FULLER H B CO
Form 10-Q
October 05, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 1, 2007

or

¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from ______ to ______

Commission File Number 001-09225

H.B. FULLER COMPANY

(Exact name of Registrant as specified in its charter)

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

(651) 236-5900

(Registrant s telephone number, including area code)

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

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

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

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

The number of shares outstanding of the Registrant s Common Stock, par value $1.00 per share, was 60,038,571 as of September 28, 2007.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

H.B. FULLER COMPANY AND SUBSIDIARIES

Consolidated Statements of Income

(In thousands, except per share amounts)

(Unaudited)

	13 Weeks Ended		39 Weeks Ended	
	September 1, 2007	**September 2, 2006**	**September 1, 2007**	**September 2, 2006**
Net revenue	**$ 367,891**	$ 371,943	**$ 1,093,161**	$ 1,076,760
Cost of sales	**(259,288)**	(266,115)	**(774,121)**	(769,326)
Gross profit	**108,603**	105,828	**319,040**	307,434
Selling, general and administrative expenses	**(69,228)**	(72,980)	**(213,791)**	(222,526)
Gains (losses) from sales of assets	**4**	(14)	**107**	831
Other income, net	**942**	401	**3,599**	390
Interest expense	**(2,868)**	(4,575)	**(9,657)**	(12,285)
Income before income taxes, minority interests, and income from equity investments	**37,453**	28,660	**99,298**	73,844
Income taxes	**(10,645)**	(6,923)	**(28,580)**	(20,342)
Minority interests in (income) loss of subsidiaries	**121**	(259)	**10**	(993)
Income from equity investments	**1,437**	1,626	**5,725**	3,745
Income from continuing operations	**28,366**	23,104	**76,453**	56,254
Income from discontinued operations		1,094		2,755
Net income	**$ 28,366**	$ 24,198	**$ 76,453**	$ 59,009
Basic income per common share:				
Continuing operations	**$ 0.47**	$ 0.39	**$ 1.27**	$ 0.96
Discontinued operations		$ 0.02		$ 0.05
Net Income	**$ 0.47**	$ 0.41	**$ 1.27**	$ 1.01
Diluted income per common share:				
Continuing operations	**$ 0.46**	$ 0.38	**$ 1.25**	$ 0.94
Discontinued operations		$ 0.02		$ 0.05
Net Income	**$ 0.46**	$ 0.40	**$ 1.25**	$ 0.99
Weighted-average shares outstanding:				
Basic	**60,370**	59,157	**60,232**	58,643
Diluted	**61,357**	60,281	**61,345**	59,876
Dividends declared per common share	**$ 0.06450**	$ 0.06250	**$ 0.1915**	$ 0.18625

See accompanying notes to consolidated financial statements.

H.B. FULLER COMPANY AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands, except share and per share amounts)

(Unaudited)

	September 1, 2007	December 2, 2006
Assets		
Current assets:		
Cash and cash equivalents	**$ 219,175**	$ 255,362
Trade receivables	**222,589**	246,448
Allowance for sales and doubtful accounts	**(7,702)**	(8,293)
Inventories	**136,567**	128,623
Other current assets	**45,464**	46,071
Current assets of discontinued operations	**865**	883
Total current assets	**616,958**	669,094
Property, plant and equipment	**830,831**	828,425
Accumulated depreciation	**(545,117)**	(530,421)
Property, plant and equipment, net	**285,714**	298,004
Other assets	**138,987**	143,802
Goodwill	**197,415**	195,208
Other intangibles, net	**162,456**	172,363
Total assets	**$ 1,401,530**	$ 1,478,471
Liabilities and Stockholders Equity		
Current liabilities:		
Notes payable	**$ 9,928**	$ 9,746
Current installments of long-term debt	**25,000**	25,000
Trade payables	**154,754**	172,772
Accrued payroll / employee benefits	**39,330**	48,227
Other accrued expenses	**40,545**	41,687
Income taxes payable	**27,262**	19,671
Current liabilities of discontinued operations	**675**	25,339
Total current liabilities	**297,494**	342,442
Long-term debt, excluding current installments	**137,000**	224,000
Accrued pensions	**74,787**	74,145
Other liabilities	**26,557**	42,320
Minority interests in consolidated subsidiaries	**17,784**	17,772
Total liabilities	**553,622**	700,679
Commitments and contingencies		
Stockholders equity:		

Preferred stock (no shares outstanding) Shares authorized 10,045,900		
Common stock, par value $1.00 per share, Shares authorized 160,000,000, Shares issued and outstanding 60,023,995 and 59,931,766, respectively	**60,024**	59,932
Additional paid-in capital	**89,371**	95,263
Retained earnings	**661,855**	597,115
Accumulated other comprehensive income	**36,658**	25,482
Total stockholders equity	**847,908**	777,792
Total liabilities and stockholders equity	**$ 1,401,530**	$ 1,478,471

See accompanying notes to consolidated financial statements.

H.B. FULLER COMPANY AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	39 Weeks Ended September 1, 2007	39 Weeks Ended September 2, 2006
Cash flows from operating activities from continuing operations:		
Net income	**$ 76,453**	$ 59,009
Adjustments to reconcile net income to net cash provided by operating activities:		
Income from discontinued operations, net of tax		(2,755)
Depreciation	**28,375**	29,410
Amortization	**10,988**	5,939
Deferred income taxes	**(1,747)**	(4,757)
Gains from sales of assets	**(107)**	(831)
Share-based compensation	**2,441**	4,410
Excess tax benefit from share-based compensation	**(3,397)**	(5,446)
Change in assets and liabilities, net of effects of acquisitions and discontinued operations:		
Accounts receivables, net	**25,637**	25,222
Inventories	**(6,408)**	(2,083)
Other assets	**1,263**	(11,499)
Trade payables	**(19,392)**	17,733
Accrued payroll / employee benefits	**(9,142)**	(4,181)
Other accrued expenses	**(13,413)**	1,693
Income taxes payable	**10,370**	8,117
Accrued / prepaid pensions	**572**	3,556
Other liabilities	**3,202**	2,375
Other	**1,998**	(1,513)
Net cash provided by operating activities from continuing operations	**107,693**	124,399
Cash flows from investing activities from continuing operations:		
Purchased property, plant and equipment	**(15,875)**	(12,543)
Purchased business, net of cash acquired	**(1,155)**	(309,386)
Proceeds from sale of property, plant and equipment	**571**	499
Proceeds from sale of business		2,515
Net cash used in investing activities from continuing operations	**(16,459)**	(318,915)
Cash flows from financing activities from continuing operations:		
Proceeds from long-term debt		195,000
Repayment of long-term debt	**(87,000)**	(55,241)
Net proceeds from (payments on) notes payable	**123**	1,191
Dividends paid	**(11,640)**	(11,022)
Proceeds from stock options exercised	**13,437**	14,970
Excess tax benefit from share-based compensation	**3,397**	5,446
Repurchased common stock	**(25,271)**	(506)
Net cash provided by (used in) financing activities from continuing operations	**(106,954)**	149,838
Effect of exchange rate changes	**4,158**	5,653
Net change in cash and cash equivalents from continuing operations	**(11,562)**	(39,025)
Cash provided by (used in) operating activities of discontinued operations	**(24,625)**	5,011

Net change in cash and cash equivalents	**(36,187)**	(34,014)
Cash and cash equivalents at beginning of period	**255,362**	157,547
Cash and cash equivalents at end of period	**$ 219,175**	$ 123,533
Supplemental disclosure of cash flow information:		
Noncash financing activities		
Dividends paid with company stock	**$ 73**	$ 29,886
Cash paid for interest	**$ 12,946**	$ 9,383
Cash paid for income taxes	**$ 15,277**	$ 7,227

See accompanying notes to consolidated financial statements.

H.B. FULLER COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

Note 1: Accounting Policies

The accompanying unaudited 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, financial position, and cash flows in conformity with U.S. generally accepted accounting principles. In the opinion of management, the interim consolidated financial statements reflect all adjustments of a normal recurring nature considered necessary for a 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 management 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 consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the company s Annual Report on Form 10-K for the year ended December 2, 2006 as filed with the Securities and Exchange Commission.

On July 13, 2006, the company s board of directors approved a two-for-one stock split of its common stock. The stock split was payable on August 4, 2006 to shareholders of record as of July 28, 2006. The split was in the form of a stock dividend, with shareholders receiving an additional share for each existing share held. All references in the Consolidated Financial Statements to the number of common shares and related per share amounts reflect the effect of the stock split.

Recently Issued Accounting Pronouncements:

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is applicable beginning December 2, 2007. The cumulative effect of applying the provisions of FIN 48, if any, will be reported as an adjustment to the opening balance of retained earnings on December 2, 2007. The company is in the process of evaluating the impact of FIN 48 on its financial condition, results of operations and cash flows.

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements, (SFAS 157). SFAS 157 provides enhanced guidance for using fair value to measure assets and liabilities. The statement provides a common definition of fair value and establishes a framework to make the measurement of fair value in generally accepted accounting principles more consistent and comparable. SFAS 157 also requires expanded disclosures to provide information about the extent to which fair value is used to measure assets and liabilities, the methods and assumptions used to measure fair value, and the effect of fair value measures on earnings. The adoption of SFAS 157 is effective for the company beginning December 2, 2007. The company does not expect the adoption of SFAS 157 will have a material impact on its financial condition, results of operations and cash flows.

In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS 158). This statement requires an employer to: (1) recognize in its statement of financial position an asset for a plan s over-funded status or a liability for the plan s under-funded status, (2) measure the plan s assets and obligations that determine its funded status as of the end of the employer s fiscal year (with limited exceptions) and (3) recognize as a component of other comprehensive income, the changes in the funded status of the plan that arise during the year but are not recognized as components of net periodic benefit cost pursuant to other relevant accounting standards. SFAS 158 also requires an employer to disclose in the notes to the financial statements additional information on how delayed recognition of certain changes in the funded status of a defined benefit postretirement plan affects net periodic benefit cost for the next fiscal year. Adoption of SFAS 158 is required for public companies by the end of the fiscal year ending after December 15, 2006, which would be the fiscal year ending December 1, 2007 for the company. Measurement of the plan s assets and obligations that determine its funded status as of the end of the employer s fiscal year is required to be adopted for fiscal years ending after December 15, 2008, which would be the fiscal year ending November 28, 2009 for the company. Based upon the December 2, 2006 balance sheet and pension disclosures, the impact of adopting SFAS 158 is estimated to be a decrease in assets of $5,219, an increase in liabilities of $46,829 and an increase in the accumulated other comprehensive loss of $52,048. The effect of adoption will differ from the estimate due to actual plan asset and liability experience in fiscal 2007.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 (SFAS 159). SFAS 159 expands the use of fair value accounting but does not affect existing standards that require assets or liabilities to be carried at fair value. Under SFAS 159, a company may elect to use fair value to measure accounts and loans receivable, available-for-sale and held-to-maturity securities, equity method investments, accounts payable, guarantees and issued debt. Other eligible items include firm commitments for financial instruments that otherwise would not be recognized at inception and non-cash warranty obligations where a warrantor is permitted to pay a third party to provide the warranty goods or services. If the use of fair value is elected, any upfront costs and fees related to the item must be recognized in earnings and cannot be deferred, e.g., debt issue costs. The fair value election is irrevocable and generally made on an instrument-by-instrument basis, even if a company has similar instruments that it elects not to measure based on fair value. At the adoption date, unrealized gains and losses on existing items for which fair value has been elected are reported as a cumulative adjustment to beginning retained earnings. Subsequent to the adoption of SFAS 159, changes in fair value are recognized in earnings. SFAS 159 is effective for the company on December 2, 2007. The company is currently determining whether fair value accounting is appropriate for any of its eligible items and cannot estimate the impact, if any, which SFAS 159 will have on its financial condition, results of operations and cash flows.

Note 2: Acquisitions and Divestitures

Sekisui-Fuller Japan: On April 1, 2005, the company merged its Japanese adhesives business with Sekisui Chemical Co., Ltd. to create Sekisui-Fuller Japan. The company received a 40 percent ownership in Sekisui-Fuller Company, Ltd. with an option to purchase an additional 10 percent in 2007. The merger was a corporate joint venture and the company has accounted for this investment under the equity method.

During the third quarter of 2007, the company exercised its option to purchase an additional 10 percent ownership interest from Sekisui Chemical Co., Ltd for $12 million. Subsequent to the end of the third quarter, the $12 million payment was made on September 27, 2007. The $12 million payment will be made in the fourth quarter of 2007. The additional 10 percent interest increases the company s ownership in the joint venture from 40 percent to 50 percent, however due to the structure of the joint venture, the company will continue to account for this investment under the equity method.

Carolina Polymers polymer and adhesive technology: On September 5, 2006, the company acquired Carolina Polymers polymer and adhesive technology for the multi-wall bag industry. The company acquired inventory, accounts receivable, personal property, intellectual property and customer lists. No other assets or liabilities were purchased. The initial cash payment was $4,950 and was funded through existing cash. The company also incurred $49 of direct external costs in 2006. Carolina Polymers is entitled to an earn-out of up to $1,700 based on the company s shipment volume from September 5, 2006 to September 5, 2007. Any amount paid under the earn-out would be considered additional purchase price. The acquisition was recorded in the North America operating segment. Based on preliminary valuation estimates, the company recorded $1,385 of current assets, $1,782 to intangibles, $50 to other non-current assets and $1,782 to goodwill.

In the third quarter of 2007, the final valuation and earn-out calculation were completed. Carolina Polymers is entitled to an earn-out payment of $1,124 based on the company s shipping volume from September 5, 2006 to September 5, 2007. This entire amount is considered additional purchase price and classified to goodwill. The company also incurred $31 of additional direct external costs in 2007. The total final purchase price is $6,154. Based on final valuations the company recorded $1,385 of current assets, $2,495 to intangibles, $50 to other non-current assets and $2,224 to goodwill. Pro forma information related to this acquisition is not included because its impact on the company s consolidated results of operations is not considered to be material.

Henkel KGaA s insulating glass sealant business: On March 27, 2006, the company signed an asset purchase agreement with Henkel KGaA, under which the company agreed to acquire Henkel s insulating glass sealant business. On June 9, 2006, the acquisition was completed. The insulating glass sealant business manufacturers sealants for windows used in both residential and commercial construction. This business has a strong presence in Europe and an expanding presence in Asia. The acquisition was recorded in the Europe operating segment. The total purchase price for the acquisition was $34,040, which includes direct external acquisition costs of $631. The company funded the transaction with existing cash.

The acquired assets consist of inventory, manufacturing equipment, and intangibles. The valuation of the net assets received involved allocations of the consideration paid to $3,166 of current assets, $1,490 of equipment, $14,563 of intangible assets, $14,971 of goodwill and $150 of long-term liabilities. Of the $14,563 of acquired intangibles, $10,131 was assigned to customer relationships with an expected life of approximately 12 years and $4,432 was assigned to intellectual property and trademarks that have expected lives of 8 years. The goodwill is tax deductible over 5 to 15 years.

The following summarized unaudited pro forma consolidated results of operations are presented as if the acquisition had occurred on December 4, 2005 (beginning of fiscal 2006). The unaudited pro forma results are not necessarily indicative of future earnings or earnings that would have been reported had the acquisition been completed as presented.

	13 Weeks Ended September 2, 2006	**39 Weeks Ended September 2, 2006**
Net revenue	$ 372,706	$ 1,096,220
Income from continuing operations	$ 23,114	$ 56,495
Income from continuing operations per share:		
Basic	$ 0.39	$ 0.96
Diluted	$ 0.38	$ 0.94

Roanoke Companies Group, Inc.: On January 30, 2006, the company signed an asset purchase agreement, under which it agreed to acquire substantially all the assets of Roanoke Companies Group, Inc. and assume certain operating liabilities. On March 17, 2006, the acquisition was completed. Roanoke is a leading U.S. manufacturer of pre-mix grouts, mortars and other products designed to enhance the installation of flooring systems. Roanoke is focused particularly on the retail home improvement market segment and is included in the company s North America operating segment. The acquisition is expected to provide business synergies, including additional distribution channels and inventory sourcing options for the company s existing specialty construction business component.

The total purchase price for the acquisition was $275,258, which includes direct external acquisition costs of $744. In addition, if certain profitability thresholds were met, members of Roanoke s senior management could have received additional cash consideration of up to $15,000 (in total), which would have been paid out over a two-year period. Based on management s review of those profitability thresholds, no amounts have been paid out or accrued as of September 1, 2007 and the company does not expect to make any payments in the future.

The company funded the transaction with $80,258 in existing cash and $195,000 in new debt. $15,000 of the purchase price was placed into escrow to cover indemnification by the seller and shareholders. The escrow will remain in place until March 2008, subject to any indemnification claims made by the company. No significant indemnification claims have been made to date. The company utilized its revolving credit agreement to provide the initial debt financing. The credit agreement was amended to increase the commitment level to $250,000, and revise the imbedded accordion feature.

The acquired assets consist primarily of assets used by Roanoke in the operation of its business, including, without limitation, certain real property, intellectual property, equipment, accounts, contracts and intangibles. The valuation of the net assets received involved allocations of the consideration paid to $20,581 of current assets, $23,746 of property, plant and equipment, $146,900 of intangible assets, $94,769 of goodwill, $10,582 of current liabilities and $156 of long-term liabilities. All of the goodwill was assigned to the North America segment and is tax deductible over 15 years. Of the $146,900 of acquired intangibles, $131,000 and $15,900 was assigned to customer relationships and trademarks / trade names that have expected lives of 20 years and 15 years, respectively.

The following summarized unaudited pro forma consolidated results of operations are presented as if the acquisition had occurred on December 4, 2005 (beginning of fiscal 2006). The unaudited pro forma results are not necessarily indicative of future earnings or earnings that would have been reported had the acquisition been completed as presented.

	39 Weeks Ended September 2, 2006
Net revenue	$ 1,100,692
Income from continuing operations	$ 56,269
Income from continuing operations per share:	
Basic	$ 0.96
Diluted	$ 0.94

Divestitures

Powder Coatings: On October 19, 2006, the company agreed to sell its powder coatings business to The Valspar Corporation. The sale was completed on December 1, 2006. The sale price was $104,199 and was subject to a net working capital adjustment of $485, which was settled and paid in the second quarter of 2007. This adjustment was a reduction of the selling price and the gain.

As part of this transaction, the company recorded a gain in the fourth quarter of 2006 of $68,916 ($50,339 net of tax), which included direct costs to sell of $3,561, a favorable cumulative translation adjustment reversal of $3,002, the write-off of $5,336 of goodwill and the estimated net working capital adjustment.

In accordance with SFAS No. 144, Accounting for Impairment or Disposal of Long-Lived Assets, the company has reclassified the results from the powder coatings business as discontinued operations, restating previously reported results to reflect the reclassification on a comparable basis. The operational results of this business are presented in the Income from discontinued operations, net of tax line item on the Consolidated Statements of Income. Prior to the reclassification, with operations in the United States and the United Kingdom, these results would have been reported in the North America and Europe operating segments.

Revenue and income from discontinued operations for the 13 and 39 weeks ended September 2, 2006 was as follows:

	13 Weeks Ended September 2, 2006	39 Weeks Ended September 2, 2006
Net revenue	$ 17,006	$ 48,982
Income from operations	1,625	4,192
Income tax expense	(531)	(1,437)
Net income from discontinued operations	$ 1,094	$ 2,755

Income from operations excludes certain information technology and shared services charges that could not be directly attributed to the powder coatings business. In accordance with Emerging Issues Task Force (EITF) 87-24, Allocation of Interest to Discontinued Operations the company has not allocated general corporate overhead charges to the powder coatings business and has elected not to allocate general corporate interest expense.

The major classes of assets and liabilities of discontinued operations as of September 1, 2007 and December 2, 2006 were as follows:

	September 1, 2007	December 2, 2006
Other current assets	$ 865	$ 883
Current assets of discontinued operations	865	883
Accrued payroll / employee benefits		1,279
Other accrued expenses	134	3,999
Income taxes payable	541	20,061
Current liabilities of discontinued operations	675	25,339

Note 3: Accounting for Share-Based Compensation

Overview: The company has various share-based compensation programs, which provide for equity awards including stock options, restricted stock and deferred compensation. These equity awards fall under several plans and are described in detail in the company s Annual Report filed on Form 10-K as of December 2, 2006.

Effective December 4, 2005, the start of the first quarter of fiscal 2006, the company began recording compensation expense associated with share-based awards and other forms of equity compensation in accordance with SFAS No. 123 (revised 2004), Share-Based Payment , (SFAS 123R) as interpreted by SEC Staff Accounting Bulletin No. 107. SFAS 123R requires all share-based payments to employees and non-employee directors, including grants of employee stock options, to be recognized in the income statement based on their fair values at the date of grant.

The company adopted the modified prospective transition method provided for under SFAS 123R. Under this transition method, compensation cost associated with share-based awards recognized in the first nine months of fiscal years 2007 and 2006 included: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of December 3, 2005, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123, and (b) compensation cost for all share-based payments granted subsequent to December 3, 2005, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R.

A summary of shares reserved and available by plan for issuance follows:

	Shares Reserved	Shares Available at September 1, 2007
Directors Deferred Compensation Plan	300,000	None
1998 Directors Stock Incentive Plan	800,000	468,365
Year 2000 Stock Incentive Plan	10,400,000	5,436,805
1992 Stock Incentive Plan	3,600,000	None
Key Employee Deferred Compensation Plan	400,000	82,268

Grant-Date Fair Value: The company uses 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 and 39 weeks ended September 1, 2007 and September 2, 2006 were calculated using the following assumptions:

	13 Weeks Ended		39 Weeks Ended	
	September 1, 2007	September 2, 2006	September 1, 2007	September 2, 2006[1]
Expected life (in years)	5.1	5.1	5.8	5.7
Weighted-average expected volatility	34.77%	34.35%	36.13%	35.65%
Expected volatility	34.77%	34.34% - 34.50%	34.42% - 37.35%	34.34% - 37.38%
Risk-free interest rate	4.90%	4.99%	4.66%	4.87%
Expected dividend yield	0.89%	1.26%	0.94%	1.30%
Weighted-average fair value of grants	$ 10.55	$ 6.88	$ 10.44	$ 7.11

1 Share data adjusted for effect of 2-for-1 stock split effective July 28, 2006.

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

Expected volatility   The company uses the company stock s historical volatility for the same period of time as the expected life. The company has no reason to believe that its future volatility will differ 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: The company uses the straight-line attribution method to recognize expense for all option awards with graded vesting and restricted stock awards with cliff vesting.

The amount of share-based compensation recognized during a period is based on the value of the portion of the awards that are ultimately expected to vest. The company currently expects, based on an analysis of its historical forfeitures and known forfeitures on existing awards, that approximately 82 percent and 87 percent of its unvested outstanding options and restricted stock awards will vest, respectively. This analysis will be re-evaluated quarterly and the forfeiture rate will be adjusted as necessary. Ultimately, the actual expense recognized over the vesting period will only be for those shares that vest.

Total share-based compensation expense of $1,003 and $1,588 was included in the company s Consolidated Statements of Income for the 13 weeks ended September 1, 2007 and September 2, 2006, respectively. Included in these amounts were $577 and $772 of stock option expense, respectively. Total share-based compensation expense of $2,441 and $4,483 was included in the company s Consolidated Statements of Income for the 39 weeks ended September 1, 2007 and September 2, 2006, respectively. Included in these amounts were $1,876 and $2,656 of stock option expense, respectively. In 2007, total share-based compensation expense included $846 of favorable adjustments from unexpected executive forfeitures. Included in the favorable 2007 forfeiture adjustments was $205 related to stock options. No share-based compensation was capitalized. All share-based compensation was recorded as selling, general and administrative expense. For the 13 weeks ended September 1, 2007 and September 2, 2006, there was $1,326 and $290, respectively, of excess tax benefit recognized. For the 39 weeks ended September 1, 2007 and September 2, 2006, there was $3,397 and $5,446, respectively, of excess tax benefit recognized. Excess tax benefits are the benefits of tax deductions in excess of recognized compensation costs.

Excess tax benefits that are eligible to absorb tax deficiencies recognized subsequent to the adoption of SFAS 123R are recorded in the additional paid in capital pool (APIC Pool). Upon adoption of SFAS 123R, the company calculated that its APIC Pool was $993. Exercises of stock options, restricted stock lapsings and deferred compensation payouts since adoption has increased the APIC Pool to $10,439.

As of September 1, 2007, there was $4,845 of unrecognized compensation costs related to unvested stock option awards, which is expected to be recognized over a weighted-average period of 2.4 years. Unrecognized compensation costs related to unvested restricted stock awards was $1,823, which is expected to be recognized over a weighted-average period of 2.0 years.

Share-based Activity

A summary of option activity as of September 1, 2007, and changes during the 39 weeks then ended is presented below:

	Options	Weighted-Average Exercise Price
Outstanding at December 2, 2006	2,639,618	$ 13.80
Granted	445,143	26.99
Exercised	(988,076)	13.60
Forfeited or Cancelled	(328,799)	18.16
Outstanding at September 1, 2007	1,767,886	$ 16.42

The fair value of options granted during the 13 weeks ended September 1, 2007 and September 2, 2006 was $424 and $220, respectively. Total intrinsic value of options exercised during the 13 weeks ended September 1, 2007 and September 2, 2006 was $3,467 and $300, respectively. Intrinsic value is the difference between the company s closing stock price on the respective trading day and the exercise price, multiplied by the number of options exercised. The fair value of options granted during the 39 weeks ended September 1, 2007 and September 2, 2006 was $4,981 and $390, respectively. Total intrinsic value of options exercised during the 39 weeks ended September 1, 2007 and September 2, 2006 was $13,618 and $13,238, respectively. Proceeds received from option exercises during the 13 and 39 weeks ended September 1, 2007 were $2,146 and $13,437, respectively.

The following table summarizes information concerning outstanding and exercisable options as of September 1, 2007:

	Options Outstanding				Options Exercisable			
Range of Exercise Prices	Options	Life[1]	Price[2]	Value[3]	Options	Life[1]	Price[2]	Value[3]
$5.01-$10.00	246,428	3.3	$ 9.31	$ 4,337	246,428	3.3	$ 9.31	$ 4,337
$10.01-$15.00	734,764	5.7	13.71	9,700	515,173	5.1	13.47	6,925
$15.01-$20.00	428,367	8.2	16.29	4,550	94,253	8.1	16.29	1,001
$20.01-$25.00								
$25.01-$30.00	358,327	9.3	27.04	38				
	1,767,886	6.7	$ 16.42	$ 18,625	855,854	4.9	$ 12.58	$ 12,263

1 Represents the weighted-average remaining contractual life in years.
2 Represents the weighted-average exercise price.
3 Represents the aggregate intrinsic value based on the company s closing stock price on the last trading day of the quarter for in-the-money options.

A summary of nonvested restricted stock activity as of September 1, 2007, and changes during the 39 weeks then ended is presented below:

	Units	Shares	Total	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Contractual Life (in Years)
Nonvested at December 2, 2006	78,076	317,932	396,008	$ 15.13	1.9
Granted	14,993	91,257	106,250	26.80	3.0
Vested	(23,072)	(24,737)	(47,809)	13.73	0.1
Forfeited	(10,930)	(120,219)	(131,149)	17.10	1.4
Nonvested at September 1, 2007	59,067	264,233	323,300	$ 18.38	2.0

Total fair value of restricted stock vested during the 13 weeks ended September 1, 2007 and September 2, 2006 was $926 and $1,325, respectively. Total fair value of restricted stock vested during the 39 weeks ended September 1, 2007 and September 2, 2006 was $1,454 and $2,957, respectively. The total fair value of nonvested restricted stock at September 1, 2007 was $8,700.

The company repurchased 4,561 and 7,306 restricted stock shares during the 13 weeks ended September 1, 2007 and September 2, 2006, respectively, in conjunction with restricted stock share vestings. The company repurchased 9,410 and 20,368 restricted stock shares during the 39 weeks ended September 1, 2007 and September 2, 2006, respectively, in conjunction with restricted stock share vestings. The repurchases relate to statutory minimum tax withholding. The company does not expect any additional restricted stock shares to be repurchased in fiscal 2007.

Deferred compensation units are fully vested at the date of contribution. Deferred compensation units outstanding as of September 1, 2007 and changes during the 39 weeks ended September 1, 2007 were as follows:

	39 Weeks Ended September 1, 2007		
	Non-employee Directors	Employees	Total
Units outstanding December 2, 2006	190,172	175,450	365,622
Participant contributions	12,924	11,737	24,661
Company match contributions	15,180	2,274	17,454
Payouts	(9,881)	(52,651)	(62,532)
Units outstanding September 1, 2007	208,395	136,810	345,205

Note 4: Earnings Per Share:

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

	13 Weeks Ended		39 Weeks Ended	
	September 1, 2007	September 2, 2006	September 1, 2007	September 2, 2006
Weighted-average common shares basic	60,369,560	59,157,316	60,232,354	58,642,511
Equivalent shares from share based compensation plans	987,925	1,123,708	1,112,587	1,233,587
Weighted-average common shares diluted	61,357,485	60,281,024	61,344,941	59,876,098

Basic earnings per share is calculated by dividing net income 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.

The company uses 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 358,327 and 744,052 shares of common stock at the weighted-average exercise price of $27.04 and $16.16 for the 13 week periods ended September 1, 2007 and September 2, 2006, respectively, and options to purchase 357,432 and 683,284 shares at the weighted-average exercise price of $26.62 and $15.69 for the 39 week periods ended September 1, 2007 and September 2, 2006, respectively, were excluded from the diluted earnings per share calculations because they were antidilutive.

Note 5: Comprehensive Income

The components of total comprehensive income follow:

	13 Weeks Ended		39 Weeks Ended	
	September 1, 2007	**September 2, 2006**	**September 1, 2007**	**September 2, 2006**
Net income	$ 28,366	$ 24,198	$ 76,453	$ 59,009
Other comprehensive income				
Foreign currency translation, net	2,643	(863)	11,176	17,907
Total comprehensive income	$ 31,009	$ 23,335	$ 87,629	$ 76,916

Components of accumulated other comprehensive income follows:

Accumulated Other Comprehensive Income	**September 1, 2007**	**December 2, 2006**
Foreign currency translation adjustment	$ 58,967	$ 46,705
Minimum pension liability	(22,309)	(21,223)
Total accumulated other comprehensive income	$ 36,658	$ 25,482

Note 6: Components of Net Periodic Benefit Cost related to Pension and Other Postretirement Benefit Plans:

	13 Weeks Ended September 1, 2007 and September 2, 2006					
	Pension Benefits				Other Postretirement Benefits	
	U.S. Plans		Non-U.S. Plans			
Net periodic cost (benefit):	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
Service cost	**$ 1,780**	$ 1,824	**$ 689**	$ 662	**$ 397**	$ 470
Interest cost	**4,366**	4,079	**1,758**	1,541	**1,010**	978
Expected return on assets	**(5,098)**	(4,964)	**(1,944)**	(1,327)	**(921)**	(942)
Amortization:						
Prior service cost	**90**	126	**(1)**	(1)	**(433)**	(554)
Actuarial loss	**614**	1,329	**356**	503	**787**	849
Transition amount			**5**	9		
Net periodic benefit cost	**$ 1,752**	$ 2,394	**$ 863**	$ 1,387	**$ 840**	$ 801

Net periodic cost (benefit):	39 Weeks Ended September 1, 2007 and September 2, 2006 Pension Benefits U.S. Plans 2007	2006	Non-U.S. Plans 2007	2006	Other Postretirement Benefits 2007	2006
Service cost	**$ 5,339**	$ 5,472	**$ 2,018**	$ 1,917	**$ 1,190**	$ 1,410
Interest cost	**13,099**	12,237	**5,169**	4,455	**3,029**	2,934
Expected return on assets	**(15,294)**	(14,892)	**(5,717)**	(3,838)	**(2,762)**	(2,826)
Amortization:						
Prior service cost	**271**	378	**(3)**	(2)	**(1,300)**	(1,662)
Actuarial loss	**1,842**	3,987	**1,043**	1,456	**2,362**	2,547
Transition amount			**16**	26		
Net periodic benefit cost	**$ 5,257**	$ 7,182	**$ 2,526**	$ 4,014	**$ 2,519**	$ 2,403

Note 7: Inventories

The composition of inventories follows:

	September 1, 2007	December 2, 2006
Raw materials	$ 72,530	$ 64,925
Finished goods	82,471	81,058
LIFO reserve	(18,434)	(17,360)
	$ 136,567	$ 128,623

Note 8: Derivatives

Derivatives consisted primarily of forward currency contracts used to manage foreign currency denominated assets and liabilities. Because derivative instruments outstanding were not designated as hedges for accounting purposes, the gains and losses related to mark-to-market adjustments were recognized as other income or expense in the income statement during the periods in which the derivative instruments were outstanding. Management does not enter into any speculative positions with regard to derivative instruments.

As of September 1, 2007, the company had forward foreign currency contracts maturing between September 14, 2007 and July 7, 2008. The fair value effect associated with these contracts was a net unrealized gain of $168 at September 1, 2007.

Note 9: Commitments and Contingencies

Environmental: From time to time, the company is identified as a potentially responsible party 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. The company is also subject to similar laws in some of the countries where current and former facilities are located. The company s environmental, health and safety department monitors compliance with all applicable laws on a global basis.

Currently the company is involved in various environmental investigations, clean up activities and administrative proceedings or lawsuits. In particular, the company is currently deemed a potentially responsible party (PRP) in conjunction with numerous other parties, in a number of government enforcement actions associated with hazardous waste sites. As a PRP, the company may be required to pay a share of the costs of investigation and clean up of these sites. In addition, the company is engaged in environmental remediation and monitoring efforts at a number of current and former company operating facilities, including an investigation and remediation of environmental contamination at its Sorocaba, Brazil facility. Soil and water samples were collected on and around the Sorocaba facility, and test results indicated that certain contaminants, including carbon tetrachloride and other solvents, exist in the soil at the Sorocaba facility and in the groundwater at both the Sorocaba facility and some neighboring properties. The company is continuing to work with Brazilian regulatory authorities to implement a remediation

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system at the site. As of September 1, 2007, $1,446 was recorded as a liability for expected investigation and remediation expenses remaining for this site. Once the full scope of any necessary remediation is determined, the company may be required to record additional liabilities related to investigation and/or remediation costs at the Sorocaba facility.

As of September 1, 2007, the company had recorded $3,010 as its best probable estimate of aggregate liabilities for costs of environmental investigation and remediation, inclusive of the accrual related to the Sorocaba facility described above. These estimates are based primarily upon internal or third-party environmental studies, assessments as to the company s responsibility, the extent of the contamination and the nature of required remedial actions. The company s current assessment of the probable liabilities and associated expenses related to environmental matters is based on the facts and circumstances known at this time. Recorded liabilities are adjusted as further information is obtained or circumstances change.

Because of the uncertainties described above, the company cannot accurately estimate the cost of resolving pending and future environmental matters impacting the company. While uncertainties exist with respect to the amounts and timing of the company s ultimate environmental liabilities, based on currently available information, management does not believe that these matters, individually or in aggregate, will have a material adverse effect on the company s long-term financial condition. However, adverse developments could negatively impact the company s results of operations or cash flows in one or more future quarters.

Product Liability: As a participant in the chemical and construction products industries, the company faces an inherent risk of exposure to claims in the event that the alleged failure, use or misuse of its products results in or is alleged to result in property damage and/or bodily injury. From time to time and in the ordinary course of business, the company is a party to, or a target of, lawsuits, claims, investigations and proceedings, including product liability, personal injury, contract, patent and intellectual property, health and safety and employment matters.

A subsidiary of the company is a defendant in numerous exterior insulated finish systems (EIFS) related lawsuits. As of September 1, 2007, the company s subsidiary was a defendant in approximately 17 lawsuits and claims related primarily to single-family homes. The EIFS product was used primarily in the residential construction market in the southeastern United States. Some of the lawsuits and claims involve EIFS in commercial or multi-family structures. Lawsuits and claims related to this product seek monetary relief for water intrusion-related property damages. The company has insurance coverage for certain years with respect to this product line.

During the quarter ended June 3, 2006, the company entered into agreements to settle numerous EIFS-related lawsuits and claims, including a lawsuit involving up to 186 homes. In total, the company paid $5,000 in settlement of these lawsuits and claims, of which insurers have paid $983 and are expected to pay an additional $485. As of September 1, 2007, the company had recorded $1,098 for the probable liabilities and $760 for insurance recoveries for all remaining EIFS-related liabilities. The company continually reevaluates these amounts.

EIFS-related liabilities include amounts for pending lawsuits and claims as well as unasserted claims. The liabilities are recorded at management s best estimate of the outcome of the lawsuits and claims taking into consideration the facts and circumstances of the individual matters as well as past experience on similar matters. Amounts accrued for the unasserted claims are based primarily on historical experience. Because of the many uncertainties involved with litigation, management has concluded that it is not possible to estimate a range of loss, if any, that would exceed the accrual.

The rollforward of EIFS-related lawsuits and claims is as follows:

	39 Weeks Ended September 1, 2007	**Year Ended December 2, 2006**
Lawsuits and claims at beginning of period	29	75
New lawsuits and claims asserted	5	9
Lawsuits and claims settled	(10)	(55)
Lawsuits and claims dismissed/resolved	(7)	
Lawsuits and claims at end of period	17	29

A summary of the aggregate costs and settlement amounts for EIFS-related lawsuits and claims is as follows:

	39 Weeks Ended September 1, 2007	Year Ended December 2, 2006
Settlements reached	$ 227	$ 5,989
Defense costs incurred	$ 349	$ 2,507
Insurance payments received or expected to be received	$ 1,081	$ 3,492

Plaintiffs in EIFS cases generally seek to have their homes repaired or the EIFS replaced, but a dollar amount for the cost of repair or replacement is not ordinarily specified in the complaint. Although complaints in EIFS cases usually do not contain a specific amount of damages claimed, a complaint may assert that damages exceed a specified amount in order to meet jurisdictional requirements of the court in which the case is filed. Therefore, the company does not believe it is meaningful to disclose the dollar amount of damages asserted in EIFS complaints.

Based on currently available information, management does not believe that the ultimate outcome of any pending legal proceedings and claims related to this product line, individually or in aggregate, will have a material adverse effect on the company s long-term financial condition. However, adverse developments could negatively impact the company s results of operations or cash flows in one or more future quarters. Given the numerous uncertainties surrounding litigation and the projection of future events, such as the number of new claims to be filed each year and the average cost of disposing of each such claim, the actual costs could be higher or lower than the current estimated reserves or insurance recoveries.

The company and/or its subsidiaries have been named as defendants in lawsuits in various courts in which plaintiffs have alleged injury due to products containing asbestos manufactured more than 25 years ago. The plaintiffs generally bring these lawsuits against multiple defendants and seek damages (both actual and punitive) in very large amounts. In many of these cases, the 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 the company or its subsidiaries. The company is typically dismissed as a defendant in these cases without payment. If the plaintiff establishes that compensable injury occurred as a result of exposure to the company s products, the case is generally settled for an amount that reflects the seriousness of the injury, the number and solvency of other defendants in the case, and the jurisdiction in which the case has been brought.

As a result of bankruptcy filings by numerous defendants in asbestos-related litigation and the prospect of national and state legislative reform relating to such litigation, the rate at which plaintiffs filed asbestos-related lawsuits against various companies (including the company) increased in 2001, 2002 and the first half of 2003. After the second half of 2003, the rate of these filings declined. However, the company currently expects that asbestos-related lawsuits will continue to be filed against the company in the future.

A significant portion of the defense costs and settlements relating to asbestos-related litigation involving the company continues to be paid by third parties, including indemnification pursuant to the provisions of a 1976 agreement under which the company acquired a business from a third party. Historically, this third party routinely defended all cases tendered to it and paid settlement amounts resulting from those cases. In the 1990s, the third party sporadically reserved its rights, but continued to defend and settle all asbestos-related claims tendered to it by the company. In 2002, the third party rejected the tender of certain cases by the company and indicated it would seek contributions from the company for past defense costs, settlements and judgments. However, this third party has continued to defend and pay settlement amounts, under a reservation of rights, in most of the asbestos cases tendered to the third party by the company.

In addition to the indemnification arrangements with third parties, the company has insurance policies that generally provide coverage for asbestos liabilities (including defense costs). Historically, insurers have paid a significant portion of the defense costs and settlements in asbestos-related litigation involving the company. However, certain of the company s insurers are insolvent. During 2005, the company and a number of its insurers entered into a cost-sharing agreement that provides for the allocation of defense costs, settlements and judgments among these insurers and the company in certain asbestos-related lawsuits. Under this agreement, the company is required to fund a share of settlements and judgments allocable to years in which the responsible insurer is insolvent. The cost-sharing agreement applies only to the asbestos litigation involving the company that is not covered by the third-party indemnification arrangements.

During the year ended December 2, 2006, the company settled five asbestos-related lawsuits, totaling $613. The company s insurers have paid or are expected to pay $415 of these settlement amounts. During the first nine months of 2007 the company settled six asbestos-related lawsuits for $405. The company s insurers have paid or are expected to pay $292 of that amount.

The company does not believe that it would be meaningful to disclose the aggregate number of asbestos-related lawsuits filed against the company because relatively few of these lawsuits are known to involve exposure to asbestos-containing products made by the company. Rather, the company believes it is more meaningful to disclose the number of lawsuits that are settled and result in a payment to the plaintiff.

To the extent the company can reasonably estimate the amount of its probable liability for pending asbestos-related claims, the company establishes a financial provision and a corresponding receivable for insurance recoveries if certain criteria are met. As of September 1, 2007, the company had recorded $437 for probable liabilities and $153 for insurance recoveries related to asbestos claims. However, the company has concluded that it is not possible to estimate the cost of disposing of other asbestos-related claims (including claims that might be filed in the future) due to its inability to project future events. Future variables include the number of new claims filed, the average cost of disposing of such claims, the uncertainty of asbestos litigation, insurance coverage and indemnification agreement issues, and the continuing solvency of certain insurance companies.

Because of the uncertainties described above, the company cannot accurately estimate the cost of resolving pending and future asbestos-related claims against the company. Based on currently available information, the company does not believe that asbestos-related litigation, individually or in aggregate, will have a material adverse effect on the company s long-term financial condition. However, adverse developments in such litigation could negatively impact the company s results of operations or cash flows in one or more future quarters.

In addition to product liability claims discussed above, the company is involved in other claims or legal proceedings related to its products, which it believes are not out of the ordinary in a business of the type and size in which it is engaged.

Note 10: Operating Segments

During the second quarter of 2007, the company completed the realignment of its management structure that was announced in the first quarter of 2007. The company s operations are now managed through the four primary geographic regions: North America, Europe, Latin America and Asia Pacific. Region Vice Presidents have been appointed that report directly to the Chief Executive Officer and are accountable for the financial results of the entire region.

The company conducted an operating segment assessment in the second quarter of 2007 in accordance with SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information to determine its reportable segments for disclosure purposes. The conclusion of the assessment was that the reportable segments of the company are the four geographic regions. Therefore, the financial information disclosed in this section is now tailored to the four regions. Certain reclassifications to 2006 information, as previously reported, have been made to conform to the new segment structure.

The conclusion of the SFAS 131 assessment that the four geographic regions are the company s reportable segments was reached because it clearly reflects the company s internal management and organizational structure. The Vice Presidents of each region are held accountable for, and are compensated based upon, the performance of the entire operating segment for which they are responsible. The business components within each operating segment are managed to maximize the results of the overall operating segment rather than the results of any individual business component of the operating segment. Results of individual components of each operating segment are subject to numerous allocations of segment-wide costs that may or may not have been focused on that particular component for a particular reporting period. The costs for these allocated resources are not tracked on a where-used basis as financial performance is assessed at the total operating segment level.

Management evaluates the performance of each of the company s operating segments based on operating income, which is defined as gross profit less SG&A expenses and excludes gains from sales of assets. Corporate expenses are fully allocated to each operating segment. Segment data for the quarter follows:

	13 Weeks Ended					
	September 1, 2007			September 2, 2006		
	Trade Revenue	Inter-Segment Revenue	Operating Income	Trade Revenue	Inter-Segment Revenue	Operating Income
North America	$ 187,856	$ 7,208	$ 24,615	$ 200,517	$ 5,973	$ 23,334
Europe	100,111	1,868	9,713	94,315	1,437	5,533
Latin America	50,917	433	3,165	52,453	845	2,700
Asia Pacific	29,007	170	1,882	24,658	2,224	1,281
Total	$ 367,891		$ 39,375	$ 371,943		$ 32,848

	39 Weeks Ended					
	September 1, 2007			September 2, 2006		
	Trade Revenue	Inter-Segment Revenue	Operating Income	Trade Revenue	Inter-Segment Revenue	Operating Income
North America	$ 555,796	$ 20,533	$ 65,379	$ 587,439	$ 17,789	$ 58,894
Europe	299,523	5,551	27,767	252,036	4,374	14,527
Latin America	155,849	874	7,609	160,601	2,070	7,157
Asia Pacific	81,993	772	4,494	76,684	7,909	4,330
Total	$ 1,093,161		$ 105,249	$ 1,076,760		$ 84,908

Reconciliation of Operating Income from Continuing Operations to Income from Continuing Operations before Income Taxes, Minority Interests and Income from Equity Investments:

	13 Weeks Ended		39 Weeks Ended	
	September 1, 2007	September 2, 2006	September 1, 2007	September 2, 2006
Operating income from continuing operations	$ 39,375	$ 32,848	$ 105,249	$ 84,908
Gains (losses) from sales of assets	4	(14)	107	831
Other income, net	942	401	3,599	390
Interest expense	(2,868)	(4,575)	(9,657)	(12,285)
Income from continuing operations before income taxes, minority interests, and income from equity investments	$ 37,453	$ 28,660	$ 99,298	$ 73,844

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 the company s Annual Report on Form 10-K for the year ended December 2, 2006 for important background information related to the company s business.

The company had another strong quarter from a profitability viewpoint. Some of the highlights compared to the third quarter of 2006 were:

- Income from continuing operations increased 23 percent
- Diluted earnings per share from continuing operations increased 21 percent
- Gross profit margin of 29.5 percent compared to 28.5 percent last year
- SG&A expenses as a percent of net revenue were 18.8 percent compared to 19.6 percent last year
- Net working capital as a percentage of annualized net revenue decreased to 13.4 percent from 14.0 percent one year ago.

On July 12, 2007 the company s board of directors authorized a share repurchase program of up to $100 million. During the third quarter the company repurchased $25 million, or over 920 thousand shares, as part of the repurchase program.

Results of Operations

Net Revenue:

(In millions)	13 Weeks Ended September 1, 2007	13 Weeks Ended September 2, 2006	2007 vs 2006	39 Weeks Ended September 1, 2007	39 Weeks Ended September 2, 2006	2007 vs 2006
Net revenue	$ 367.9	$ 371.9	(1.1)%	$ 1093.2	$ 1076.8	1.5%

Management reviews variances in net revenue in terms of changes related to product pricing, sales volume, acquisitions/divestitures and changes in foreign currency exchange rates. The following table shows the net revenue variance analysis for the third quarter and first nine months of 2007 as compared to 2006:

( ) = Decrease	2007 vs 2006 13 Weeks Ended September 1, 2007	2007 vs 2006 39 Weeks Ended September 1, 2007
Product Pricing	2.2%	3.2%
Sales Volume	(6.5)%	(8.9)%
Acquisitions/Divestitures	1.0%	4.8%
Currency	2.2%	2.4%
Total	(1.1)%	1.5%

Organic sales, which exclude the effects from acquisitions, divestitures and foreign currency fluctuations, declined 4.3 percent in the third quarter of 2007 as compared to the third quarter of 2006. Although still negative, the decline was less than the declines in the first two quarters of 2007, which both exceeded six percent. North America continued to show the most significant decline in sales volume for both the third quarter and nine months year-to-date, due largely to the slowdowns in the construction-related end markets and the automotive sector. Net revenue increases due to increases in average selling prices contributed a positive 2.2 percent to the third quarter net revenue variance to last year due to the continuing focus on more profitable product offerings. The positive pricing variance had decreased sequentially as the most significant price increase activity was completed in the second half of 2006. The third quarter net revenue increase from acquisitions/divestitures was significantly less than the first six months of 2007 as the 2006 Roanoke acquisition became part of the base net revenue. Also, the insulating glass acquisition in Europe became part of the base business in the third quarter of 2007 as that acquisition was closed in June 2006. The increase in net revenue due to foreign currency fluctuations for both the third quarter and first nine months of 2007 was primarily due to the weakness of the U.S. dollar against major foreign currencies such as the euro and Australian dollar.

Cost of Sales:

(In millions)	13 Weeks Ended September 1, 2007	13 Weeks Ended September 2, 2006	2007 vs 2006	39 Weeks Ended September 1, 2007	39 Weeks Ended September 2, 2006	2007 vs 2006
Cost of sales	$ 259.3	$ 266.1	(2.6)%	$ 774.1	$ 769.3	0.6%
Percent of net revenue	70.5%	71.5%		70.8%	71.4%	

Raw material costs increased slightly during the quarter as compared to both last year and to the second quarter of 2007. These increases were mainly due to certain industry supply disruptions related to vinyl acetates and hydrocarbon resins. In spite of these increases, raw material costs as a percent of net revenue declined in both the third quarter and nine months year-to-date as compared to the same periods of 2006. The decreases as a percent of net revenue resulted from efficient sourcing and product reformulation efforts as well as the continued focus on higher margin products. The company continued to realize reductions in cost of sales in its manufacturing facilities due to the productivity improvements gained from Lean Six Sigma[SM] projects implemented in 2006 and in the first half of 2007.

Gross Profit Margin:

(In millions)	13 Weeks Ended September 1, 2007	13 Weeks Ended September 2, 2006	2007 vs 2006	39 Weeks Ended September 1, 2007	39 Weeks Ended September 2, 2006	2007 vs 2006
Gross profit	$ 108.6	$ 105.8	2.6%	$ 319.0	$ 307.4	3.8%
Percent of net revenue	29.5%	28.5%		29.2%	28.6%	

The third quarter and first nine months of 2007 gross profit margin were both improved over the same periods of 2006 primarily due to lower raw material costs as a percent of net revenue as well as the efficiencies gained from Lean Six Sigma[SM] initiatives implemented earlier in 2007.

Selling, General and Administrative (SG&A) Expenses:

(In millions)	13 Weeks Ended September 1, 2007	13 Weeks Ended September 2, 2006	2007 vs 2006	39 Weeks Ended September 1, 2007	39 Weeks Ended September 2, 2006	2007 vs 2006
SG&A	$ 69.2	$ 73.0	(5.1)%	$ 213.8	$ 222.5	(3.9)%
Percent of net revenue	18.8%	19.6%		19.6%	20.7%	

Process improvement initiatives and disciplined cost controls were the main reasons for the reduced SG&A expenses in the third quarter of 2007 as compared to the third quarter of 2006. The cost controls were enhanced by the additional oversight created by the regional realignment implemented earlier this year. The impact of the stronger foreign currencies added approximately $1.0 million to the SG&A expenses in the third quarter of 2007. For the first nine months of 2007, the SG&A expense decrease of $8.7 million from last year was accomplished in spite of approximately $10 million of incremental SG&A expenses from the 2006 acquisitions and over $3 million of additional expenses due to the stronger foreign currencies.

Gains(losses) from Sales of Assets:

(In millions)	13 Weeks Ended September 1, 2007	13 Weeks Ended September 2, 2006	2007 vs 2006	39 Weeks Ended September 1, 2007	39 Weeks Ended September 2, 2006	2007 vs 2006
Gains (losses) from sales of asset	$	$		$ 0.1	$ 0.8	(87.1)%

There were no significant asset sales in the first nine months of 2007. The most significant transaction impacting gains from sales of assets in 2006 was the sale of a minor adhesives product line in North America and associated assets that resulted in a gain of $0.6 million in the first quarter of 2006.

Other Income, net:

(In millions)	13 Weeks Ended September 1, 2007	13 Weeks Ended September 2, 2006	2007 vs 2006	39 Weeks Ended September 1, 2007	39 Weeks Ended September 2, 2006	2007 vs 2006
Other income, net	$ 0.9	$ 0.4	134.9%	$ 3.6	$ 0.4	NMP

NMP = Non-meaningful percentage

Interest income of $1.7 million in the third quarter of 2007 was $1.0 million more than the third quarter of 2006. For the first nine months of 2007 the interest income was $4.8 million compared to $2.5 million in the first nine months of 2006. The increase in interest income was a direct result of the higher average cash balance resulting from strong cash flow generation and the cash proceeds from the divestiture of the powder coatings business in the fourth quarter of 2006. Currency transaction and remeasurement losses were $0.6 million in the third quarter and $1.1 million for the first nine months of 2007 as compared to $12 thousand and $1.2 million for the same periods of 2006, respectively.

Interest Expense:

	13 Weeks Ended			39 Weeks Ended		
(In millions)	**September 1, 2007**	**September 2, 2006**	**2007 vs 2006**	**September 1, 2007**	**September 2, 2006**	**2007 vs 2006**
Interest expense	$ 2.9	$ 4.6	(37.3)%	$ 9.7	$ 12.3	(21.4)%

The decrease in interest expense in both the third quarter and first nine months of 2007 as compared to last year was attributed to the lower average debt levels in 2007. Strong cash flow generation allowed for the company to reduce total debt levels by $116.0 million since the end of the third quarter of 2006.

Income Taxes:

	13 Weeks Ended			39 Weeks Ended		
(In millions)	**September 1, 2007**	**September 2, 2006**	**2007 vs 2006**	**September 1, 2007**	**September 2, 2006**	**2007 vs 2006**
Income taxes	$ 10.6	$ 6.9	53.8%	$ 28.6	$ 20.3	40.5%
Effective tax rate	28.4%	24.2%		28.8%	27.5%	

The 28.4 percent effective rate for the third quarter of 2007 includes a 0.6 percentage point favorable impact due to a $0.2 million discrete tax benefit. The effective rate in the third quarter of 2006 included the effects of a favorable tax settlement of $0.9 million. Also in the third quarter of 2006 the year-to-date effective rate was lowered from 30.0 percent to 29.0 percent due to a favorable mix in pretax earnings.

Minority Interests in Income of Subsidiaries:

	13 Weeks Ended			39 Weeks Ended		
(In millions)	**September 1, 2007**	**September 2, 2006**	**2007 vs 2006**	**September 1, 2007**	**September 2, 2006**	**2007 vs 2006**
Minority interests in (income) losses of subsidiaries	$ 0.1	$ (0.3)	(146.7)%	$	$ (1.0)	(101.0)%

The lower minority interests expense in 2007 as compared to 2006 was due primarily to lower pretax earnings generation from the company s North American automotive venture of which it owns 70 percent.

Income from Equity Investments:

	13 Weeks Ended			39 Weeks Ended		
(In millions)	**September 1, 2007**	**September 2, 2006**	**2007 vs 2006**	**September 1, 2007**	**September 2, 2006**	**2007 vs 2006**
Income from equity investments	$ 1.4	$ 1.6	(11.6)%	$ 5.7	$ 3.7	52.9%

The decrease in the third quarter of 2007 was due to lower earnings from both the company s 30 percent-owned international automotive joint venture and the company s 40 percent ownership of the Sekisui-Fuller joint venture in Japan. Through nine months of 2007 both ventures recorded significant increases over the same period of 2006.

Income from Continuing Operations:

(In millions)	13 Weeks Ended September 1, 2007	September 2, 2006	2007 vs 2006	39 Weeks Ended September 1, 2007	September 2, 2006	2007 vs 2006
Income from continuing operations	$ 28.4	$ 23.1	22.8%	$ 76.5	$ 56.3	35.9%
Percent of Net Revenue	7.7%	6.2%		7.0%	5.2%	

The improved gross profit margin and SG&A expense reductions were the primary reasons for the improved income from continuing operations in both the third quarter and first nine months of 2007 as compared to last year. The diluted earnings per share from continuing operations of $0.46 and $1.25 for the third quarter and nine months year-to-date of 2007, respectively, compared to $0.38 and $0.94 for the same periods of 2006, respectively.

Income from Discontinued Operations:

(In millions)	13 Weeks Ended September 1, 2007	September 2, 2006	2007 vs 2006	39 Weeks Ended September 1, 2007	September 2, 2006	2007 vs 2006
Income from discontinued operations	$	$ 1.1	(100.0)%	$	$ 2.8	(100.0)%

The income from discontinued operations of $1.1 million and $2.8 million for the third quarter and nine months ended September 2, 2006, respectively, represents net income generated by the powder coatings business, net of tax, which was divested on December 1, 2006.

Net Income:

(In millions)	13 Weeks Ended September 1, 2007	September 2, 2006	2007 vs 2006	39 Weeks Ended September 1, 2007	September 2, 2006	2007 vs 2006
Net Income	$ 28.4	$ 24.2	17.2%	$ 76.5	$ 59.0	29.6%
Percent of Net Revenue	7.7%	6.5%		7.0%	5.5%	

The diluted earnings per share were $0.46 and $0.40 for the third quarters ended September 1, 2007 and September 2, 2006, respectively, and $1.25 and $0.99 for the nine months ended September 1, 2007 and September 2, 2006, respectively.

Operating Segment Results

During the second quarter of 2007, the company completed the realignment of its management structure that was announced in the first quarter of 2007. The company s operations are now managed through the four primary geographic regions: North America, Europe, Latin America and Asia Pacific. Region Vice Presidents have been appointed that report directly to the Chief Executive Officer (CEO) and are accountable for the financial results of their entire region. Two new executive positions were also created within the management structure: Vice President Chief Marketing Officer and Vice President Chief Strategy Officer. The Chief Strategy Officer position was filled in the third quarter of 2007. These positions also report directly to the CEO. These two positions are expected to facilitate the regional execution of corporate strategies. Reasons for realigning to the regional structure are to improve the speed of execution on strategic initiatives, to share best practices across businesses and to focus more closely on the customer.

The company conducted an operating segment assessment in the second quarter of 2007 in accordance with SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information to determine its reportable segments for disclosure purposes. The conclusion of the assessment was that the reportable segments of the company are the four geographic regions. Therefore, the financial information disclosed in this section is now tailored to the four regions with relevant financial information provided for the business components of each of the operating segments. Certain reclassifications to 2006 information, as previously reported, have been made to conform to the new segment structure.

The conclusion of the SFAS 131 assessment that the four geographic regions are the company s reportable segments was reached because it clearly reflects the company s internal management and organizational structure. The Vice Presidents of each region are held accountable for, and are compensated based upon, the performance of the entire segment for which they are responsible. The business components within each segment are managed to maximize the results of the overall segment rather than the results of any individual business component of the segment. Results of individual components of each operating segment are subject to numerous allocations of segment-wide costs that may or may not have been focused on that particular component for a particular reporting period. The costs for these allocated resources are not tracked on a where-used basis as financial performance is assessed at the total operating segment level.

Net Revenue by segment:

	13 Weeks Ended				39 Weeks Ended			
(In millions)	**September 1, 2007**		**September 2, 2006**		**September 1, 2007**		**September 2, 2006**	
	Net Revenue	**% of Total**	**Net Revenue**	**% of Total**	**Net Revenue**	**% of Total**	**Net Revenue**	**% of Total**
North America	$ 187.9	51%	$ 200.5	54%	$ 555.8	51%	$ 587.5	55%
Europe	100.1	27%	94.3	25%	299.5	27%	252.0	23%
Latin America	50.9	14%	52.4	14%	155.9	14%	160.6	15%
Asia Pacific	29.0	8%	24.7	7%	82.0	8%	76.7	7%
Total	$ 367.9	100%	$ 371.9	100%	$ 1093.2	100%	$ 1,076.8	100%

Operating Income by segment:

	13 Weeks Ended				39 Weeks Ended			
(In millions)	**September 1, 2007**		**September 2, 2006**		**September 1, 2007**		**September 2, 2006**	
	Operating Income	**% of Total**	**Operating Income**	**% of Total**	**Operating Income**	**% of Total**	**Operating Income**	**% of Total**
North America	$ 24.6	62%	$ 23.3	71%	$ 65.4	62%	$ 58.9	70%
Europe	9.7	25%	5.5	17%	27.7	27%	14.5	17%
Latin America	3.2	8%	2.7	8%	7.6	7%	7.2	8%
Asia Pacific	1.9	5%	1.3	4%	4.5	4%	4.3	5%
Total	$ 39.4	100%	$ 32.8	100%	$ 105.2	100%	$ 84.9	100%

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

	13 Weeks Ended		39 Weeks Ended	
(In millions)	**September 1, 2007**	**September 2, 2006**	**September 1, 2007**	**September 2, 2006**
Operating income from continuing operations	$ 39.4	$ 32.8	$ 105.2	$ 84.9
Gains from sales of assets			0.1	0.8
Other income, net	1.0	0.4	3.6	0.4
Interest expense	(2.9)	(4.5)	(9.6)	(12.3)
Income from continuing operations before income taxes, minority interests, and income from equity investments	$ 37.5	$ 28.7	$ 99.3	$ 73.8

North America:

The following table shows the net revenue generated from the key components of the North America segment.

(In millions)	13 Weeks Ended September 1, 2007	13 Weeks Ended September 2, 2006	2007 vs 2006	39 Weeks Ended September 1, 2007	39 Weeks Ended September 2, 2006	2007 vs 2006
Adhesives	$ 96.5	$ 98.4	(2.0)%	$ 281.7	$ 295.9	(4.8)%
Automotive	15.6	18.3	(14.8)%	54.1	65.4	(17.3)%
Packaging Solutions	14.5	13.2	9.9%	39.9	37.3	7.0%
Specialty Construction	44.5	52.3	(15.0)%	134.7	138.5	(2.7)%
Insulating Glass	16.8	18.3	(8.1)%	45.4	50.4	(10.0)%
Total North America	$ 187.9	$ 200.5	(6.3)%	$ 555.8	$ 587.5	(5.4)%

The following tables provide details of North America net revenue variances by segment component. The Pricing/Sales Volume variance is viewed as organic growth.

( ) = Decrease	Adhesives	Automotive	Packaging Solutions	Specialty Construction	Insulating Glass	Total
	13 weeks ended September 1, 2007 vs 13 weeks ended September 2, 2006					
Pricing/Sales Volume	(4.9)%	(14.8)%	9.2%	(15.0)%	(8.1)%	(7.8)%
Acquisitions/Divestitures	2.5%					1.2%
Currency	0.4%		0.7%			0.3%
Total	(2.0)%	(14.8)%	9.9%	(15.0)%	(8.1)%	(6.3)%

( ) = Decrease	Adhesives	Automotive	Packaging Solutions	Specialty Construction	Insulating Glass	Total
	39 weeks ended September 1, 2007 vs 39 weeks ended September 2, 2006					
Pricing/Sales Volume	(7.2)%	(17.3)%	6.8%	(17.5)%	(10.0)%	(10.2)%
Acquisitions/Divestitures	2.3%			14.8%		4.7%
Currency	0.1%		0.2%			0.1%
Total	(4.8)%	(17.3)%	7.0%	(2.7)%	(10.0)%	(5.4)%

The following table reflects the operating income by component of the North America operating segment:

(In millions)	13 Weeks Ended September 1, 2007	13 Weeks Ended September 2, 2006	2007 vs 2006	39 Weeks Ended September 1, 2007	39 Weeks Ended September 2, 2006	2007 vs 2006
Adhesives	$ 14.5	$ 14.3	1.3%	$ 40.4	$ 38.5	5.0%
Automotive	(1.0)	(0.8)	(15.0)%	(2.5)	(2.0)	(21.0)%
Packaging Solutions	5.4	3.6	49.2%	13.0	10.6	22.1%
Specialty Construction	3.4	4.4	(23.4)%	9.4	6.0	57.0%
Insulating Glass	2.3	1.8	25.4%	5.1	5.8	(13.1)%
Total North America	$ 24.6	$ 23.3	5.5%	$ 65.4	$ 58.9	11.0%

Note: Individual component results are subject to numerous allocations of segment-wide costs that may or may not have been focused on that particular component for a particular reporting period. The costs of these allocated resources are not tracked on a where-used basis as financial performance is managed to maximize the total operating segment performance. Therefore, the above financial information should only be used for directional indications of performance.

Total North America

The North America operating segment consists of the adhesives and automotive businesses that were previously reported under the Global Adhesives operating segment and the packaging solutions, specialty construction and insulating glass components that were previously reported in the Full-Valu/Specialty operating segment. The slowdown in the North American construction-related end markets and automotive industries had a significant negative impact on the net revenue for both the third quarter and first nine months of 2007 as compared to 2006. Despite the decline in net revenue for the third quarter as compared to last year, operating income increased 5.5 percent. This was primarily the result of an improved gross profit margin due to effective selling price management and shifts in product mix. Through nine months of 2007 the segment operating income increased 11.0 percent over 2006 again mainly due to the improved gross profit margin.

Adhesives: Net revenue in the Adhesives component declined 2.0 percent in the third quarter as compared to last year. Sales volume accounted for a 6.7 percent decrease in net revenue while product pricing contributed a positive 1.8 percent. The decline in sales volume did improve from the second quarter, which saw volume decline over 10 percent from the prior year. The positive effects of selling price increases are also trending down as last quarter s positive variance was 3.5 percent. This decline is because the most significant price increases were implemented in the second half of 2006, which has now become part of the base. The economic slowdown, especially in the construction-related markets, had a significant impact on the reduction in the adhesives sales volume. Stable raw material prices combined with disciplined selling price management resulted in an increase in the gross profit margin for both the third quarter and first nine months of 2007. The improved gross margin helped to offset the negative impact from reduced sales volume resulting in operating income slightly above the third quarter of 2006. The operating income margin was 15.0 percent in the third quarter of 2007 and 14.5 percent in the third quarter of 2006. For the first nine months of 2007 the operating margin was 14.3 percent as compared to 13.0 percent in 2006.

Automotive: In automotive, net revenue decreased 14.8 percent and 17.3 percent, respectively in the third quarter and first nine months of 2007 as compared to the same periods of 2006. The sluggish U.S. car and truck market was the main reason for the decrease in net revenue for both the quarter and first nine months of 2007. This component of the North America segment incurred operating losses in both the quarter and first nine months of 2007 and 2006 as strict cost controls have not been enough to offset the effect of significantly lower sales volume.

Packaging Solutions: The packaging solutions component realized net revenue increases from selling prices and sales volume combined, for the third quarter and first nine months of 2007 of 9.2 percent and 6.8 percent, respectively. Sales to new customers have been a key component in the net revenue increases. The third quarter of 2007 included a $0.7 million favorable legal settlement, which contributed to the operating income improvement of nearly 50 percent for the third quarter and over 22 percent for the first nine months as compared to last year.

Specialty Construction: The Specialty Construction component has been heavily impacted by the slowdown in the U.S. housing and other construction markets. The economic slowdown has been the primary factor contributing to the sales volume decreases of 18.5 percent for the third quarter and 21.4 percent for the first nine months of 2007 as compared to last year. The discontinuation of certain product lines from the Roanoke acquisition and repositioning of product lines to focus on more value-added solutions for customers also contributed to the sales volume decreases. SG&A expenses were lower in the third quarter and first nine months of 2007 due to strict cost controls, reduced marketing expenses and reduced legal costs related to EIFS product liability matters. In the first quarter of 2007 the SG&A expenses included $1.7 million of accelerated amortization expense on a particular trade name that was discontinued. The operating income margin was 7.6 percent in the third quarter of 2007 and 7.0 percent for the first nine months as compared to 8.4 percent and 4.3 percent for the same periods in 2006, respectively.

Insulating Glass: Sales volume decreased 14.2 percent in the third quarter of 2007 as compared to last year a direct result of the slowdown in the North American housing industry. Through nine months of 2007 sales volume was down 16.0 percent as compared to the first nine months of 2006. Despite the lower sales volume, operating income increased over 25 percent in the third quarter as compared to last year due to effective selling price management, a more favorable mix of products and the reduction of operating expenses resulting from the realignment of the new regional structure earlier in 2007. Through the first nine months of 2007 operating income was down 13.1 percent as compared to the same period of 2006.

Europe:

The following table shows the net revenue generated from the key components of the Europe segment.

(In millions)	13 Weeks Ended September 1, 2007	13 Weeks Ended September 2, 2006	2007 vs 2006	39 Weeks Ended September 1, 2007	39 Weeks Ended September 2, 2006	2007 vs 2006
Adhesives	$ 87.4	$ 82.4	6.1%	$ 263.5	$ 240.1	9.7%
Insulating Glass	12.7	11.9	6.7%	36.0	11.9	NMP
Total Europe	$ 100.1	$ 94.3	6.1%	$ 299.5	$ 252.0	18.8%

NMP = Non-meaningful percentage

The following table provides details of Europe net revenue variances by segment component. The Pricing/Sales Volume variance is viewed as organic growth.

( ) = Decrease	13 weeks ended September 1, 2007 vs September 2, 2006 Adhesives	Insulating Glass	Total	39 weeks ended September 1, 2007 vs September 2, 2006 Adhesives	Insulating Glass	Total
Pricing/Sales Volume	0.4%	(8.5)%	(0.8)%	1.6%	(8.0)%	1.1%
Acquisitions/Divestitures		9.5%	1.2%		NMP	9.7%
Currency	5.7%	5.7%	5.7%	8.1%	5.7%	8.0%
Total	6.1%	6.7%	6.1%	9.7%	NMP	18.8%

The following table reflects the operating income by component of the Europe operating segment:

(In millions)	13 Weeks Ended September 1, 2007	13 Weeks Ended September 2, 2006	2007 vs 2006	39 Weeks Ended September 1, 2007	39 Weeks Ended September 2, 2006	2007 vs 2006
Adhesives	$ 9.1	$ 5.5	66.1%	$ 26.8	$ 14.5	84.9%
Insulating Glass	0.6		NMP	1.0		NMP
Total Europe	$ 9.7	$ 5.5	75.6%	$ 27.8	$ 14.5	91.1%

NMP = Non-meaningful percentage

Note: Individual component results are subject to numerous allocations of segment-wide costs that may or may not have been focused on that particular component for a particular reporting period. The costs of these allocated resources are not tracked on a where-used basis as financial performance is managed to maximize the total operating segment performance. Therefore, the above financial information should only be used for directional indications of performance.

Total Europe:

The Europe operating segment includes the adhesives business that was previously reported in the Global Adhesives segment as well as the insulating glass business that was acquired in the third quarter of 2006 and was previously reported in the Full-Valu/Specialty segment. For the third quarter of 2007 the segment increased net revenue by 6.1 percent over last year with acquisitions and currency effects contributing 1.2 percent and 5.7 percent, respectively. The 2006 results included 12 weeks of the insulating glass business as compared to the full 13 weeks in

2007. The net revenue for the first nine months of 2007 increased 18.8 percent over last year as the insulating glass acquisition contributed 9.7 percent and favorable currency effects were 8.0 percent. The increased operating income in 2007 over 2006 for both the third quarter and nine months year-to-date was largely due to SG&A expense savings resulting from Lean Six Sigma[SM] projects implemented in 2006.

Adhesives: Excluding the effects of the stronger euro, net revenue in the third quarter and nine months year-to-date increased slightly over 2006. The improvement in operating income for both the third quarter and first nine months of 2007 was mainly due to reduced costs in both cost of sales and SG&A expense resulting from cost-reduction projects that were completed in 2006. Currency effects had a positive impact on the third quarter operating income of approximately $0.5 million. The operating income margin in the third quarter of 2007 of 10.4 percent exceeded the third quarter of 2006 by 3.7 percentage points. Through nine months the operating margin increased to 10.2 percent as compared to 6.0 percent through the first nine months of 2006.

Insulating Glass: Operating income increased over $0.5 million in the third quarter of 2007 as compared to the third quarter of 2006 mainly because 2006 included one-time charges in cost of sales related to the acquisition. Net revenue has been negatively impacted by lost business due to price competition. Management s expectation is that synergies will result as the insulating glass component is managed under the same management team as the adhesives component in Europe.

Latin America:

The following table shows the net revenue generated from the key components of the Latin America segment.

(In millions)	13 Weeks Ended September 1, 2007	13 Weeks Ended September 2, 2006	2007 vs 2006	39 Weeks Ended September 1, 2007	39 Weeks Ended September 2, 2006	2007 vs 2006
Adhesives	$ 27.8	$ 29.1	(4.4)%	$ 82.4	$ 86.6	(4.8)%
Paints	23.1	23.4	(1.1)%	73.4	74.0	(0.8)%
Total Latin America	$ 50.9	$ 52.5	(2.9)%	$ 155.8	$ 160.6	(3.0)%

The following table provides details of Latin America net revenue variances by segment component. The Pricing/Sales Volume variance is viewed as organic growth.

( ) = Decrease	13 weeks ended September 1, 2007 vs September 2, 2006 Adhesives	Paints	Total	39 weeks ended September 1, 2007 vs September 2, 2006 Adhesives	Paints	Total
Pricing/Sales Volume	(4.4)%	(1.1)%	(2.9)%	(4.8)%	(0.8)%	(3.0)%
Acquisitions/Divestitures						
Currency						
Total	(4.4)%	(1.1)%	(2.9)%	(4.8)%	(0.8)%	(3.0)%

The following table reflects the operating income by component of the Latin America operating segment:

(In millions)	13 Weeks Ended September 1, 2007	13 Weeks Ended September 2, 2006	2007 vs 2006	39 Weeks Ended September 1, 2007	39 Weeks Ended September 2, 2006	2007 vs 2006
Adhesives	$ 1.6	$ 2.3	(31.8)%	$ 3.9	$ 5.2	(23.8)%
Paints	1.6	0.4	NMP	3.7	2.0	82.8%
Total Latin America	$ 3.2	$ 2.7	17.2%	$ 7.6	$ 7.2	6.3%

NMP = Non-meaningful percentage

Note: Individual component results are subject to numerous allocations of segment-wide costs that may or may not have been focused on that particular component for a particular reporting period. The costs of

these allocated resources are not tracked on a where-used basis as financial performance is managed to maximize the total operating segment performance. Therefore, the above financial information should only be used for directional indications of performance.

Total Latin America: The Latin America operating segment includes the adhesives business that was previously reported in the Global Adhesives segment and the Paints business that was reported under the Full-Valu/Specialty segment. During the third quarter of 2007, net revenue of $50.9 million was 2.9 percent less than the third quarter of 2006. The net revenue decrease was mainly due to sales volume declines in the adhesives component of the segment. The operating income for the region increased $0.5 million or 17.2 percent as compared to last year due to significantly improved results from the paints component. Through nine months of 2007, the operating income was 6.3 percent above last year with the adhesives business lower than last year and the paints component exceeding last year.

Adhesives: Sales volume decreased 7.3 percent in the third quarter as compared to last year. This was an improvement from the variance in the second quarter of 2007, which recorded volume declines of nearly 12 percent compared to 2006. Operating income declined over 30 percent from the third quarter of 2006 due primarily to the lower sales volume. SG&A expenses were well controlled as the impact of 2006 Lean Six Sigma^{SM} projects had positive effects on the 2007 results. Through nine months the operating income was down 24 percent from 2006. Decreases in sales volume were partially offset by product pricing and costs were decreased as a result of the 2006 projects.

Paints: The paints component continued to show excellent improvement in the third quarter in spite of net revenue decreasing by 1.1 percent from the third quarter of 2006. Management s continued focus on more profitable product lines and savings realized from the second quarter cost reduction initiative were the main reasons for the improved profitability. Through nine months of 2007 operating income increased $1.7 million, or nearly 83 percent over the first nine months of 2006. This improvement in profitability was made in spite of one-time charges of $1.1 million associated with the second quarter cost reduction initiative. The operating margin for the first nine months of 2007 was 5.0 percent as compared to 2.7 percent for the same period of 2006.

Asia Pacific:

The following table shows the net revenue generated from the key components of the Asia Pacific segment.

(In millions)	13 Weeks Ended September 1, 2007	13 Weeks Ended September 2, 2006	2007 vs 2006	39 Weeks Ended September 1, 2007	39 Weeks Ended September 2, 2006	2007 vs 2006
Adhesives	$ 22.2	$ 19.1	16.8%	$ 63.2	$ 59.8	5.7%
Consumer	6.8	5.6	20.5%	18.8	16.9	11.3%
Total Asia Pacific	$ 29.0	$ 24.7	17.6%	$ 82.0	$ 76.7	6.9%

The following table provides details of Asia Pacific net revenue variances by segment component. The Pricing/Sales Volume variance is viewed as organic growth.

( ) = Decrease	13 weeks ended September 1, 2007 vs September 2, 2006 Adhesives	Consumer	Total	39 weeks ended September 1, 2007 vs September 2, 2006 Adhesives	Consumer	Total
Pricing/Sales Volume	8.4%	6.7%	8.0%		2.8%	0.6%
Acquisitions/Divestitures						
Currency	8.4%	13.8%	9.6%	5.7%	8.5%	6.3%
Total	16.8%	20.5%	17.6%	5.7%	11.3%	6.9%

The following table reflects the operating income by component of the Asia Pacific operating segment:

	13 Weeks Ended			39 Weeks Ended		
(In millions)	September 1, 2007	September 2, 2006	2007 vs 2006	September 1, 2007	September 2, 2006	2007 vs 2006
Adhesives	$ 1.6	$ 1.2	27.1%	$ 4.2	$ 4.2	(0.7)%
Consumer	0.3	0.1	NMP	0.3	0.1	NMP
Total Asia Pacific	$ 1.9	$ 1.3	46.9%	$ 4.5	$ 4.3	3.8%

NMP = Non-meaningful percentage

Note: Individual component results are subject to numerous allocations of segment-wide costs that may or may not have been focused on that particular component for a particular reporting period. The costs of these allocated resources are not tracked on a where-used basis as financial performance is managed to maximize the total operating segment performance. Therefore, the above financial information should only be used for directional indications of performance.

Total Asia Pacific: The Asia Pacific operating segment includes the adhesives business that was previously reported in the Global Adhesives segment and the Consumer business that was reported under the Full-Valu/Specialty segment. Significant net revenue growth was achieved in the third quarter by both the adhesives and consumer components of Asia Pacific. The net revenue growth from higher selling prices and increased sales volume, combined with a 9.6 percent positive currency impact resulted in a total net revenue increase of 17.6 percent as compared to the third quarter of 2006. The Australian dollar had the largest impact from a currency standpoint. Operating income increased 46.9 percent in the third quarter as compared to last year largely due the improved net revenue. The operating income improved in spite of additional SG&A expenses incurred in forming a new management team in the segment.

Adhesives: Profitable new business was a key driver for the third quarter improvement in both trade revenue and operating income during the quarter. Growth in China was especially strong. The strong organic growth in the third quarter brought the nine months year-to-date organic growth to a breakeven level with 2006. The operating margin for the third quarter of 7.0 percent compared to 6.5 percent in last year s third quarter. Through nine months the margin was 6.6 percent in 2007 and 7.0 percent in 2006.

Consumer: Net revenue increases from higher selling prices and increased sales volume combined, of nearly 7 percent in the third quarter resulted in the consumer component recording operating income of $0.3 million. Consumer had been running at about breakeven through the first six months of 2007. The improved third quarter brought the year-to-date operating income up to $0.3 million as compared to $0.1 million for the first nine months of 2006.

Liquidity and Capital Resources

Total cash and cash equivalents as of September 1, 2007 were $219.2 million as compared to $255.4 million as of December 2, 2006. Total long and short-term debt was $171.9 million as of September 1, 2007 and $258.8 million as of December 2, 2006. The primary reasons for the decline in cash on hand and total debt outstanding were payments of $62.0 million in the first quarter of 2007 to pay-off the line of credit and $25 million in the second quarter of 2007 to pay the annual installment related to the company s senior long-term debt. Cash also decreased as a result of the share repurchase program that the board of directors approved on July 11, 2007. During the third quarter of 2007 the company repurchased approximately $25 million of its common stock outstanding. Management believes that cash flows from operating activities will be adequate to meet the company s ongoing liquidity and capital expenditure needs. In addition, the company has sufficient access to capital markets to meet current expectations for acquisition funding requirements.

At September 1, 2007, the company was in compliance with all covenants of its contractual obligations. There are no rating triggers that would accelerate the maturity dates of any debt. Management believes the company has the ability to meet all of its contractual obligations and commitments in fiscal 2007.

Management anticipates that cash flows from operating activities will be positive in the fourth quarter and there will be sufficient cash to fund all fourth quarter cash requirements without the utilization of the line of credit.

During the third quarter of 2007, the company exercised its option to purchase an additional 10 percent ownership interest in the Sekisui-Fuller Japan joint venture from Sekisui Chemical Co., Ltd for $12 million. Subsequent to the end of the third quarter, the $12 million payment was made on September 27, 2007. The additional 10 percent interest increases the company s ownership in the joint venture from 40 percent to 50 percent, however due to the structure of the joint venture, the company will continue to account for this investment under the equity method.

Selected Metrics of Liquidity

Key metrics monitored by management 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.

	As of September 1, 2007	**As of September 2, 2006**
Net working capital as a percentage of annualized net revenue[1]	13.4%	14.0 %
Accounts receivable DSO[2]	53 Days	54 Days
Inventory days on hand[3]	49 Days[6]	51 Days
Year-to-date free cash flow[4]	$80.2 million	$100.8 million
Debt capitalization ratio[5]	16.9%	31.0 %

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

2 (Accounts receivable less the allowance for doubtful accounts at the balance sheet date) multiplied by 90 and divided by the net revenue for the quarter.

3 Average inventory over last five quarters multiplied by 360 and divided by cost of sales for prior 12 months.

4 Net cash provided by operations from continuing operations, less purchased property, plant and equipment and dividends paid. Management believes this measure is useful in understanding the operating performance of the company and providing insight into the ability of the company to fund such things as debt reduction and acquisitions. This measure may not be consistent with the methodology used by other companies. The following table provides a reconciliation of free cash flow to cash provided by operating activities from continuing operations:

	As of September 1, 2007	**As of September 2, 2006**
Year-to-date free cash flow	$ 80.2	$ 100.8
Purchased property, plant and equipment	15.9	12.6
Dividends paid	11.6	11.0
Net cash provided by operating activities from continuing operations	$ 107.7	$ 124.4

5 Total debt divided by total debt plus total stockholders equity.

The 2007 reduction in net working capital as a percentage of annualized net revenue was driven by a company-wide focus on working capital management as both accounts receivable days sales outstanding and inventory days on hand were reduced in 2007 as compared to 2006.

Summary of Cash Flows

Cash flows from Operating Activities from Continuing Operations:

(In millions)	39 Weeks Ended September 1, 2007	39 Weeks Ended September 2, 2006
Net cash provided by operating activities from continuing operations	$ 107.7	$ 124.4

Income from continuing operations plus depreciation and amortization expense totaled $115.8 million for the first nine months of 2007 as compared to $91.6 million for the first nine months of 2006. Changes in net working capital accounted for a use of cash of $0.2 million and a source of cash of $40.9 million for the first nine months of 2007 and 2006, respectively. Changes in trade accounts payable accounted for a $19.4 million use of cash in 2007 as compared to a $17.8 million source of cash in the first nine months of 2006. Third quarter of 2006 trade payables balance included a temporary increase of approximately $8 million from acquisition-related payables. Cash used for payouts of accrued compensation were $5.0 million more than in 2006 due to the increase in employee incentive payouts in the first quarter of 2007 related to the company s financial results of 2006.

Cash flows from Investing Activities from Continuing Operations:

(In millions)	39 Weeks Ended September 1, 2007	39 Weeks Ended September 2, 2006
Net cash used in investing activities from continuing operations	$ (16.5)	$ (318.9)

Purchases of property plant and equipment were $15.9 million in the first nine months of 2007 as compared to $12.5 million in the first nine months of 2006. The majority of the capital expenditures in the last two years relate to information technology and process improvement projects. The company does not anticipate significant repair and maintenance activities on existing property, plant and equipment as a result of current or past capital spending policies. The company also received $2.4 million in the first quarter of 2006 from the sale of an adhesives product line in North America. The Roanoke Companies Group, Inc. and Henkel KGaA s insulating glass sealant acquisitions, as discussed in Note 2 of this report, accounted for $275.3 million and $34.0 million, respectively, of the net cash used in investing activities in the first nine months of 2006.

Cash flows from Financing Activities from Continuing Operations:

(In millions)	39 Weeks Ended September 1, 2007	39 Weeks Ended September 2, 2006
Net cash provided by (used in) financing activities from continuing operations	$ (107.0)	$ 149.8

The cash used in financing activities from continuing operations in the first nine months of 2007 included $62 million to pay-off the company s line of credit and a $25 million annual payment on the company s long-term debt. In addition, on July 11, 2007, the board of directors authorized a share repurchase program of up to $100 million of the company s outstanding shares. During the third quarter of 2007 the company repurchased approximately $25 million of its common stock outstanding. Last year s cash provided by financing activities from continuing operations was mainly due to the $195 million of new debt that was secured to finance the Roanoke acquisition. Cash generated from the exercise of stock options was $13.4 million in the first nine months of 2007, compared to $15.0 million in the first nine months of 2006. Cash dividends paid on common stock were $11.6 million and $11.0 million in the first nine months of 2007 and 2006, respectively.

Cash Flows from Discontinued Operations:

(In millions)	39 Weeks Ended September 1, 2007	September 2, 2006
Cash provided by (used in) operating activities of discontinued operations	$ (24.6)	$ 5.0

Cash used in operating activities of discontinued operations represents the cash used in the operations of the powder coatings business. Cash used in the operating activities of discontinued operations in the first nine months of 2007 is primarily comprised of income tax payments made in conjunction with the gain on disposal of the powder coatings business and closing cost payments made associated with selling the business. The related costs were recorded in the fourth quarter of 2006.

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, the company discusses expectations regarding future performance of the company 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, will, shou (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, management 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 the company s Annual Report on Form 10-K for the fiscal year ended December 2, 2006, identify some of the important factors that could cause the company s 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, the company has identified these important factors which could affect the company s financial performance and could cause the company s 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 the company and the regions where the company does 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. However, management s 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.

The company 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 the company in this report and elsewhere from time to time, represents management s best judgment as of the date the information is given. The company does 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.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market Risk: The company is 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 and foreign currency exchange rates.

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.

Management believes that probable near-term changes in interest rates would not materially affect financial condition, results of operations or cash flows. The annual impact on the results of operations of a one-percentage point interest rate change on the outstanding balance of its variable rate debt as of September 1, 2007 would be approximately $0.8 million.

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. Approximately 53 percent of net revenue was generated outside of the United States in the first nine months of 2007. Principal foreign currency exposures relate to the euro, British pound sterling, Japanese yen, Australian dollar, Canadian dollar, Argentine peso, Brazilian real, Colombian peso and Chinese renminbi.

Management s 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. The company enters into cross border transactions through importing and exporting 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 local currency. This also applies to services provided and other cross border agreements among subsidiaries.

Management takes 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. Management does not enter into any speculative positions with regard to derivative instruments.

From a sensitivity analysis viewpoint, based on the financial results of the first nine months of 2007, a hypothetical overall 10 percent change in the U.S. dollar would have resulted in a change in net income of approximately $3.7 million.

Raw Materials: The principal raw materials used to manufacture products include resins, polymers, synthetic rubbers, vinyl acetate monomer and plasticizers. The company generally avoids sole source supplier arrangements for raw materials. While alternate supplies of most key raw materials are available, sustained strong economical growth in North America and China coupled with unplanned supplier production outages have led to strained supply-demand situations for several key derivatives (such as ethylene and propylene), some of their derivatives, several polymers and other petroleum derivatives such as waxes.

Management s objective is to purchase raw materials that meet both its 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.

Item 4. Controls and Procedures

(a) Controls and procedures

As of the end of the period covered by this report, the company conducted an evaluation, under the supervision and with the participation of the company s chief executive officer and interim chief financial officer, of the company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on this evaluation, the chief executive officer and interim chief financial officer concluded that, as of September 1, 2007, the company s disclosure controls and procedures were effective to ensure that information required to be disclosed by the company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Commission s rules and forms and to ensure that information required to be disclosed by the company in the reports that it files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to the company s management, including its 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 the company s internal control over financial reporting during its most recently completed fiscal quarter that have materially affected or are reasonably likely to materially affect its 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, the company is identified as a potentially responsible party 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. The company is also subject to similar laws in some of the countries where current and former facilities are located. The company s environmental, health and safety department monitors compliance with all applicable laws on a global basis.

Currently the company is involved in various environmental investigations, clean up activities and administrative proceedings and lawsuits. In many of these matters, the company has entered into participation agreements, consent decrees or tolling agreements. One of these environmental matters involves the investigation and remediation of environmental contamination at the company s Sorocaba, Brazil facility. Soil and water samples were collected on and around the Sorocaba facility, and test results indicated that certain contaminants, including carbon tetrachloride and other solvents, exist in the soil at the Sorocaba facility and in the groundwater at both the Sorocaba facility and some neighboring properties. The company is continuing to work with Brazilian regulatory authorities to implement a remediation system at the site. As of September 1, 2007, $1.4 million was recorded as a liability for expected investigation and remediation expenses remaining for this site. Once the full scope of any necessary remediation is determined, the company may be required to record additional liabilities related to investigation and/or remediation costs at the Sorocaba facility.

From time to time, management becomes aware of compliance matters relating to, or receives notices from, federal, state or local entities regarding possible or alleged violations of environmental, health or safety laws and regulations. In some instances, these matters may become the subject of administrative proceedings or lawsuits and may involve monetary sanctions of $0.1 million or more (exclusive of interest and litigation costs).

The company s management reviews the circumstances of each individual site, considering the number of parties involved, the level of potential liability or contribution of the company 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. To the extent the company can reasonably estimate the amount of its probable liabilities for environmental matters, the company establishes a financial provision if certain criteria are met. As of September 1, 2007, the company had reserved $3.0 million, which represents its best estimate of probable liabilities with respect to environmental matters, inclusive of the accrual related to the Sorocaba facility as described above. However, the full extent of the company s future liability for environmental matters is difficult to predict because of uncertainty as to the cost of investigation and clean up of the sites, the company s responsibility for such hazardous substances and the number of and financial condition of other potentially responsible parties.

Because of the uncertainties described above, the company cannot accurately estimate the cost of resolving pending and future environmental matters impacting the company. While uncertainties exist with respect to the amounts and timing of the company s ultimate environmental liabilities, based on currently available information, management does not believe that these matters, individually or in aggregate, will have a material adverse effect on the company s long-term financial condition. However, adverse developments could negatively impact the company s results of operations or cash flows in one or more future quarters.

Other Legal Proceedings. From time to time and in the ordinary course of business, the company is a party to, or a target of, lawsuits, claims, investigations and proceedings, including product liability, personal injury, contract, patent and intellectual property, health and safety and employment matters. While the company is unable to predict the outcome of these matters, it does not believe, based upon currently available information, that the ultimate resolution of any pending matter, individually or in aggregate, including the EIFS and asbestos litigation described in the following paragraphs, will have a material adverse effect on the company s long-term financial condition. However, adverse developments could negatively impact the company s results of operations or cash flows in one or more future quarters.

A subsidiary of the company is a defendant in numerous exterior insulated finish systems (EIFS) related lawsuits. As of September 1, 2007, the company s subsidiary was a defendant in approximately 17 lawsuits and claims related primarily to single-family homes. The EIFS product was used primarily in the residential construction market in the southeastern United States. Some of the lawsuits and claims involve EIFS in commercial or multi-family structures. Lawsuits and claims related to this product line seek monetary relief for water intrusion-related property damages. The company has insurance coverage for certain years with respect to this product line.

During the quarter ended June 3, 2006, the company entered into agreements to settle numerous EIFS-related lawsuits and claims, including a lawsuit involving up to 186 homes. In total, the company paid $5.0 million in settlement of these lawsuits and claims, of which insurers have paid $1.0 million and are expected to pay an additional $0.5 million. As of September 1, 2007, the company had recorded $1.1 million for the probable EIFS-related liabilities and $0.8 million for insurance recoveries, for all remaining EIFS-related liabilities. The company continually reevaluates these amounts.

EIFS-related liabilities include amounts for pending lawsuits and claims as well as unasserted claims. The liabilities are recorded at management s best estimate of the outcome of the lawsuits and claims taking into consideration the facts and circumstances of the individual matters as well as past experience on similar matters. Amounts accrued for the unasserted claims are based primarily on historical experience. Because of the many uncertainties involved with litigation, management has concluded that it is not possible to estimate a range of loss, if any, that would exceed the accrual.

The rollforward of EIFS-related lawsuits and claims is as follows:

	39 Weeks Ended September 1, 2007	Year Ended December 2, 2006
Lawsuits and claims at beginning of period	29	75
New lawsuits and claims asserted	5	9
Lawsuits and claims settled	(10)	(55)
Lawsuits and claims dismissed/resolved	(7)	
Lawsuits and claims at end of period	17	29

A summary of the aggregate costs and settlement amounts for EIFS-related lawsuits and claims is as follows:

(In thousands)	39 Weeks Ended September 1, 2007	Year Ended December 2, 2006
Settlements reached	$ 227	$ 5,989
Defense costs incurred	$ 349	$ 2,507
Insurance payments received or expected to be received	$ 1,081	$ 3,492

Plaintiffs in EIFS cases generally seek to have their homes repaired or the EIFS replaced, but a dollar amount for the cost of repair or replacement is not ordinarily specified in the complaint. Although complaints in EIFS cases usually do not contain a specific amount of damages claimed, a complaint may assert that damages exceed a specified amount in order to meet jurisdictional requirements of the court in which the case is filed. Therefore, the company does not believe it is meaningful to disclose the dollar amount of damages asserted in EIFS complaints.

Based on currently available information, management does not believe that the ultimate outcome of any pending legal proceedings and claims related to this product line, individually or in aggregate, will have a material adverse effect on the company s long-term financial condition. However, adverse developments could negatively impact the company s results of operations or cash flows in one or more future quarters. Given the numerous uncertainties surrounding litigation and the projection of future events, such as the number of new claims to be filed each year and the average cost of disposing of each such claim, the actual costs could be higher or lower than the current estimated reserves or insurance recoveries.

The company and/or its subsidiaries have been named as defendants in lawsuits in which plaintiffs have alleged injury due to products containing asbestos manufactured more than 25 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 the company or its subsidiaries. The company is typically dismissed as a defendant in these cases without payment. If the plaintiff establishes that compensable injury occurred as a result of exposure to the company s products, the case is generally settled for an amount that reflects the seriousness of the injury, the number and solvency of other defendants in the case, and the jurisdiction in which the case has been brought.

As a result of bankruptcy filings by numerous defendants in asbestos-related litigation and the prospect of national and state legislative reform relating to such litigation, the rate at which plaintiffs filed asbestos-related lawsuits against various companies (including the company) increased in 2001, 2002 and the first half of 2003. After the second half of 2003, the rate of these filings declined. However, the company expects that asbestos-related lawsuits will continue to be filed against the company in the future.

A significant portion of the defense costs and settlements relating to asbestos-related litigation involving the company continues to be paid by third parties, including indemnification pursuant to the provisions of a 1976 agreement under which the company acquired a business from a third party. Historically, this third party routinely defended all cases tendered to it and paid settlement amounts resulting from those cases. In the 1990s, the third party sporadically reserved its rights, but continued to defend and settle all asbestos-related claims tendered to it by the company. In 2002, the third party rejected the tender of certain cases by the company and indicated it would seek contributions from the company for past defense costs, settlements and judgments. However, this third party has continued to defend and pay settlement amounts, under a reservation of rights, in most of the asbestos cases tendered to the third party by the company.

In addition to the indemnification arrangements with third parties, the company has insurance policies that generally provide coverage for asbestos liabilities (including defense costs). Historically, insurers have paid a significant portion of the defense costs and settlements in asbestos-related litigation involving the company. However, certain of the company s insurers are insolvent. During 2005, the company and a number of its insurers entered into a cost-sharing agreement that provides for the allocation of defense costs, settlements and judgments among these insurers and the company in certain asbestos-related lawsuits. Under this agreement, the company is required to fund a share of settlements and judgments allocable to years in which the responsible insurer is insolvent. The cost-sharing agreement applies only to the asbestos litigation involving the company that is not covered by the third-party indemnification arrangements.

During the year ended December 2, 2006, the company settled five asbestos-related lawsuits, totaling $0.6 million. The company s insurers have paid or are expected to pay $0.4 million of these settlement amounts. During the first nine months of 2007 the company settled six asbestos-related lawsuits for $0.4 million. The company s insurers have paid or are expected to pay $0.3 million of that amount.

The company does not believe that it would be meaningful to disclose the aggregate number of asbestos-related lawsuits filed against the company because relatively few of these lawsuits are known to involve exposure to asbestos-containing products made by the company. Rather, the company believes it is more meaningful to disclose the number of lawsuits that are settled and result in a payment to the plaintiff.

To the extent the company can reasonably estimate the amount of its probable liabilities for pending asbestos-related claims, the company establishes a financial provision and a corresponding receivable for insurance recoveries if certain criteria are met. As of September 1, 2007, the company had $0.4 million accrued for probable liabilities and $0.2 million for insurance recoveries related to asbestos claims. However, the company has concluded that it is not possible to estimate the cost of disposing of other asbestos-related claims (including claims that might be filed in the future) due to its inability to project future events. Future variables include the number of new claims filed, the average cost of disposing of such claims, the uncertainty of asbestos litigation, insurance coverage and indemnification agreement issues, and the continuing solvency of certain insurance companies.

Because of the uncertainties described above, the company cannot accurately estimate the cost of resolving pending and future asbestos-related claims against the company. Based on currently available information, the company does not believe that asbestos-related litigation, individually or in aggregate, will have a material adverse effect on the company s long-term financial condition. However, adverse developments in such litigation could negatively impact the company s results of operations or cash flows in one or more future quarters.

In addition to product liability claims discussed above, the company and its subsidiaries are involved in other claims or legal proceedings related to its products, which it believes are not out of the ordinary in a business of the type and size in which it is engaged.

Item 1A. Risk Factors

This Form 10-Q contains forward-looking statements concerning the company s future programs, products, revenues, expenses, liquidity and cash needs as well as its plans and strategies. These forward-looking statements are based on current expectations and the company assumes 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 the company s Annual Report on Form 10-K for the fiscal year ended December 2, 2006. There have been no material changes in the risk factors disclosed by the company under Part I, Item 1A. Risk Factors contained in the Annual Report on Form 10-K for the fiscal year ended December 2, 2006.

Item 1B. Unresolved Staff Comments

None.

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

The following table provides information about the company s purchases of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act during the 13 weeks ended September 1, 2007:

Period	Total Number of Shares Purchased[1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (thousands)
June 3, 2007 July 7, 2007	4,561	$ 30.67		N/A
July 8, 2007 August 4, 2007	304,200	$ 27.31	304,200	$ 91,693
August 5, 2007 September 1, 2007	616,589	$ 27.07	616,589	$ 75,000
Total	925,350	$ 27.17	920,789	$ 75,000

Repurchases of common stock are made to support the company s stock-based employee compensation plans and for other corporate purposes. On July 11, 2007, the board of directors authorized a share repurchase program of up to $100 million of the company s outstanding common shares. Under the program, the company, at management s discretion, may 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 primary source of funding for the program is expected to be cash held in the United States but alternative sources of funds may also be used. The timing of such repurchases will depend on price, market conditions and applicable regulatory requirements. The program does not require the company to repurchase any specific number of shares and may be modified, suspended or terminated at any time without prior notice. As of September 1, 2007 approximately $75 million remains authorized to repurchase shares.

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1 The total number of shares purchased includes: (i) shares purchased under the board s authorization described above, and (ii) shares withheld to satisfy the employees withholding taxes upon vesting of restricted stock awarded by the company to employees. There were 4,561 shares withheld in the quarter to satisfy employee tax withholdings.

Item 6.
<u>Exhibits</u>

10.1	Form of Change In Control Agreement between H.B. Fuller Company and each of its executive officers	
12	Computation of Ratios	
31.1	Form of 302 Certification	Michele Volpi
31.2	Form of 302 Certification	James C. McCreary, Jr.
32.1	Form of 906 Certification	Michele Volpi
32.2	Form of 906 Certification	James C. McCreary, Jr.

Lean Six Sigma[SM] is a registered service mark of The George Group Incorporated.

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.

H.B. Fuller Company

Dated: October 5, 2007

/s/ James C. McCreary, Jr.
James C. McCreary, Jr.
Vice President, Controller and Interim Chief Financial Officer

Exhibit Index

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