                          |

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 will return 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 2015.

## 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.

|  | <b>May 30,<br/>2015</b> | <b>May 31,<br/>2014</b> |
|--|-------------------------|-------------------------|
| Net working capital as a percentage of annualized net revenue <sup>1</sup> | 19.9%                   | 19.0%                   |
| Accounts receivable DSO <sup>2</sup>                                       | 59 Days                 | 60 Days                 |
| Inventory days on hand <sup>3</sup>  | 65 Days                 | 69 Days                 |
| Free cash flow <sup>4</sup>  | \$64.7 million          | \$(127.0) million       |
| Total debt to total capital ratio <sup>5</sup>                             | 45.3%                   | 37.2%                   |

<sup>1</sup> Current quarter net working capital (trade receivables, net of allowance for doubtful accounts plus inventory minus trade payables) divided by annualized net revenue (current quarter multiplied by four).

<sup>2</sup> Trade receivables net of the allowance for doubtful accounts at the balance sheet date multiplied by 56 (8 weeks) and divided by the net revenue for the last 2 months of the quarter.

<sup>3</sup> Total inventory multiplied by 56 and divided by cost of sales (excluding delivery costs) for the last 2 months of the quarter.

<sup>4</sup> Year-to-date net cash provided by (used in) operations from continuing operations, less purchased property, plant and equipment and dividends paid.

<sup>5</sup> Total debt divided by (total debt plus total stockholders' equity).

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

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

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

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

| (\$ in millions)                             | <b>Trailing 12 months<br/>as of May 30,<br/>2015</b> | <b>Trailing 12 months<br/>as of May 31,<br/>2014</b> |
|--|--|--|
| Gross profit                                 | \$ 522.7   | \$ 565.9   |
| Selling, general and administrative expenses | (385.7)  | (376.4)  |
| Income taxes at effective rate               | (49.7)   | (52.2)   |
|  | 4.3  | 7.8  |

Income from equity method  
investments

|                            |    |         |    |         |
|----------------------------|----|---------|----|---------|
| Total return               | \$ | 91.6    | \$ | 145.1   |
| Total invested capital     | \$ | 1,631.3 | \$ | 1,525.8 |
| Return on invested capital |    | 5.6%    |    | 9.5%    |

### Summary of Cash Flows

#### Cash Flows from Operating Activities:

| (\$ in millions)                                    | 26 Weeks Ended  |                 |
|---|-----------------|-----------------|
|   | May 30,<br>2015 | May 31,<br>2014 |
| Net cash provided by (used in) operating activities | \$ 116.2        | \$ (33.8)       |

Net income including non-controlling interests was \$35.1 million in the first six months of 2015 compared to \$35.3 million in the first six months of 2014. Depreciation and amortization expense totaled \$36.8 million in the first six months of 2015 compared to \$33.7 million in the first six months of 2014. Accrued compensation was a use of cash of \$3.6 million in 2015 compared to a use of cash of \$24.9 million last year. The lower use of cash in 2015 is related to lower accruals and payments for our employee incentive plans and 2014 payments of severance related costs for the Business Integration Project. Income taxes payable was a use of cash of \$1.0 million in the first six months of 2015 compared to a use of cash of \$4.0 million in same period last year. The use of cash in 2015 and 2014 are related to the timing of income tax payments and accruals. Other assets was a source of cash of \$5.8 million in 2015 compared to a use of \$12.6 million in 2014. Other operating activity was a source of cash of \$19.7 million in the first six months of 2015 compared to a source of cash of \$2.2 million in the first six months of 2014. The source of cash in 2015 was primarily related to the impact of a stronger U.S. dollar on certain foreign transactions.

Changes in net working capital (trade receivables, inventory and trade payables) accounted for a source of cash of \$18.5 million compared to a use of cash of \$57.3 million last year. The table below provides the cash flow impact due to changes in the components of net working capital:

| (\$ in millions)       | 26 Weeks Ended  |                 |
|------------------------|-----------------|-----------------|
|                        | May 30,<br>2015 | May 31,<br>2014 |
| Trade receivables, net | \$ 2.5          | \$ (23.8)       |
| Inventory              | (14.3)          | (60.6)          |
| Trade payables         | 30.3            | 27.1            |
| Total cash flow impact | \$ 18.5         | \$ (57.3)       |

**Trade Receivables, net** Trade Receivables, net was a source of cash of \$2.5 million in 2015 compared to a use of cash of \$23.8 million in 2014. The source of cash in 2015 compared to the use of cash in 2014 was due to a lower net revenue and strong collection activity of trade receivables. The DSO were 59 days at May 30, 2015 and 60 days at May 31, 2014.

**Inventory** Inventory was a use of cash of \$14.3 million and \$60.6 million in 2015 and 2014, respectively. The lower use of cash in 2015 is related to lower seasonal build of inventory in 2015. In 2014 we were also building inventory for the implementation of our ERP system in North America and to support the manufacturing transitions as part of our Business Integration Project. Inventory days on hand were 65 days as of May 30, 2015 and 69 days as of May 31, 2014.

**Trade Payables** For the first six months of 2015 trade payables was a source of cash of \$30.3 million compared to a source of cash of \$27.1 million in 2014. The higher source of cash in 2015 is primarily a reflection of the timing of various transactions within the quarter compared to last year.

#### Cash Flows from Investing Activities:

26 Weeks Ended

| (\$ in millions)                      | <b>May 30,<br/>2015</b> | <b>May 31,<br/>2014</b> |
|---------------------------------------|-------------------------|-------------------------|
| Net cash used in investing activities | \$ (255.4)              | \$ (80.5)               |

Purchases of property, plant and equipment were \$38.9 million in the first six months of 2015 as compared to \$82.1 million for the same period of 2014. The decrease in 2015 compared to 2014 was primarily related to higher capital expenditures for the Business Integration Project and the implementation of our ERP system in 2014. In the first quarter of 2015 we acquired Tonsan Adhesive, Inc. for \$215.9 million and Continental Products Limited for \$1.6 million.

**Cash Flows from Financing Activities:**

| (\$ in millions)                          | 26 Weeks Ended  |                 |
|---|-----------------|-----------------|
|   | May 30,<br>2015 | May 31,<br>2014 |
| Net cash provided by financing activities | \$ 145.8        | \$ 54.7         |

Proceeds from long-term debt in the first six months of 2015 were \$337.0 million compared to \$175.0 million in the first six months of 2014. Included in the \$337.0 million of proceeds is \$300.0 million from our January 28, 2015 term loan. Repayments of long-term debt were \$183.8 million in the first six months of 2015 and \$110.0 million in the first six months of 2014. Included in the \$183.8 million of repayments were \$70.0 million from our January 28, 2015 term loan used to repay outstanding balances under the revolving credit facility. Net proceeds on notes payable were \$2.5 million in 2015 compared to net proceeds of \$9.0 million in 2014. Cash generated from the exercise of stock options were \$4.0 million and \$4.7 million for the first six months of 2015 and 2014, respectively. Repurchases of common stock were \$2.2 million in the first six months of 2015 compared to \$15.4 million in the same period of 2014. We repurchased \$12.3 million in 2014 from our 2010 share repurchase program.

**Forward-Looking Statements and Risk Factors**

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. In this Quarterly Report on Form 10-Q, we discuss expectations regarding our future performance which include anticipated financial performance, savings from restructuring and process initiatives, global economic conditions, liquidity requirements, the impact of litigation and environmental matters, the effect of new accounting pronouncements and one-time accounting charges and credits, and similar matters. This Quarterly Report on Form 10-Q contains forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements may be identified by the use of words like plan, expect, aim, believe, project, anticipate, intend, estimate, could (including the negative or variations thereof) and other expressions that indicate future events and trends. These plans and expectations are based upon certain underlying assumptions, including those mentioned with the specific statements. Such assumptions are in turn based upon internal estimates and analyses of current market conditions and trends, our plans and strategies, economic conditions and other factors. These plans and expectations and the assumptions underlying them are necessarily subject to risks and uncertainties inherent in projecting future conditions and results. Actual results could differ materially from expectations expressed in the forward-looking statements if one or more of the underlying assumptions and expectations proves to be inaccurate or is unrealized. In addition to the factors described in this report, Part II, Item 1A. Risk Factors in this report and Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended November 29, 2014, identify some of the important factors that could cause our actual results to differ materially from those in any such forward-looking statements. This list of important factors does not include all such factors nor necessarily present them in order of importance. In order to comply with the terms of the safe harbor, we have identified these important factors which could affect our financial performance and could cause our actual results for future periods to differ materially from the anticipated results or other expectations expressed in the forward-looking statements. Additionally, the variety of products sold by us and the regions where we do business makes it difficult to determine with certainty the increases or decreases in revenues resulting from changes in the volume of products sold, currency impact, changes in geographic and product mix and selling prices. Our best estimates of these changes as well as changes in other factors have been included. References to volume changes include volume, product mix and delivery charges, combined. These factors should be considered, together with any similar risk factors or other cautionary language, which may be made elsewhere in this Quarterly Report on Form 10-Q.

We may refer to Part II, Item 1A. Risk Factors and this section of the Form 10-Q to identify risk factors related to other forward looking statements made in oral presentations, including investor conferences and/or webcasts open to

the public.

This disclosure, including that under Forward-Looking Statements and Risk Factors, and other forward-looking statements and related disclosures made by us in this report and elsewhere from time to time, represents our best judgment as of the date the information is given. We do not undertake responsibility for updating any of such information, whether as a result of new information, future events, or otherwise, except as required by law. Investors are advised, however, to consult any further public company disclosures (such as in filings with the Securities and Exchange Commission or in company press releases) on related subjects.

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**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

**Market Risk:** We are exposed to various market risks, including changes in interest rates, foreign currency rates and prices of raw materials. Market risk is the potential loss arising from adverse changes in market rates and prices, such as interest rates, foreign currency exchange rates and cost of raw materials.

Our financial performance may be negatively affected by the unfavorable economic conditions. Recessionary economic conditions may have an adverse impact on our sales volumes, pricing levels and profitability. As domestic and international economic conditions change, trends in discretionary consumer spending also become unpredictable and subject to reductions due to uncertainties about the future. A general reduction in consumer discretionary spending due to recession in the domestic and international economies, or uncertainties regarding future economic prospects, could have a material adverse effect on our results of operations.

**Interest Rate Risk:** Exposure to changes in interest rates result primarily from borrowing activities used to fund operations. Committed floating rate credit facilities are used to fund a portion of operations. We believe that probable near-term changes in interest rates would not materially affect financial condition, results of operations or cash flows. The annual impact on interest expense of a one-percentage point interest rate change on the outstanding balance of our variable rate debt as of May 30, 2015 would be approximately \$2.6 million or \$0.05 per diluted share.

**Foreign Exchange Risk:** As a result of being a global enterprise, there is exposure to market risks from changes in foreign currency exchange rates, which may adversely affect operating results and financial condition. We enter into cross border transactions through importing and exporting raw materials, our products and other goods to and from different countries and locations. These transactions generate foreign exchange risk as they create assets, liabilities and cash flows in currencies other than the functional currency. This also applies to services provided and other cross border agreements among subsidiaries.

Approximately 56 percent of net revenue was generated outside of the United States for the first six months of 2015. Principal foreign currency exposures relate to 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 match our non-functional currency product costs with non-functional currency revenues to create a natural hedge and minimize foreign exchange impacts on our gross margins. In situations where these non-functional costs and revenues cannot be matched or changes in our functional currency selling price are unable to offset the impact of the foreign currency rate change, the change will impact our profitability. From a sensitivity analysis perspective, based on the financial results of the first six months of 2015, a hypothetical 1 percent change in our cost of sales due to foreign currency rate changes would have resulted in a change in net income attributable to H.B. Fuller of approximately \$2.5 million or \$0.05 per diluted share.

In addition, we strive to balance, where possible, non-functional currency denominated assets to non-functional currency denominated liabilities through normal operating and financing activities to have a natural hedge and minimize foreign exchange impacts. When deemed appropriate, we enter into derivative instruments to further mitigate foreign currency exchange risks. We do not enter into any speculative positions with regard to derivative instruments. From a sensitivity analysis viewpoint, based on the financial results of the first six months of 2015, and foreign currency balance sheet positions as of May 30, 2015, a hypothetical overall 10 percent change in the U.S. dollar would have resulted in a change in net income attributable to H.B. Fuller of approximately \$1.3 million or \$0.03 per diluted share.

In addition, the translation of financial results from non U.S. dollar functional entities into U.S. dollars for purposes of reporting consolidated financial results may be adversely impacted by changes in foreign currency exchange rates. The Company does not take measures to mitigate these translation effects.



**Raw Materials:** The principal raw materials used to manufacture products include resins, polymers, synthetic rubbers, vinyl acetate monomer and plasticizers. Many of these raw materials are petroleum and natural gas based derivatives that are manufactured on a global basis. As such, the price of these raw materials fluctuate based upon changes in the cost of petroleum and natural gas, supply and demand and changes in foreign currency exchange rates.

We generally avoid single source supplier arrangements for raw materials. While alternate supplies of most key raw materials are available, unplanned supplier production outages may lead to strained supply-demand situations for several key raw materials such as tackifiers and base polymers. There is also tightness in feed stream chemicals such as ethylene and propylene.

For the six months ended May 30, 2015, our single largest expenditure was the purchase of raw materials. Our objective is to purchase raw materials that meet both our quality standards and production needs at the lowest total cost. Most raw materials are purchased on the open market or under contracts that limit the frequency but not the magnitude of price increases. In some cases, however, the risk of raw material price changes is managed by strategic sourcing agreements which limit price increases to increases in supplier feedstock costs, while requiring decreases as feedstock costs decline. The leverage of having substitute raw materials approved for use wherever possible is used to minimize the impact of possible price increases.

From a sensitivity analysis perspective, based on the financial results of the first six months of 2015, a hypothetical 1 percent change in our raw material costs would have resulted in a change in net income attributable to H.B. Fuller of approximately \$2.1 million or \$0.04 per diluted share.

#### **Item 4. Controls and Procedures**

##### **(a) Controls and procedures**

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our president and chief executive officer and executive vice president, chief financial officer, of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (Exchange Act)). We acquired Tonsan Adhesive, Inc. and Continental Products Limited in the first quarter of 2015. They represented approximately 11 percent of our total assets as of May 30, 2015. As these acquisitions occurred in the first quarter of 2015, the scope of our assessment of the effectiveness of internal control over financial reporting does not include these recent acquisitions. This exclusion is in accordance with the SEC's general guidance that an assessment of a recently acquired business may be omitted from our scope in the year of acquisition. Based on this evaluation, the president and chief executive officer and the executive vice president, chief financial officer concluded that, as of May 30, 2015, our disclosure controls and procedures were effective (1) to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and (2) to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to us, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

##### **(b) Change in internal control over financial reporting**

There were no changes in our internal control over financial reporting during our most recently completed fiscal quarter that have materially affected or are reasonably likely to materially affect our internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

**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. However, adverse developments and/or periodic settlements could negatively impact the results of operations or cash flows in one or more future periods.

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

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

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

In addition to the indemnification arrangements with third parties, we have insurance policies that generally provide coverage for asbestos liabilities (including defense costs). Historically, insurers have paid a significant portion of our defense costs and settlements in asbestos-related litigation. However, certain of our insurers are insolvent. We have entered into cost-sharing agreements with our insurers that provide for the allocation of defense costs and under certain circumstances, settlements and judgments, in asbestos-related lawsuits. Under these agreements, we are required under certain circumstances to fund a share of settlements and judgments allocable to years in which the responsible insurer is insolvent. In addition, to delineate our rights under certain insurance policies, in October 2009, we commenced a declaratory judgment action against one of our insurers in the United States District Court for the District of Minnesota. Additional insurers were brought into the action to address issues related to the scope of their coverage. In 2013, we entered into a settlement agreement with the defendant insurers in this case that provided for the allocation of defense costs and settlements in the future. The allocation under the settlement agreement depended on the outcome of an appeal of two issues to the United States Eighth Circuit Court of Appeals. During the second quarter of 2015, we entered into an additional settlement with the parties to the coverage litigation, which resulted in the appeal being dismissed. Therefore, this litigation has now been fully resolved.

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

| (\$ in millions)                                       | 26 Weeks Ended |              | 3 Years Ended     |                   |
|--|----------------|--------------|-------------------|-------------------|
|  | May 30, 2015   | May 31, 2014 | November 29, 2014 | November 29, 2013 |
| Lawsuits and claims settled                            | 5              | 4            |                   | 24                |
| Settlement amounts                                     | \$ 0.4         | \$ 0.2       | \$                | 1.8               |
| Insurance payments received or expected to be received | \$ 0.4         | \$ 0.2       | \$                | 1.4               |

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. However, adverse developments and/or periodic settlements could negatively impact the results of operations or cash flows in one or more future periods.

### Item 1A. Risk Factors

This Form 10-Q contains forward-looking statements concerning our future programs, products, expenses, revenue, liquidity and cash needs as well as our plans and strategies. These forward-looking statements are based on current expectations and we assume no obligation to update this information. Numerous factors could cause actual results to differ significantly from the results described in these forward-looking statements, including the risk factors identified under Part I, Item 1A. Risk Factors contained in our Annual Report on Form 10-K for the fiscal year ended November 29, 2014. There have been no material changes in the risk factors disclosed by us under Part I, Item 1A. Risk Factors contained in the Annual Report on Form 10-K for the fiscal year ended November 29, 2014.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds Issuer Purchases of Equity Securities

Information on our purchases of equity securities during the second quarter follows:

| Period                        | (a)<br>Total<br>Number<br>of<br>Shares<br>Purchased <sup>1</sup> | (b)<br>Average<br>Price Paid<br>per<br>Share | (d)<br>Maximum<br>Approximate Dollar<br>Value of Shares that<br>may yet be<br>Purchased Under the<br>Plan or<br>Program<br>(millions) |
|-------------------------------|--|--|---|
| March 1, 2015 - April 4, 2015 |  | \$   | \$ 62.0   |
| April 5, 2015 - May 2, 2015   | 86   | \$ 43.62                                     | \$ 62.0   |
| May 3, 2015 - May 30, 2015    |  | \$   | \$ 62.0   |

<sup>1</sup> The total number of shares purchased includes shares withheld to satisfy the employees withholding taxes upon vesting of restricted stock.

Repurchases of common stock are made to support our stock-based employee compensation plans and for other corporate purposes. Upon vesting of restricted stock awarded to employees, shares are withheld to cover the employees' minimum withholding taxes.

In 2010, the Board of Directors authorized a new share repurchase program of up to \$100.0 million 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. There were no shares repurchased in the first six months of 2015 under this program.

**Item 6. Exhibits**

- 31.1 Form of 302 Certification James J. Owens
- 31.2 Form of 302 Certification James R. Giertz
- 32.1 Form of 906 Certification James J. Owens
- 32.2 Form of 906 Certification James R. Giertz
- 101 The following materials from the H.B. Fuller Company Quarterly Report on Form 10-Q for the quarter ended May 30, 2015 formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Statements of Income, (ii) the Condensed Consolidated Statements of Comprehensive Income, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Total Equity, (v) the Condensed Consolidated Statements of Cash Flows and (vi) the Notes to Condensed Consolidated Financial Statements.



**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: June 30, 2015

**H.B. Fuller Company**

/s/ James R. Giertz  
James R. Giertz  
Executive Vice President,  
Chief Financial Officer

**Exhibit Index**

Exhibits

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