

FULLER H B CO  
Form 10-K  
January 29, 2013  
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UNITED STATES  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

(Mark One)

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

For the fiscal year ended December 1, 2012

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-09225

**H.B. FULLER COMPANY**

(Exact name of registrant as specified in its charter)

**Minnesota**  
(State or other jurisdiction of

incorporation or organization)

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

**41-0268370**  
(I.R.S. Employer

Identification No.)

**55110-5101**  
(Zip Code)

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Registrant's telephone number, including area code: (651) 236-5900

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value \$1.00 per share	New York Stock Exchange
Preferred Stock Purchase Rights	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: none

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  Yes  No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to the Form 10-K.

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

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

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

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The aggregate market value of the Common Stock, par value \$1.00 per share, held by non-affiliates of the registrant as of June 2, 2012 was approximately \$1,437,657,442 (based on the closing price of such stock as quoted on the New York Stock Exchange of \$29.98 on such date).

The number of shares outstanding of the Registrant's Common Stock, par value \$1.00 per share, was 49,944,727 as of January 11, 2013.

### **DOCUMENTS INCORPORATED BY REFERENCE**

Part III incorporates information by reference to portions of the registrant's Proxy Statement for the Annual Meeting of Shareholders to be held on April 11, 2013.

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**H.B. FULLER COMPANY**

**2012 Annual Report on Form 10-K**

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**PART I**

**Item 1. Business**

H.B. Fuller Company was founded in 1887 and incorporated as a Minnesota corporation in 1915. Our stock is traded on the New York Stock Exchange (NYSE) under the ticker symbol FUL. As used herein, H.B. Fuller, we, us, our, management or company includes H.B. Fuller subsidiaries unless otherwise indicated.

We are a leading worldwide formulator, manufacturer and marketer of adhesives, sealants and other specialty chemical products. Sales operations span 40 countries in North America, Europe, Latin America, the Asia Pacific region, India, the Middle East and Africa. Industrial adhesives represent our core product offering. Customers use our adhesives products in manufacturing common consumer and industrial goods, including food and beverage containers, disposable diapers, windows, doors, flooring, appliances, sportswear, footwear, multi-wall bags, water filtration products, insulation and textiles. Our adhesives help improve the performance of our customers' products or improve their manufacturing processes. We also provide our customers with technical support and unique solutions designed to address their specific needs. We have established a variety of product offerings for residential construction markets, such as tile-setting adhesives, grout, sealants and related products. These products are sold primarily in our Construction Products operating segment.

**Recent Acquisitions and Divestitures**

On March 5, 2012 we completed the acquisition of the global industrial adhesives and synthetic polymers business of Forbo Holding AG for 370.0 million Swiss francs or \$404.7 million. We acquired the Forbo Group subsidiaries that operate the industrial adhesives business and directly purchased certain assets used in the industrial adhesives business that were not owned by the former Forbo Group subsidiaries on a cash-free and debt-free basis. The Forbo industrial adhesives business acquired is known for the breadth of its product line in all of our core markets, particularly packaging and durable assembly. The acquisition gives us added product technology, people and skills that will enhance the competitiveness of our business. The global industrial adhesives business acquired operated 17 manufacturing facilities in 10 countries and employed more than 1,100 people globally. The acquired business is being integrated into our existing North America Adhesives, EIMEA, Latin America Adhesives and Asia Pacific operating segments. The integration involves a significant amount of restructuring and capital investment to optimize the new combined operating segments. In addition, in July of 2011 we announced our intentions to take a series of actions in our existing EIMEA operating segment to improve the profitability and future growth prospects of this operating segment. We have combined these two initiatives into a single project which we refer to as the Business Integration Project.

On September 10, 2012 we acquired the outstanding shares of Engent, Inc., a provider of manufacturing, research and development services to the electronics industry, based in Norcross, Georgia for \$7.9 million. The acquisition added state-of-art development capabilities, testing resources and technical support infrastructure, which increased our capabilities in a wide range of microelectronic assembly technologies.

On August 6, 2012 we sold our Central America Paints business for cash proceeds of \$118.5 million and recorded a gain of \$66.2 million (\$51.1 million, net of tax). After the sale of our Central America Paints business, we now have five reportable segments: North America Adhesives, Construction Products, EIMEA, Latin America Adhesives and Asia Pacific. Prior periods have been restated for the removal of our Latin America Paints operating segment which is now considered discontinued operations. Corporate expenses, which are fully allocated to each operating segment, have been reallocated to the remaining reportable operating segments.

**Operating Segment Information**

Our business is reported in five operating segments: North America Adhesives, Construction Products, EIMEA (Europe, India, Middle East and Africa), Latin America Adhesives and Asia Pacific. As a percentage of total net

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revenue by operating segment, North America Adhesives was 36 percent, Construction Products 8 percent, EIMEA 36 percent, Latin America Adhesives 8 percent and Asia Pacific 12 percent.

Our North America Adhesives, EIMEA, Latin America Adhesives and Asia Pacific operating segments produce and supply industrial adhesives products for applications in various markets including assembly (appliances, filters, construction, etc.), packaging (food and beverage containers, flexible packaging, consumer goods, package integrity and re-enforcement, durable and non-durable goods, etc.), converting (corrugation, tape and label, paper converting, envelopes, books, multi-wall bags and sacks), nonwoven and hygiene (disposable diapers, feminine care, medical garments, tissue and towel), performance wood (windows, doors, wood flooring) and textile (footwear, sportswear, etc.).

The North America Adhesives operating segment includes a full range of specialty adhesives such as thermoplastic, thermoset, reactive, water-based and solvent-based products. Sales are made primarily through a direct sales force with a smaller portion of sales through distributors.

The Construction Products operating segment includes products used for tile setting (adhesives, grouts, mortars, sealers, levelers, etc.), heating, ventilation and air conditioning and insulation applications (duct sealants, weather barriers and fungicidal coatings, block fillers, etc.). Construction Product sales are made primarily through distributors and to a lesser extent big box retailers and a direct sales force.

The EIMEA operating segment is comprised of an adhesives component with the same range of products as the North America Adhesives operating segment. EIMEA adhesives sales are made through both a direct sales force and distributors.

The Latin America Adhesives operating segment is similar to that of the North America Adhesives operating segment and sales are made primarily through a direct sales force.

The Asia Pacific operating segment is similar to that of the North America Adhesives operating segment, with one exception. The Asia Pacific operating segment also includes caulks and sealants for the consumer market and professional trade, sold through retailers. Other adhesives sales are made through a direct sales force and distributors.

Financial information with respect to our operating segments and geographic areas is set forth in Note 15 to the Consolidated Financial Statements.

## **Non-U.S. Operations**

The principal markets, products and methods of distribution outside the United States vary with each of our regional operations generally maintaining integrated business units that contain dedicated supplier networks, manufacturing, logistics and sales organizations. The vast majority of the products sold within any region are produced within the region, and the respective regions do not import significant amounts of product from other regions. At the end of 2012, we had sales offices and manufacturing plants in 22 countries outside the United States and satellite sales offices in another 18 countries.

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We have adopted policies and processes, and conduct employee training, all of which are intended to ensure compliance with various economic sanctions and export controls, including the regulations of the U.S. Treasury Department's Office of Foreign Assets Control (OFAC). We do not conduct any business in countries that are subject to U.S. economic sanctions such as Cuba, Iran, North Korea, Sudan and Syria, whether through subsidiaries, joint ventures or other direct or indirect arrangements, nor do we have any assets, employees or operations in these countries.



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### **Competition**

Many of our markets are highly competitive. However, we compete effectively due to the quality and breadth of our adhesives, sealants and specialty chemical portfolio and the experience and expertise of our commercial organizations. Within the adhesives and other specialty chemical markets, we believe few suppliers have comparable global reach and corresponding ability to deliver quality and consistency to multinational customers. Our competition is made up generally of two types of companies: (1) similar multinational suppliers and (2) regional or specialty suppliers that typically compete in only one region or within a narrow geographic area within a region. The multinational competitors typically maintain a broad product offering and range of technology, while regional or specialty companies tend to have limited or more focused product ranges and technology.

Principal competitive factors in the sale of adhesives and other specialty chemicals are product performance, supply assurance, technical service, quality, price and customer service.

### **Customers**

We have cultivated strong, integrated relationships with a diverse set of customers worldwide. Our customers are among the technology and market leaders in consumer goods, construction, and industrial markets. We pride ourselves on long-term, collaborative customer relationships and a diverse portfolio of customers in which no single customer accounted for more than 10 percent of consolidated net revenue.

Our leading customers include manufacturers of food and beverages, hygiene products, clothing, major appliances, filters, construction materials, wood flooring, furniture, cabinetry, windows, doors, tissue and towel, corrugation, tube winding, packaging, labels and tapes.

Our products are delivered to customers primarily from our manufacturing plants, with additional deliveries made through distributors and retailers.

### **Backlog**

No significant backlog of unfilled orders existed at December 1, 2012 or December 3, 2011.

### **Raw Materials**

We use several principal raw materials in our manufacturing processes, including tackifying resins, polymers, synthetic rubbers, vinyl acetate monomer and plasticizers. We generally avoid sole source supplier arrangements for raw materials.

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The majority of our raw materials are petroleum/natural gas based derivatives. Under normal conditions, raw materials are available on the open market. Prices and availability are subject to supply and demand market mechanisms. Raw material costs are primarily determined by the balance of supply against the aggregate demand from the adhesives industry and other industries that use the same raw material streams. The cost of crude oil and natural gas, the primary feedstocks for our raw materials, can also impact the cost of our raw materials.

### **Patents, Trademarks and Licenses**

Much of the technology we use in our products and manufacturing processes is available in the public domain. For technology not available in the public domain, we rely on trade secrets and patents when appropriate to protect our competitive position. We also license some patented technology from other sources. Our business is not materially dependent upon licenses or similar rights or on any single patent or group of related patents.

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We enter into agreements with many employees to protect rights to technology and intellectual property. Confidentiality commitments also are routinely obtained from customers, suppliers and others to safeguard proprietary information.

We own numerous trademarks and service marks in various countries. Trademarks, such as H.B. Fuller<sup>®</sup>, Swift<sup>®</sup>, Advantra<sup>®</sup>, Adalis<sup>®</sup>, Clarity<sup>®</sup>, Sesame<sup>®</sup>, TEC<sup>®</sup>, Plasticola<sup>®</sup>, Foster<sup>®</sup>, Rakoll<sup>®</sup>, Rapidex<sup>®</sup>, Full-Care<sup>™</sup>, Liquamelt<sup>®</sup>, Thermonex<sup>®</sup> and Tile-Perfect<sup>®</sup> are important in marketing products. Many of our trademarks and service marks are registered. U.S. trademark registrations are for a term of ten years and are renewable every ten years as long as the trademarks are used in the regular course of trade.

## **Research and Development**

Our investment in research and development creates new and innovative adhesive technology platforms, enhances product performance, ensures a competitive cost structure and leverages available raw materials. New product development is a key research and development outcome, providing higher-value solutions to existing customers or meeting new customers' needs. Projects are developed in local laboratories in each region, where we understand our customer base the best. Platform developments are coordinated globally through our network of laboratories.

Through designing and developing new polymers and new formulations, we expect to continue to grow in our current markets. We also develop new applications for existing products and technologies, and improve manufacturing processes to enhance productivity and product quality. Research and development efforts are closely aligned to customer needs, but we do not engage in customer sponsored activities. We foster open innovation, seek supplier-driven new technology and use relationships with academic and other institutions to enhance our capabilities.

Research and development expenses were \$21.3 million, \$20.8 million and \$19.1 million in 2012, 2011 and 2010, respectively. Research and development costs are included in selling, general and administrative expenses.

## **Environmental, Health and Safety**

We comply with applicable regulations relating to environmental protection and workers' safety. This includes regular review of and upgrades to environmental, health and safety policies, practices and procedures as well as improved production methods to minimize our facilities' outgoing waste, based on evolving societal standards and increased environmental understanding.

Environmental expenditures to comply with environmental regulations over the next two years are estimated to be approximately \$8.0 million, including approximately \$1.8 million of capital expenditures. See additional disclosure under Item 3. Legal Proceedings.

## **Seasonality**

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Our North America Adhesives, Construction Products and EIMEA operating segments have historically had lower net revenue in winter months, which is primarily our first fiscal quarter, partially due to the seasonal decline in construction activities. There also are many international holidays in our first quarter, reducing available shipping days.

### **Employees**

Approximately 3,700 individuals were employed on December 1, 2012, of which approximately 1,400 were in the United States.

**Table of Contents****Executive Officers of the Registrant**

The following table shows the name, age and business experience for the past five years of the executive officers as of January 11, 2013. Unless otherwise noted, the positions described are positions with the company or its subsidiaries.

<b>Name</b>	<b>Age</b>	<b>Positions</b>	<b>Period Served</b>
James J. Owens	48	President and Chief Executive Officer	November 2010-Present
		Senior Vice President, Americas	January 2010-November 2010
		Senior Vice President, North America	September 2008-January 2010
		Senior Vice President, Henkel Corporation (global manufacturer of adhesives, sealants and surface treatments)	April 2008-August 2008
		Corporate Vice President and General Manager, National Starch & Chemical Company, Adhesives Division (manufacturer of adhesives, sealants, specialty synthetic polymers and industrial starches)	December 2004-April 2008
James R. Giertz	55	Senior Vice President, Chief Financial Officer	March 2008-Present
		Senior Managing Director, Chief Financial Officer, GMAC ResCap (real estate finance company)	2006-2007
Kevin M. Gilligan	46	Vice President, Global Operations	December 2011-Present
		Vice President, Asia Pacific	March 2007-November 2011
Traci L. Jensen	46	Vice President, Americas Adhesives	November 2011-Present
		Vice President, North America	2010-2011
		President and General Manager, Global Adalis	2009-2010
		European Business Director, Packaging and Converting Adhesives, National Starch & Chemical Company	2006-2008
Timothy J. Keenan	55	Vice President, General Counsel and Corporate Secretary	December 2006-Present
Steven Kenny	51	Senior Vice President, Europe, India, Middle East and Africa (EIMEA)	October 2009-Present
		President, Specialty Packaging Division, Pregis Corporation (international manufacturer, marketer, and supplier of protective packaging products and specialty packaging solutions)	August 2008-September 2009

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		Corporate Vice President and General Manager, Europe, Middle East and Africa, National Starch & Chemical Company, Adhesives Division	2005-2008
James C. McCreary, Jr.	56	Vice President, Corporate Controller	February 2008-Present and November 2000-February 2007
		Interim Chief Financial Officer, Vice President and Corporate Controller	February 2007-February 2008
Ann B. Parriott	54	Vice President, Human Resources	January 2006-Present

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Name	Age	Positions	Period Served
Patrick J. Trippel	53	Senior Vice President, Construction Materials Senior Vice President and General Manager, Global General Industries, Henkel Corporation (global manufacturer of adhesives, sealants and surface treatments) President and General Manager, Global Electronic Materials, Henkel Corporation	April 2011-Present  2009-2011  2002-2009

The Board of Directors elects the executive officers annually.

**Available Information**

For more information about us, visit our website at: [www.hbfuller.com](http://www.hbfuller.com).

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (SEC) via EDGAR. Our SEC filings are available free of charge to the public at our website as soon as reasonably practicable after they have been filed with or furnished to the SEC.

**Item 1A. Risk Factors**

As a global manufacturer of adhesives, sealants and other specialty chemical products, we operate in a business environment that is subject to various risks and uncertainties. Below are the most significant factors that could adversely affect our business, financial condition and results of operations.

**Adverse conditions in the global economy could negatively impact our customers and therefore our financial results.**

An economic downturn in the businesses or geographic areas in which we sell our products could reduce demand for these products and result in a decrease in sales volume that could have a negative impact on our results of operations. Product demand often depends on end-use markets. Economic conditions that reduce consumer confidence or discretionary spending may reduce product demand. Challenging economic conditions may also impair the ability of customers to pay for products they have purchased, and as a result, our reserves for doubtful accounts and write-offs of accounts receivable may increase.

**Increases in prices and declines in the availability of raw materials could negatively impact our financial results.**

Raw materials needed to manufacture products are obtained from a number of suppliers and many of the raw materials are petroleum-based derivatives, minerals and metals. Under normal market conditions, these raw materials are generally available on the open market from a variety of producers. While alternate supplies of most key raw materials are available, supplier production outages may lead to strained supply-demand

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situations for certain raw materials. The substitution of key raw materials requires us to identify new supply sources, reformulate, retest and may require seeking re-approval from our customers using those products. From time to time, the prices and availability of these raw materials may fluctuate, which could impair our ability to procure necessary materials, or increase the cost of manufacturing products. If the prices of raw materials increase in a short period of time, we may be unable to pass these increases on to our customers in a timely manner and could experience reductions to our profit margins.

**Uncertainties in foreign political and economic conditions and fluctuations in foreign currency may adversely affect our results.**

Approximately 57 percent, or \$1,084 million, of our net revenue was generated outside the United States in 2012. International operations could be adversely affected by changes in political and economic conditions, trade



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protection measures, restrictions on repatriation of earnings, differing intellectual property rights and changes in regulatory requirements that restrict the sales of products or increase costs. Also, fluctuations in exchange rates between the U.S. dollar and other currencies could potentially result in increases or decreases in earnings and may adversely affect the value of our assets outside the United States. Although we utilize risk management tools, including hedging, as appropriate, to mitigate market fluctuations in foreign currencies, any changes in strategy in regard to risk management tools can also affect sales revenue, expenses and results of operations and there can be no assurance that such measures will result in cost savings or that all market fluctuation exposure will be eliminated.

### **We experience substantial competition in each of the operating segments and geographic areas in which we operate.**

Our wide variety of products are sold in numerous markets, each of which is highly competitive. Our competitive position in markets is, in part, subject to external factors. For example, supply and demand for certain of our products is driven by end-use markets and worldwide capacities which, in turn, impact demand for and pricing of our products. Many of our direct competitors are part of large multinational companies and may have more resources than we do. Any increase in competition may result in lost market share or reduced prices, which could result in reduced profit margins. This may impair the ability to grow or even to maintain current levels of revenues and earnings. While we have an extensive customer base, loss of certain top customers could adversely affect our financial condition and results of operations until such business is replaced, and no assurances can be made that we would be able to regain or replace any lost customers.

### **Failure to develop new products and protect our intellectual property could negatively impact our future performance and growth.**

Ongoing innovation and product development are important factors in our competitiveness. Failure to create new products and generate new ideas could negatively impact our ability to grow and deliver strong financial results. We continually apply for and obtain U.S. and foreign patents to protect the results of our research for use in our operations and licensing. We are party to a substantial number of patent licenses and other technology agreements. We rely on patents, confidentiality agreements and internal security measures to protect our intellectual property. Failure to protect this intellectual property could negatively affect our future performance and growth.

### **We may be required to record impairment charges on our long-lived assets.**

Weak demand may cause underutilization of our manufacturing capacity or elimination of product lines; contract terminations or customer shutdowns may force sale or abandonment of facilities and equipment; or other events associated with weak economic conditions or specific product or customer events may require us to record an impairment on tangible assets, such as facilities and equipment, as well as intangible assets, such as intellectual property or goodwill, which would have a negative impact on our financial results.

### **We have lawsuits and claims against us with uncertain outcomes.**

Our operations from time to time are parties to or targets of lawsuits, claims, investigations and proceedings, including product liability, personal injury, asbestos, patent and intellectual property, commercial, contract, environmental, antitrust, health and safety, and employment matters, which are handled and defended in the ordinary course of business. The results of any future litigation or settlement of such lawsuits and claims are inherently unpredictable, but such outcomes could be adverse and material in amount. See Item 3. Legal Proceedings for a discussion of current litigation.



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### **Costs and expenses resulting from compliance with environmental laws and regulations may negatively impact our operations and financial results.**

We are subject to numerous environmental laws and regulations that impose various environmental controls on us or otherwise relate to environmental protection, the sale and export of certain chemicals or hazardous materials, and various health and safety matters. The costs of complying with these laws and regulations can be significant and may increase as applicable requirements and their enforcement become more stringent and new rules are implemented. Adverse developments and/or periodic settlements could negatively impact our results of operations and cash flows. See Item 3. Legal Proceedings for a discussion of current environmental matters.

### **Distressed financial markets may result in dramatic deflation of asset valuations and a general disruption in capital markets.**

Adverse equity market conditions and volatility in the credit markets could have a negative impact on the value of our pension trust assets and our future estimated pension liabilities, and other post-retirement benefit plans. In addition, we could be required to provide increased pension plan funding. As a result, our financial results could be negatively impacted. Reduced access to capital markets may affect our ability to invest in strategic growth initiatives such as acquisitions. In addition, the reduced credit availability could limit our customers' ability to invest in their businesses, refinance maturing debt obligations, or meet their ongoing working capital needs. If these customers do not have sufficient access to the financial markets, demand for our products may decline.

### **Catastrophic events could disrupt our operations or the operations of our suppliers or customers, having a negative impact on our financial results.**

Unexpected events, including natural disasters and severe weather events, fires or explosions at our facilities or those of our suppliers, acts of war or terrorism, supply disruptions or breaches of security of our information technology systems could increase the cost of doing business or otherwise harm our operations, our customers and our suppliers. Such events could reduce demand for our products or make it difficult or impossible for us to receive raw materials from suppliers and deliver products to our customers.

### **The inability to attract and retain qualified personnel could adversely impact our business.**

Sustaining and growing our business depends on the recruitment, development and retention of qualified employees. The inability to recruit and retain key personnel or the unexpected loss of key personnel may adversely affect our operations.

### **The acquisition of the global industrial adhesives business of Forbo Group may present certain risks to our business and operations.**

Certain risks continue to exist after the closing of the acquisition on March 5, 2012, including, among other things:

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the mix of markets served and business operations of the acquired business differ somewhat from our markets and our business operations, and the combined business will have a different business mix than our business prior to the acquisition, presenting different operational risks and challenges;

we may be unable to integrate successfully the business of the acquired business and realize the anticipated benefits of the merger;

the acquisition integration may involve unexpected costs, unexpected liabilities or unexpected delays;

our business may suffer as a result of uncertainty surrounding the acquisition and disruptions from the acquisition may harm relationships with customers, suppliers and employees;

evaluation of, and estimation of potential losses arising from lawsuits, claims, contingencies and legal proceedings could prove to be inaccurate.

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**The inability to make or effectively integrate future acquisitions may affect our results.**

As part of our growth strategy, we intend to pursue additional acquisitions of complementary businesses or products and joint ventures. The ability to grow through acquisitions or joint ventures depends upon our ability to identify, negotiate, complete and integrate suitable acquisitions or joint venture arrangements. If we fail to successfully integrate acquisitions into our existing business, our results of operations and cash flows could be adversely affected.

**Item 1B. Unresolved Staff Comments**

None.

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Principal executive offices and central research facilities are located in the St. Paul, Minnesota area. These facilities are company-owned and contain 247,630 square feet. Manufacturing operations are carried out at 22 plants located throughout the United States and at 27 plants located in 21 other countries. In addition, numerous sales and service offices are located throughout the world. We believe that the properties owned or leased are suitable and adequate for our business. Operating capacity varies by product line, but additional production capacity is available for most product lines by increasing the number of shifts worked. The following is a list of our manufacturing plants as of December 1, 2012 (each of the listed properties are owned by us, unless otherwise specified):

Region	Manufacturing Sq Ft
<b>North America</b>	
<b>North America Adhesives</b>	
Canada - Pointe Claire, QC <sup>2</sup>	18,750
California - Roseville	82,202
Georgia - Covington	72,000
- Norcross <sup>1</sup>	12,779
- Tucker	69,000
Illinois - Morris <sup>1</sup>	31,200
- Seneca	24,621
Kansas - Kansas City	33,873
Kentucky - Paducah	252,500
Michigan - Grand Rapids	65,689
Minnesota - Fridley	15,850
- Vadnais Heights	53,145
Ohio - Blue Ash	102,000
Oregon - Eugene <sup>2</sup>	37,200
Tennessee - Jackson	53,000
Texas - Dallas	5,000
- Mesquite	25,000
Washington - Vancouver	35,768
<b>Construction Products</b>	
Florida - Gainesville	6,800
Georgia - Dalton	73,500
Illinois - Aurora	149,000
- Palatine	55,000
New Jersey - Edison	9,780
Texas - Houston	11,000
<b>North America Total</b>	<b>1,294,657</b>
<b>Asia Pacific</b>	
<b>Region</b>	
Australia - Dandenong South, VIC	71,280
Republic of China - Guangzhou Xiqu <sup>1</sup>	49,525
- Guangzhou Yonghe	36,055
- Nanjing	8,611
- Shanghai <sup>1</sup>	33,307
Malaysia - Selongor	21,900
Philippines - Manila	9,295

<b>Asia Pacific Total</b>	<b>229,973</b>
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<b>EIMEA</b>	
Austria - Wels <sup>1</sup>	66,500
Egypt - 6th of October City	8,525
Finland - Espoo	5,575
France - Blois	48,438
- Surbourg	21,743
Germany - Lueneburg	64,249
- Nienburg	139,248
- Pirmasens	48,438
Greece - Lamia	11,560
India - Pune	38,782
Italy - Borgolavezzaro	24,219
- Pianeze	36,500
Portugal - Mindelo	90,193
Spain - Vigo	19,375
United Kingdom - Dukinfield	17,465
- Chatteris	13,678

<b>EIMEA Total</b>	<b>654,488</b>
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<b>Latin America Adhesives</b>	
Argentina - Buenos Aires	10,367
Brazil - Sorocaba, SP <sup>2</sup>	7,535
Chile - Maipu, Santiago	64,099
Colombia - Itagui, Antioquia <sup>1</sup>	7,800
Costa Rica - Alajuela	4,993

<b>Latin America Total</b>	<b>94,794</b>
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1 Leased Property

2 Idle Property

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**Item 3. Legal Proceedings**

**Environmental Matters.** From time to time, we are identified as a potentially responsible party (PRP) under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) and/or similar state laws that impose liability for costs relating to the clean up of contamination resulting from past spills, disposal or other release of hazardous substances. We are also subject to similar laws in some of the countries where current and former facilities are located. Our environmental, health and safety department monitors compliance with applicable laws on a global basis.

Currently we are involved in various environmental investigations, clean up activities and administrative proceedings and lawsuits. In particular, we are currently deemed a PRP in conjunction with numerous other parties, in a number of government enforcement actions associated with hazardous waste sites. As a PRP, we may be required to pay a share of the costs of investigation and clean up of these sites. In addition, we are engaged in environmental remediation and monitoring efforts at a number of current and former operating facilities, including remediation of environmental contamination at our 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 and in the groundwater at both the Sorocaba facility and some neighboring properties. We are continuing to work with Brazilian regulatory authorities to implement and operate a remediation system at the site. As of December 1, 2012, \$0.5 million was recorded as a liability for our best estimate of expected remediation expenses remaining for this site. Depending on the results of the testing of our current remediation actions, it is reasonably possible that we may be required to record additional liabilities related to remediation costs at the Sorocaba facility. Based on our analysis, the high end of our range for reasonably possible projected costs to remediate the Sorocaba site is \$0.8 million, inclusive of the existing accrual of \$0.5 million.

From time to time, we become aware of compliance matters relating to, or receive notices from, federal, state or local entities regarding possible or alleged violations of environmental, health or safety laws and regulations. We review the circumstances of each individual site, considering the number of parties involved, the level of potential liability or contribution of us relative to the other parties, the nature and magnitude of the hazardous substances involved, the method and extent of remediation, the estimated legal and consulting expense with respect to each site and the time period over which any costs would likely be incurred. To the extent we can reasonably estimate the amount of our probable liabilities for environmental matters, we establish a financial provision. As of December 1, 2012, we had reserved \$1.9 million, which represents our best estimate of probable liabilities with respect to environmental matters, inclusive of the accrual related to the Sorocaba facility as described above. It is reasonably possible that we may have additional liabilities related to these known environmental matters. The high end of our range for reasonably possible projected costs to remediate all known environmental matters is \$2.5 million, inclusive of the existing accrual of \$1.9 million. However, the full extent of our future liability for environmental matters is difficult to predict because of uncertainty as to the cost of investigation and clean up of the sites, our responsibility for such hazardous substances and the number of and financial condition of other potentially responsible parties.

While uncertainties exist with respect to the amounts and timing of the ultimate environmental liabilities, based on currently available information, we have concluded that these matters, individually or in the aggregate, will not have a material adverse effect on our results of operations, financial condition or cash flow. However, adverse developments and/or periodic settlements could negatively impact the results of operations or cash flows in one or more future periods.

**Other Legal Proceedings.** From time to time and in the ordinary course of business, we are a party to, or a target of, lawsuits, claims, investigations and proceedings, including product liability, personal injury, contract, patent and intellectual property, health and safety and employment matters. While we are unable to predict the outcome of these matters, we have concluded, based upon currently available information, that the ultimate resolution of any pending matter, individually or in the aggregate, including the asbestos litigation described in



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the following paragraphs, will not have a material adverse effect on our results of operations, financial condition or cash flow. However, adverse developments and/or periodic settlements could negatively impact the results of operations or cash flows in one or more future periods.

We have been named as a defendant 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 us. We are typically dismissed as a defendant in such cases without payment. If the plaintiff presents evidence indicating that compensable injury occurred as a result of exposure to our products, the case is generally settled for an amount that reflects the seriousness of the injury, the length, intensity and character of exposure to products containing asbestos, the number and solvency of other defendants in the case, and the jurisdiction in which the case has been brought.

A significant portion of the defense costs and settlements in asbestos-related litigation continues to be paid by third parties, including indemnification pursuant to the provisions of a 1976 agreement under which we 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 us. In 2002, the third party rejected the tender of certain cases and indicated it would seek contributions for past defense costs, settlements and judgments. However, this third party is defending and paying settlement amounts, under a reservation of rights, in most of the asbestos cases tendered to the third party. As discussed below, during the fourth quarter of 2007, we and a group of other defendants, including the third party obligated to indemnify us against certain asbestos-related claims, entered into negotiations with certain law firms to settle a number of asbestos-related lawsuits and claims.

In addition to the indemnification arrangements with third parties, we have insurance policies that generally provide coverage for asbestos liabilities (including defense costs). Historically, insurers have paid a significant portion of our defense costs and settlements in asbestos-related litigation. However, certain of our insurers are insolvent. We have entered into cost-sharing agreements with our insurers that provide for the allocation of defense costs and, in some cases, settlements and judgments, in asbestos-related lawsuits. Under these agreements, we are required in some cases to fund a share of settlements and judgments allocable to years in which the responsible insurer is insolvent. In addition, to delineate our rights under certain insurance policies, in October 2009, we commenced a declaratory judgment action against one of our insurers in the United States District Court for the District of Minnesota. Additional insurers have been brought into the action to address issues related to the scope of their coverage.

As referenced above, during the fourth quarter of 2007, we and a group of other defendants entered into negotiations with certain law firms to settle a number of asbestos-related lawsuits and claims over a period of years. In total, we had expected to contribute up to \$4.1 million, based on a present value calculation, towards the settlement amounts to be paid to the claimants in exchange for full releases of claims. Of this amount, our insurers had committed to pay \$2.0 million based on the probable liability of \$4.1 million. Our contributions toward settlements from the time of the agreement through the end of fiscal year 2011 were \$2.2 million with insurers paying \$1.2 million of that amount. Based on this experience we reduced our reserves in the fourth quarter of 2011 to an undiscounted amount of \$0.3 million with insurers expected to pay \$0.2 million. There were no contributions or insurance payments during 2012, therefore our reserves for this agreement and our insurance receivable remained unchanged from the previous year-end. These amounts represent our best estimate for the settlement amounts yet to be paid related to this agreement. Our reserve is recorded on an undiscounted basis.

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In addition to the group settlement referenced above, a summary of the number of and settlement amounts for asbestos-related lawsuits and claims is as follows:

(\$ in millions)	Year Ended December 1, 2012	Year Ended December 3, 2011	Year Ended November 27, 2010
Lawsuits and claims settled	9	7	4
Settlement amounts	\$ 0.5	\$ 0.5	\$ 0.5
Insurance payments received or expected to be received	\$ 0.4	\$ 0.4	\$ 0.4

We do not believe that it would be meaningful to disclose the aggregate number of asbestos-related lawsuits filed against us because relatively few of these lawsuits are known to involve exposure to asbestos-containing products that we manufactured. Rather, we believe it is more meaningful to disclose the number of lawsuits that are settled and result in a payment to the plaintiff.

To the extent we can reasonably estimate the amount of our probable liabilities for pending asbestos-related claims, we establish a financial provision and a corresponding receivable for insurance recoveries. As of December 1, 2012, our probable liabilities and insurance recoveries related to asbestos claims, excluding those related to the group settlement discussed above, were \$0.2 million and \$0.2 million, respectively. These amounts relate to three pending cases and three settled cases for which final insurance payouts have not yet been made. We have concluded that it is not possible to reasonably estimate the cost of disposing of other asbestos-related claims (including claims that might be filed in the future) due to our inability to project future events. Future variables include the number of claims filed or dismissed, proof of exposure to our products, seriousness of the alleged injury, the number and solvency of other defendants in each case, the jurisdiction in which the case is brought, the 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.

Based on currently available information, we have concluded that the resolution of any pending matter, including asbestos-related litigation, individually or in the aggregate, will not have a material adverse effect on our results of operations, financial condition or cash flow. However, adverse developments and/or periodic settlements could negatively impact the results of operations or cash flows in one or more future periods.

In addition to product liability claims discussed above, we are involved in other claims or legal proceedings related to our products, which we believe are not out of the ordinary in a business of the type and size in which we are engaged.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Table of Contents****Part II.****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our common stock is traded on the New York Stock Exchange under the symbol FUL. As of January 11, 2013, there were 2,196 common shareholders of record for our common stock. The following table shows the high and low sales price per share of our stock and the dividends declared for the fiscal quarters.

	High and Low Sales Price				Dividends (Per Share)	
	2012		2011		2012	2011
	High	Low	High	Low		
First quarter	\$ 31.62	\$ 21.10	\$ 23.75	\$ 19.67	\$ 0.075	\$ 0.070
Second quarter	33.48	28.96	22.11	19.61	0.085	0.075
Third quarter	31.94	28.11	25.41	19.41	0.085	0.075
Fourth quarter	34.52	29.43	23.50	16.92	0.085	0.075

There are no significant contractual restrictions on our ability to declare or pay dividends. We currently expect that comparable dividends on our common stock will continue to be paid in the future.

**Issuer Purchases of Equity Securities**

Information on our purchases of equity securities during the fourth quarter of 2012 follows:

Period	(a) Total Number of Shares Purchased <sup>1</sup>	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of a Publicly Announced Plan or Program	(d) Maximum Approximate Dollar Value of Shares that may yet be Purchased Under the Plan or Program (thousands)
September 2, 2012 - October 6, 2012	604	\$ 30.70		\$ 89,510
October 7, 2012 - November 3, 2012		\$		\$ 89,510
November 4, 2012 - December 1, 2012		\$		\$ 89,510

<sup>1</sup> The total number of shares purchased relates to shares withheld to satisfy the employees' withholding taxes upon vesting of restricted stock. There were no shares purchased in the fourth quarter of 2012 under the 2010 share repurchase plan. See Note 10 to the Consolidated Financial Statements for more information.

Upon vesting of restricted stock awarded to employees, shares are withheld to cover the employees' minimum withholding taxes.



**Table of Contents****Total Shareholder Return Graph**

The line graph below compares the cumulative total shareholder return on our common stock for the last five fiscal years with cumulative total return on the S&P SmallCap 600 Index and Dow Jones U.S. Specialty Chemicals Index. This graph assumes a \$100 investment in each of H.B. Fuller, the S&P SmallCap 600 Index and the Dow Jones U.S. Specialty Chemicals Index at the close of trading on December 1, 2007, and also assumes the reinvestment of all dividends.

**Item 6. Selected Financial Data**

The following selected financial data has been derived from our audited Consolidated Financial Statements and should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and related notes included elsewhere in the Form 10-K.

(Dollars in thousands, except per share amounts)	Fiscal Years <sup>3</sup>				
	2012	2011 <sup>2</sup>	2010	2009	2008
Net revenue	\$ 1,886,239	\$ 1,444,085	\$ 1,256,825	\$ 1,135,762	\$ 1,280,004
Income from continuing operations <sup>1</sup>	\$ 68,287	\$ 80,215	\$ 64,293	\$ 82,478	\$ 18,673
Percent of net revenue	3.6	5.6	5.1	7.3	1.5
Total assets	\$ 1,786,320	\$ 1,227,709	\$ 1,153,457	\$ 1,100,445	\$ 1,081,328
Long-term debt, excluding current maturities	\$ 475,112	\$ 179,611	\$ 200,978	\$ 162,713	\$ 204,000
Total H.B. Fuller stockholders' equity	\$ 778,273	\$ 705,204	\$ 631,934	\$ 591,354	\$ 535,611
<b>Per Common Share:</b>					
Income from continuing operations:					
Basic	\$ 1.37	\$ 1.64	\$ 1.33	\$ 1.71	\$ 0.37
Diluted	\$ 1.34	\$ 1.61	\$ 1.31	\$ 1.68	\$ 0.36
Dividends declared and paid	\$ 0.3300	\$ 0.2950	\$ 0.2780	\$ 0.2700	\$ 0.2625
Book value <sup>4</sup>	\$ 15.60	\$ 14.26	\$ 12.85	\$ 12.15	\$ 11.06
Number of employees	3,727	2,754	2,621	2,380	2,328

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- 1 2012 includes after-tax charges of \$35.4 million related to special charges, net. 2008 includes after-tax charges of \$54.3 million related to the write-off of goodwill in our Construction Products operating segment and other impairment charges.
- 2 2011 contained 53 weeks
- 3 All amounts have been adjusted for discontinued operations.
- 4 Book value is calculated by dividing total H.B. Fuller stockholders' equity by the number of common stock shares outstanding as of our fiscal year end.

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**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Overview**

H.B. Fuller Company is a global formulator, manufacturer and marketer of adhesives and other specialty chemical products. We are managed through five operating segments – North America Adhesives, Construction Products, EIMEA (Europe, India, Middle East and Africa), Latin America Adhesives and Asia Pacific.

North America Adhesives, EIMEA, Latin America Adhesives and Asia Pacific operating segments manufacture and supply adhesives products in the assembly, packaging, converting, nonwoven and hygiene, performance wood, flooring, textile, flexible packaging, graphic arts and envelope markets. Construction Products operating segment provides floor preparation, grouts and mortars for tile setting as well as sealants and related products for HVAC installations.

We completed the acquisition of the global industrial adhesives and synthetic polymers business of Forbo Holding AG on March 5, 2012. The Forbo industrial adhesives business acquired is referred to as the acquired business and the legacy H.B. Fuller business is referred to as the legacy business in the Management's Discussion and Analysis. See Item 1. Business and Note 2 to the Consolidated Financial Statements.

We divested our Latin America Paints business on August 6, 2012. In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 205-20, Discontinued Operations we have classified the results of this business as discontinued operations. See Item 1. Business and Note 2 to the Consolidated Financial Statements.

**Total Company:** When reviewing our financial statements, it is important to understand how certain external factors impact us. These factors include:

Changes in the prices of our raw materials that are primarily derived from refining crude oil and natural gas

Global supply of and demand for raw materials

Economic growth rates, and

Currency exchange rates compared to the U.S. dollar

We purchase thousands of raw materials, the majority of which are petroleum/natural gas derivatives. With over 75 percent of our cost of sales accounted for by raw materials, our financial results are extremely sensitive to changing costs in this area. In addition to the impact from feedstock prices, the supply of and demand for raw materials also have a significant impact on our costs. As demand increases in high-growth areas, such as the Asia Pacific region, the supply of key raw materials may tighten, resulting in certain materials being put on allocation. Natural disasters, such as hurricanes, also can have an impact as key raw material producers are shut down for extended periods of time. We continually monitor capacity utilization figures, market supply and demand conditions, feedstock costs and inventory levels, as well as derivative and

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intermediate prices, which affect our raw materials.

In 2012, we generated 43 percent of our net revenue in the U.S. and 36 percent in EIMEA. The pace of economic growth in these areas directly impacts certain industries to which we supply products. For example, adhesives-related revenues from durable goods customers in areas such as appliances, furniture and other woodworking applications tend to fluctuate with the overall economic activity. In business components such as Construction Products and insulating glass, revenues tend to move with more specific economic indicators such as housing starts and other construction-related activity.

The movement of foreign currency exchange rates as compared to the U.S. dollar impacts the translation of the foreign entities' financial statements into U.S. dollars. As foreign currencies strengthen against the dollar, our



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revenues and costs increase as the foreign currency-denominated financial statements translate into more dollars. The fluctuations of the Euro against the U.S. dollar have the largest impact on our financial results as compared to all other currencies. In 2012, the currency fluctuations had a negative impact on net revenue of \$41.4 million as compared to 2011.

Key financial results and transactions for 2012 included the following:

Net revenue increased 30.6 percent from 2011 primarily driven by the acquired business.

Gross profit margin decreased to 27.4 percent from 28.0 percent in 2011 and 28.5 percent in 2010 mostly due to lower gross profit margins of the acquired business.

Cash flow generated from operating activities was \$108.6 million in 2012 as compared to \$88.1 million in 2011 and \$72.2 million in 2010.

Acquired the global industrial adhesives and synthetic polymers business of Forbo Holding AG for 370.0 million Swiss francs or \$404.7 million. Inclusion of the acquired business increased net revenue by \$423.4 million.

Divested our Central America Paints business for cash proceeds of \$118.5 million. As part of this transaction, we recorded an after-tax gain of \$51.1 million.

Acquired Engent, Inc. on September 10, 2012 for \$7.9 million.

The global economic conditions showed little or no improvement in 2012. Our total year organic sales growth, which we define as the combined variances from product pricing and sales volume, was 4.2 percent for 2012 compared to 2011. The inclusion of a 53<sup>rd</sup> week in 2011 negatively impacted 2012 organic sales growth by approximately 2.0 percent. Lower gross profit margins of the acquired business contributed to a decrease in gross profit margin compared to 2011.

In 2012 our diluted earnings per share from continuing operations was \$1.34 per share compared to \$1.61 per share in 2011 and \$1.31 per share in 2010. The most significant factors affecting 2012 results were the 30.6 percent increase in net revenue, the acquisition of the acquired business and special charges, net of \$52.5 million for costs related to the Business Integration Project. On an after-tax basis, the special charges, net resulted in a \$35.4 million negative impact on net income and a negative \$0.70 effect on diluted earnings per share. See Note 5 to the Consolidated Financial Statements for more information.

In 2011 we had special charges, net of \$7.5 million related to the pending acquisition of the acquired business. On an after-tax basis, this was a negative \$5.8 million impact on net income and a \$0.12 negative effect on diluted earnings per share. In 2010 we had exit costs and impairment charges to exit our European polysulfide-based insulating glass product line, which resulted in a pre-tax loss of \$11.4 million. On an after-tax basis, this was a negative \$8.4 million impact on net income and a \$0.17 negative effect on diluted earnings per share.

## **2013 Outlook**

For 2013, we expect to achieve modest organic revenue growth from our key focus markets of hygiene, packaging and durable assembly and by taking advantage of higher growth opportunities in emerging economies where consumer spending is growing at a higher rate than the overall global economy. In addition, we expect some margin expansion as we realize more of the synergy benefits from the Business Integration Project that began after the purchase of the acquired business. We expect our cost of raw materials in 2013 to be similar to 2012. Despite the continued high cost of raw materials, our gross margin should improve as we continue to manage pricing actions, reformulations and product substitutions. We also expect operating expenses to be leveraged to enhance our operating margin in 2013.

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Our capital spending plans for 2013 are much higher than actual spending in previous years as a significant portion of the investment for the Business Integration Project is completed. This reflects our confidence in our business and the opportunities we see to improve the productivity of our business and our prospects for growth.

**Critical Accounting Policies and Significant Estimates:** Management's discussion and analysis of our results of operations and financial condition are based upon Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. We believe the critical accounting policies and areas that require the most significant judgments and estimates to be used in the preparation of the Consolidated Financial Statements are pension and other postretirement plan assumptions; goodwill impairment assessment; long-lived assets recoverability; product, environmental and other litigation liabilities; and income tax accounting.

**Pension and Other Postretirement Plan Assumptions:** We sponsor defined-benefit pension plans in both the U.S. and non-U.S. entities. Also in the U.S. we sponsor other postretirement plans for health care and life insurance benefits. Expenses and liabilities for the pension plans and other postretirement plans are actuarially calculated. These calculations are based on our assumptions related to the discount rate, expected return on assets, projected salary increases and health care cost trend rates. Note 11 to the Consolidated Financial Statements includes disclosure of assumptions employed in these measurements for both the non-U.S. and U.S. plans.

The discount rate assumption is determined using an actuarial yield curve approach, which enables us to select a discount rate that reflects the characteristics of the plan. The approach identifies a broad universe of corporate bonds that meet the quality and size criteria for the particular plan. We use this approach rather than a specific index that has a certain set of bonds that may or may not be representative of the characteristics of our particular plan. A lower discount rate increases the present value of the pension obligations. The discount rate for the U.S. pension plan was 3.83 percent at December 1, 2012, as compared to 5.07 percent at December 3, 2011 and 5.49 percent at November 27, 2010. Net periodic pension cost for a given fiscal year is based on assumptions developed at the end of the previous fiscal year. A discount rate reduction of 0.5 percentage points at December 1, 2012 would increase U.S. pension and other postretirement plan expense approximately \$0.3 million (pre-tax) in fiscal 2013. Discount rates for non-U.S. plans are determined in a manner consistent with the U.S. plan.

The expected long-term rate of return on plan assets assumption for the U.S. pension plan was 8.00 percent in 2012 compared to 8.00 percent for 2011 and 7.90 for 2010. Our expected long-term rate of return on U.S. plan assets was based on our target asset allocation assumption of 60 percent equities and 40 percent fixed-income. Management, in conjunction with our external financial advisors, determines the expected long-term rate of return on plan assets by considering the expected future returns and volatility levels for each asset class that are based on historical returns and forward-looking observations. For 2012 the expected long-term rate of return on the target equities allocation was 9.0 percent and the expected long-term rate of return on the target fixed-income allocation was 5.5 percent. The total plan rate of return assumption included an estimate of the impact of diversification and the plan expense. For 2013, the expected long-term rate of return on assets will be 7.75 percent with an expected long-term rate of return on the target equities allocation of 8.5 percent and an expected long-term rate of return on target fixed-income allocation of 5.0 percent. A change of 0.5 percentage points for the expected return on assets assumption would impact U.S. net pension and other postretirement plan expense by approximately \$1.9 million (pre-tax).

Management, in conjunction with our external financial advisors, uses the actual historical rates of return of the asset categories to assess the reasonableness of the expected long-term rate of return on plan assets. The most

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recent 10-year and 20-year historical equity returns are shown in the table below. Our expected rate of return on our total portfolio is consistent with the historical patterns observed over longer time frames.

**U.S. Pension Plan**

<b>Historical actual rates of return</b>	<b>Total Portfolio</b>	<b>Equities</b>	<b>Fixed Income</b>
10-year period	8.9%	7.7%	(*)10.9%
20-year period	8.6%	8.0%	(*)10.9%

(\*) Beginning in 2006, our target allocation migrated from 100 percent equities to our current allocation of 60 percent equities and 40 percent fixed-income. The historical actual rate of return for the fixed income of 10.9 percent is since inception (6 years).

The expected long-term rate of return on plan assets assumption for non-U.S. pension plans was a weighted-average of 6.08 percent in 2012. The expected long-term rate of return on plan assets assumption used in each non-U.S. plan is determined on a plan-by-plan basis for each local jurisdiction and is based on expected future returns for the investment mix of assets currently in the portfolio for that plan. Management, in conjunction with our external financial advisors, develops expected rates of return for each plan, considers expected long-term returns for each asset category in the plan, reviews expectations for inflation for each local jurisdiction, and estimates the impact of active management of the plan's assets. Our largest non-U.S. pension plans are in Germany and the United Kingdom respectively. The expected long-term rate of return on plan assets for Germany was 5.8 percent and the historical rate of return since inception (15 years) for the total asset portfolio in Germany was 3.7 percent. The expected rate of return on our German portfolio of 5.8 percent assumes that market returns will improve in the future to be more in line with historical market patterns observed over longer time frames. In addition, we have modified our investment strategy for the German plan to include a more diversified pool of equity and fixed-income investments and, therefore, we currently expect the performance of the plan assets to improve going forward. The expected long-term rate of return on plan assets for the United Kingdom was 6.6 percent and the historical rate of return since inception (16 years) for the total asset portfolio in the United Kingdom was 6.5 percent. Management, in conjunction with our external financial advisors, uses actual historical returns of the asset portfolio to assess the reasonableness of the expected rate of return for each plan. Since both of these non-U.S. plans have been in existence for less than 20-years, the historical rate of return for each plan has been affected by a period of very poor market conditions by any longer term standards. The rates of return that have been earned by these plans over this shorter time is not what management or our external advisors expect in more normal economic times and over the long period these assets will be invested.

During 2011, we announced significant changes to our U.S. Pension Plan (the Plan). The changes included: benefits under the Plan were locked-in using service and salary as of May 31, 2011, participants no longer earn benefits for future service and salary as they had in the past, affected participants receive a three percent increase to the locked-in benefit for every year they continue to work for us and we are making a retirement contribution of three percent of eligible compensation to the 401(k) Plan for those participants. These changes to the Plan represented a plan curtailment as there is no longer a service cost component in the net periodic pension cost as all participants are considered inactive in the Plan.

The projected salary increase assumption is based on historic trends and comparisons to the external market. Higher rates of increase result in higher pension expenses. As this rate is also a long-term expected rate, it is less likely to change on an annual basis. In the U.S., we have used the rate of 5.0 percent for 2012, 4.17 percent for 2011 and 4.19 percent for 2010.

**Goodwill:** Goodwill is the excess of cost of an acquired entity over the amounts assigned to assets acquired and liabilities assumed in a purchase business combination. Goodwill is assigned to reporting units at the date the goodwill is initially recorded. Once goodwill has been assigned to a reporting unit, it no longer retains its association with a particular acquisition, and all the activities within a reporting unit are available to support the value of goodwill. Accounting standards require us to test goodwill for impairment annually or more often if circumstances or events indicate a change in the estimated fair value.



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The goodwill impairment analysis is a two-step process. The first step used to identify potential impairment involves comparing each reporting unit's estimated fair value to its carrying value, including goodwill. We use a discounted cash flow approach to estimate the fair value of our reporting units. Our judgment is required in developing the assumptions for the discounted cash flow model. These assumptions include revenue growth rates, profit margin percentages, discount rates, perpetuity growth rates, future capital expenditures and working capital requirements. If the estimated fair value of a reporting unit exceeds its carrying value, goodwill is considered to not be impaired. If the carrying value exceeds estimated fair value, there is an indication of potential impairment and the second step is performed to measure the amount of impairment.

The second step of the process involves the calculation of an implied fair value of goodwill for each reporting unit for which step one indicated impairment. The implied fair value of goodwill is determined similar to how goodwill is calculated in a business combination, by measuring the excess of the estimated fair value of the reporting unit as calculated in step one, over the estimated fair values of the individual assets, liabilities and identifiable intangibles as if the reporting unit was being acquired in a business combination. If the implied fair value of goodwill exceeds the carrying value of goodwill assigned to the reporting unit, there is no impairment. If the carrying value of goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded for the excess. An impairment loss cannot exceed the carrying value of goodwill assigned to a reporting unit, and the loss establishes a new basis in the goodwill. Subsequent reversal of goodwill impairment losses is not permitted.

In the fourth quarter of 2012, we conducted the required annual test of goodwill for impairment. We performed the goodwill impairment analysis on our reporting units by using a discount rate at the high end of our range. There were no indications of impairment in any of our reporting units. Of the goodwill balance of \$254.3 million as of December 1, 2012, \$147.3 million is allocated to the EIMEA reporting unit and \$58.7 million is allocated to the North America Adhesives reporting unit. In both of these reporting units, the calculated fair value substantially exceeded the carrying value of the net assets. The Construction Products reporting unit had a goodwill balance of \$13.3 million as of December 1, 2012. The calculated fair value of this reporting unit exceeded its carrying value by approximately 26 percent. The goodwill balance in the Latin America Adhesives reporting unit is \$7.5 million as of December 1, 2012 and the calculated fair value exceeded its carrying value by approximately 28 percent. The goodwill balance in the Asia Pacific reporting unit is \$27.5 million as of December 1, 2012. The calculated fair value exceeded its carrying value by approximately 68 percent. In all three of these reporting units, the calculated fair value exceeded the carrying value by a reasonable margin.

The Construction Products reporting unit continues to be the reporting unit with the least amount of excess fair value over carrying value. The residential construction market in the U.S. stabilized in 2011 and in 2012 our Construction Products reporting unit had net revenue growth of 9.3 percent over 2011, mainly due to increased sales volume. Projected cash flows used in the fair value calculation in the fourth quarter of 2012 were based on continued growth in 2013 of 8.1 percent. For years beyond 2013, net revenue projections assume continued growth in the mid-single digits through 2017 with a leveling off in the low-single digits for the remaining years. Operating income for the Construction Products reporting unit is projected to grow primarily due to revenue growing at a higher rate than selling, general and administrative (SG&A) expenses thereby providing better leverage in earnings in future years and manufacturing capacity efficiency improvements in 2014 and beyond. Although we believe the assumptions used to estimate the fair value of the Construction Products reporting unit are realistic, another slowdown or decline in the U.S. residential construction industry could have an adverse impact on Construction Products' future cash flows.

The Latin America Adhesives reporting unit had net revenue growth of 5.8 percent in 2012 compared to 2011. Projected cash flows used in the fair value calculation in the fourth quarter of 2012 were based on continued growth in 2013 of 7.1 percent. For years beyond 2013, net revenue projections assume continued growth in the low-single digits for the remaining years. Operating earnings for the Latin America Adhesives reporting unit are projected to grow primarily due to revenue growing at a higher rate than SG&A expenses.

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The Asia Pacific reporting unit had net revenue growth of 14.8 percent in 2012 compared to 2011. Projected cash flows used in the fair value calculation in the fourth quarter of 2012 were based on continued growth in 2013 of 13.9 percent. For years beyond 2013, net revenue projections assume continued growth in the low-double digits through 2016 with a leveling off in the mid-single digits for the remaining years. Operating earnings for the Asia Pacific reporting unit are projected to grow primarily due to revenue growing at a higher rate than SG&A expenses.

If the economy or business environment falter and we are unable to achieve our assumed revenue growth rates or profit margin percentages, our projections used would need to be remeasured, which could impact the carrying value of our goodwill in one or more of our reporting units. See Note 7 to the Consolidated Financial Statements.

**Recoverability of Long-Lived Assets:** The assessment of the recoverability of long-lived assets reflects our assumptions and estimates. Factors that we must estimate when performing impairment tests include sales volume, prices, inflation, currency exchange rates, tax rates and capital spending. Significant judgment is involved in estimating these factors, and they include inherent uncertainties. The measurement of the recoverability of these assets is dependent upon the accuracy of the assumptions used in making these estimates and how the estimates compare to the eventual future operating performance of the specific businesses to which the assets are attributed.

Judgments made by us include the expected useful lives of long-lived assets. The ability to realize undiscounted cash flows in excess of the carrying amounts of such assets is affected by factors such as the ongoing maintenance and improvement of the assets, changes in economic conditions and changes in operating performance.

In 2010 we exited our polysulfide-based insulating glass product line in Europe. In accordance with accounting standards, we determined that the carrying amount of this asset group was not recoverable and was therefore impaired. We calculated the fair value of the asset group using a discounted cash flow approach. As a result of this analysis, we recorded pre-tax asset impairment charges of \$8.8 million to write-down the value of amortizable intangible assets.

**Product, Environmental and Other Litigation Liabilities:** As disclosed in Item 3. and in Note 1 and Note 13 to the Consolidated Financial Statements, we are subject to various claims, lawsuits and other legal proceedings. Reserves for loss contingencies associated with these matters are established when it is determined that a liability is probable and the amount can be reasonably estimated. The assessment of the probable liabilities is based on the facts and circumstances known at the time that the financial statements are being prepared. For cases in which it is determined that a liability is probable but only a range for the potential loss exists, the minimum amount of the range is recorded and subsequently adjusted as better information becomes available.

For cases in which insurance coverage is available, the gross amount of the estimated liabilities is accrued, and a receivable is recorded for any probable estimated insurance recoveries. As of December 1, 2012, we have accrued \$0.5 million for potential liabilities and \$0.5 million for potential insurance recoveries related to asbestos litigation. We also have recorded \$1.9 million for environmental investigation and remediation liabilities, including \$0.5 million for environmental remediation and monitoring activities at our Sorocaba, Brazil facility as of December 1, 2012. A discussion of environmental, product and other litigation liabilities is disclosed in Item 3. and Note 13 to the Consolidated Financial Statements.

Based upon currently available facts, we do not believe that the ultimate resolution of any pending legal proceeding, individually or in the aggregate, will have a material adverse effect on our long-term financial condition. However, adverse developments and/or periodic settlements could negatively affect our results of operations or cash flows in one or more future quarters.

**Income Tax Accounting:** As part of the process of preparing the Consolidated Financial Statements, we are required to estimate income taxes in each of the jurisdictions in which we operate. The process involves



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estimating actual current tax expense along with assessing temporary differences resulting from differing treatment of items for book and tax purposes. These temporary differences result in deferred tax assets and liabilities, which are included in the Consolidated Balance Sheets. We record a valuation allowance to reduce our deferred tax assets to the amount that is more-likely-than-not to be realized. We have considered future taxable income and ongoing tax planning strategies in assessing the need for the valuation allowance. Increases in the valuation allowance result in additional expense to be reflected within the tax provision in the Consolidated Statements of Income. As of December 1, 2012, the valuation allowance to reduce deferred tax assets totaled \$12.3 million.

We recognize tax benefits for tax positions for which it is more-likely-than-not that the tax position will be sustained by the applicable tax authority at the largest amount of tax benefit that is greater than fifty percent likely of being realized upon ultimate settlement. We do not recognize a financial statement benefit for a tax position that does not meet the more-likely-than-not threshold. We believe that our liabilities for income taxes reflect the most likely outcome. It is difficult to predict the final outcome or the timing of the resolution of any particular tax position. Future changes in judgment related to the resolution of tax positions will impact earnings in the quarter of such change. We adjust our income tax liabilities related to tax positions in light of changing facts and circumstances. Settlement with respect to a tax position would usually require cash. Based upon our analysis of tax positions taken on prior year returns and expected tax positions to be taken for the current year tax returns, we have identified gross uncertain tax positions of \$4.9 million as of December 1, 2012.

We have not recorded U.S. deferred income taxes for certain of our non-U.S. subsidiaries undistributed earnings as such amounts are intended to be indefinitely reinvested outside of the U.S. Should we change our business strategies related to these non-U.S. subsidiaries, additional U.S. tax liabilities could be incurred. It is not practical to estimate the amount of these additional tax liabilities. See Note 9 to the Consolidated Financial Statements for further information on income tax accounting.

**Results of Operations****Net revenue:**

(\$ in millions)	2012	2011	2010	2012 vs 2011	2011 vs 2010
Net revenue	\$ 1,886.2	\$ 1,444.1	\$ 1,256.8	30.6%	14.9%

Net revenue in 2012 of \$1,886.2 million increased \$442.1 million or 30.6 percent from 2011 net revenue of \$1,444.1 million. Every five or six years we have a 53<sup>rd</sup> week in our fiscal year. 2011 was a 53-week year which contributed approximately 2.0 percent to net revenue in 2011, primarily related to volume. The 2011 net revenue was \$187.3 million or 14.9 percent higher than the net revenue of \$1,256.8 million in 2010. We review variances in net revenue in terms of changes related to product pricing, sales volume, changes in foreign currency exchange rates and acquisitions. The following table shows the net revenue variance analysis for the past two years:

	2012 vs 2011	2011 vs 2010
Product pricing	4.8%	9.8%
Sales volume	(0.6)%	1.3%
Currency	(2.9)%	2.9%
Acquisitions	29.3%	0.9%
	30.6%	14.9%

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Organic sales growth, which we define as the combined variances from product pricing and sales volume, increased 4.2 percent in 2012 as compared to 2011. The inclusion of a 53<sup>rd</sup> week in 2011 negatively impacted 2012 organic sales growth by approximately 2.0 percent. The 4.2 percent organic sales growth in 2012 was led by 9.3 percent growth in Construction Products, 5.4 percent growth in EIMEA, 4.1 percent growth in Latin America Adhesives and 3.8 percent growth in North America Adhesives. Substantially all of the negative

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currency impact was driven by the weakening of the Euro against the U.S. dollar. The acquired business increased net revenue by \$423.4 million.

Organic sales growth increased 11.1 percent (positive 9.8 percent from selling prices and 1.3 percent from sales volume) in 2011 as compared to 2010. The 2011 sales volume included approximately 2.0 percent in incremental net revenue related to the 53<sup>rd</sup> week. Four of our five operating segments had double digit organic sales growth in 2011 compared to 2010. The 11.1 percent organic sales growth was driven by 13.3 percent growth in Latin America Adhesives, 12.5 percent growth in Asia Pacific, 11.7 percent growth in EIMEA, 10.1 percent growth in Construction Products and 9.6 percent growth in North America Adhesives. The net revenue variance from acquisitions was mainly due to the Revertex Finewaters acquisition in the third quarter of 2010.

**Cost of sales:**

(\$ in millions)	2012	2011	2010	2012 vs 2011	2011 vs 2010
Raw materials	\$ 1,084.3	\$ 821.1	\$ 687.7	32.1%	19.4%
Other manufacturing costs	284.7	219.2	211.0	29.9%	3.9%
<b>Cost of sales</b>	<b>\$ 1,369.0</b>	<b>\$ 1,040.3</b>	<b>\$ 898.7</b>	<b>31.6%</b>	<b>15.8%</b>
Percent of net revenue	72.6%	72.0%	71.5%		

Cost of sales increased 31.6 percent in 2012 compared to 2011. The increase in raw materials is primarily attributed to the incremental volume of the acquired business combined with a slight increase in raw material costs. Raw material cost as a percentage of net revenue increased 60 basis points as the inclusion of the acquired business that generates lower margins relative to the legacy business more than offset the benefit of higher average sales prices on this ratio. Cost of sales as a percent of net revenue increased by 60 basis points in 2012.

The cost of sales increased 15.8 percent in 2011 compared to 2010. The increase was driven primarily by the increases in raw material cost due to supply shortages. Each of our five operating segments was impacted by the rising raw material costs. The shortages were driven by refineries reducing the supply of the by-products that are used as raw materials in the production of adhesives and increased demand in adjacent industries. The 2010 cost of sales included \$1.8 million of charges related to the exit of the window polysulfide-based product line in our EIMEA operating segment. Cost of sales as a percent of net revenue increased to 72.0 percent in 2011 compared to 71.5 percent in 2010.

**Gross profit:**

(\$ in millions)	2012	2011	2010	2012 vs 2011	2011 vs 2010
Gross profit	\$ 517.3	\$ 403.8	\$ 358.2	28.1%	12.7%
Percent of net revenue	27.4%	28.0%	28.5%		

Gross profit increased by \$113.5 million compared to 2011, however, gross profit margin decreased by 60 basis points. The inclusion of the acquired business which generates lower margins relative to the legacy business was the primary reason for both the increase in gross profit and the lower margin percentage.

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Our gross profit margin decreased to 28.0 percent in 2011 from 28.5 percent in 2010. The lower gross profit margin for 2011 as compared to 2010 was due to the increases in raw material costs which were not completely offset by our price increases implemented in 2011.

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

(\$ in millions)	2012	2011	2010	2012 vs 2011	2011 vs 2010
SG&A	\$ 354.7	\$ 286.9	\$ 263.6	23.7%	8.8%
Percent of net revenue	18.8%	19.9%	21.0%		

Our SG&A expenses increased \$67.8 million or 23.7 percent compared to 2011. This increase is primarily attributable to the addition of the acquired business. The lower relative cost structure of the acquired business and the increase in net revenue for the legacy business resulted in the 110 basis point decrease in SG&A expense as a percentage of net revenue.

SG&A expenses increased \$23.3 million in 2011 compared to 2010, but decreased as a percent of revenue to 19.9 percent in 2011 from 21.0 percent in 2010. The increased expense in 2011 was largely due to higher costs associated with adding resources to our sales and technical organizations, currency effects and a full year of the Revertex Finewaters business costs, which we acquired in 2010.

**Special Charges, net**

(\$ in millions)	2012	2011	2010
Special Charges, net	\$ 52.5	\$ 7.5	\$

The following table provides detail of special charges, net:

(\$ in millions)	2012	2011
Acquisition and transformation related costs:		
Professional services	\$ 24.7	\$ 4.4
Financing availability costs	4.3	
Foreign currency option contract	0.8	3.1
Gain on foreign currency forward contracts	(11.6)	
Other related costs	2.0	
Restructuring costs:		
Workforce reduction costs	28.1	
Facility exit costs	4.2	
Special charges, net	\$ 52.5	\$ 7.5

We completed the acquisition of the acquired business on March 5, 2012. The integration of this business involves a significant amount of restructuring and capital investment to optimize the new combined entity. In addition, in July of 2011 we announced our intentions to take a series of actions in our existing EIMEA operating segment to improve the profitability and future growth prospects of this operating segment. We have combined these two initiatives into a single project which we refer to as the Business Integration Project. During the years ended December 1, 2012 and December 3, 2011, we incurred special charges, net of \$52.5 million and \$7.5 million respectively, for costs related to the Business Integration Project.

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Acquisition and transformation related costs of \$24.7 million for the year ended December 1, 2012 include costs related to organization consulting, investment advisory, financial advisory, legal and valuation services necessary to acquire and integrate the acquired business into our existing operating segments. For the year ended December 1, 2012, we also incurred other costs related to the acquisition including an expense of \$4.3 million to make a bridge loan available if needed and an expense of \$0.8 million related to the purchase of a foreign currency option to hedge a portion of the acquisition purchase price. For the year ended December 3, 2011, we incurred acquisition and transformation related costs of \$4.4 million for investment advisory, financial advisory, legal and valuation services necessary to acquire the acquired business and an expense of \$3.1 million related to the purchase of a foreign currency option to hedge a portion of the acquisition purchase price.

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During the first quarter of 2012, we entered into forward currency contracts maturing on March 5, 2012 to purchase 370.0 million Swiss francs at a blended forward rate of 1.06245 USD/CHF. Our objective was to economically hedge the purchase price for the pending acquisition of the global industrial adhesives business of Forbo Group after the price was established. The currency contracts were not designated as hedges for accounting purposes. When the acquisition closed on March 5, 2012, the forward currency contracts were settled at a rate of 1.09385 USD/CHF. For the year ended December 1, 2012, the net gain on the forward currency contracts was \$11.6 million which partially offset other acquisition and transformation related costs.

For the year ended December 1, 2012, we incurred workforce reduction costs of \$28.1 million, facility exit costs of \$4.2 million and other costs of \$2.0 million related to the Business Integration Project.

The Business Integration Project is a broad-based transformation plan involving all major processes in three of our existing operating segments. The integration strategy and execution plan is unique for each operating segment reflecting the differences within the legacy operating segments as well as differences within the acquired business in each geographic region. In the North America Adhesives operating segment, the integration work is essentially a consolidation of two similar businesses. The customer facing portion of the two businesses (sales, marketing and technical) has been combined into a new, streamlined organization that is designed to be more efficient and more responsive to customer needs. The production capacity of the two organizations is being optimized mostly by transferring volume from the acquired business to existing facilities within the legacy North America Adhesives operating segment. Since capacity already exists within the receiving facilities, the capital investment required to transfer this production and the time required to affect these transfers will be minimized.

In the EIMEA operating segment, the Business Integration Project impacts more aspects of the business and is more complex. The two businesses being combined have similar inefficiencies and opportunities for improved productivity, generally due to excess complexity within the core processes of each of the businesses. Similar to the North America Adhesives project, the customer facing organizations have been optimized by combining the two organizations into one new, streamlined organization that is more efficient and more responsive to the unique customer groups we serve. In addition, the support and administrative functions of both businesses are in the process of being reorganized and in many cases relocated to create more efficient functions. The integration of the production assets will be more complicated in EIMEA because both the legacy business manufacturing network and the acquired business manufacturing network are inefficient and in need of upgrades. In this region the restructuring of the production footprint will be more extensive with several existing plants closed and new, enhanced production facilities constructed to provide greater operating efficiencies and a solid foundation for future growth. This portion of the project will require more capital investment, higher restructuring and severance costs and a longer time frame when compared to the North America Adhesives portion of the project.

In the Asia Pacific operating segment, the Business Integration Project is less complex because the acquired business in that region was relatively small. The focus of the integration work in this region is to build a solid foundation for growth in the commercial and technical areas and, over time, create a more efficient production network in China.

The benefits of the Business Integration Project are expected to be substantial. We have plans to create annual cash cost savings and other cash pre-tax profit improvement benefits aggregating to \$90.0 million when the various integration activities are completed in 2014. By 2015, the Business Integration Project activities are expected to improve the EBITDA margin of the global business from just under 11 percent in 2011 to a target level of 15 percent. The project incorporates many different work streams each of which has a specific timeline for completion and delivery of benefits. Some of the initiatives, such as raw material cost reductions, have delivered immediate benefits while other initiatives, such as facility closures, will take longer to implement and the related cost savings will be achieved later in the project. Taking the expected impact of all initiatives into account, the profit improvement benefits from the project and the resulting improvement in EBITDA margin should occur in generally equal increments over the eight quarters commencing in the third quarter of 2012 through the second quarter of 2014.





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The total costs, excluding capital expenditures, to achieve these benefits are expected to be approximately \$121.0 million of which \$60.0 million have been expensed since inception of the Business Integration Project in 2011. The remaining expected costs of approximately \$61.0 million will occur over the next several quarters through the end of 2014. The following table provides detail of costs incurred and future expected costs of the Business Integration Project:

(\$ in millions)	As of December 1, 2012		
	Costs Incurred Inception-to-Date	Expected Costs Remaining	Total Expected Costs
Acquisition and transformation related costs	\$ 25.7	\$ 9.3	\$ 35.0
Other related costs	2.0	8.0	10.0
Work force reduction costs	28.1	24.9	53.0
Cash facility exit costs	1.0	16.0	17.0
Non-cash facility exit costs	3.2	2.8	6.0
Business Integration Project	\$ 60.0	\$ 61.0	\$ 121.0

The remaining expected Business Integration Project costs of \$61.0 million will be incurred over several quarters as the measures are implemented, and will total approximately \$44.0 million in fiscal year 2013 and approximately \$17.0 million in fiscal year 2014. The costs associated with the acquisition integration and the cash costs of the restructuring are incremental cash outlays that will be funded with existing cash and cash generated from operations. Non-cash costs are primarily related to accelerated depreciation of long-lived assets.

The capital expenditures related to the Business Integration Project will be significant. Our initial estimates made at the time of the acquisition, were that annual capital expenditures would increase to approximately \$65.0 million for fiscal years 2012, 2013 and 2014, a significant increment above our normal spending rate of approximately \$50.0 million. In 2012 we spent less than \$40.0 million in capital expenditures. As the project has progressed and the scope of the various projects are more fully defined, we have changed our forecasts. Going forward, we expect capital expenditures to reach \$110.0 million in 2013 and the aggregate of spending in the years 2014 and 2015 is expected to be \$100.0 million. This updated capital spending forecast for all projects including the Business Integration Project is consistent with our original forecast, only modified to reflect better estimates of the timing of capital expenditures. This capital spending program will be funded from the operating cash flows of the business and if necessary, from available cash and short-term borrowing.

Going forward, we plan to report our progress on achieving our profit improvement initiatives each quarter. We will focus on three key metrics which capture the bulk of the Business Integration Project objectives: (1) cost savings achieved through workforce reductions, (2) cost reductions achieved through facility closures and consolidation, and (3) the EBITDA margin of the business relative to our expected trend over the timeframe of the project. In addition, the costs to achieve these benefits will be reported relative to the \$121.0 million total expected cost estimate in each reporting period.

For the year ended December 1, 2012, we achieved cost savings of \$5.1 million related to workforce reductions and \$1.6 million related to facility closures and consolidations. The above cost savings represent benefits from selected activities included in the Business Integration Project. EBITDA margin for the fourth quarter of 12.4 percent exceeded our plan.

The specific work streams of the Business Integration Project which have been approved by management and recorded in our results of operations are as follows:

In January 2012, we initiated a facility closure and transfer plan as part of our previously announced actions in our existing EIMEA operating segment, including the closure of facilities in Wels, Austria and Borgolavezzaro,

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Italy and the transfer of shared services functions to a single location in Mindelo, Portugal. We expected to incur total exit costs of approximately \$22.4 million related to these actions. In May 2012, we announced an additional plan for the integration of the acquired business in our EIMEA operating segment, including the closure of three additional production facilities located in Chatteris, United Kingdom; Pirmasens, Germany and Vigo, Spain. We expect to incur additional exit costs of approximately \$51.1 million related to these actions. The total exit costs of \$73.5 million for this portion of the Business Integration Project include expenditures of approximately \$49.0 million primarily for severance and employee related costs, approximately \$19.4 million for other associated cash costs primarily related to facility shut downs and non-cash charges of approximately \$5.1 million, primarily related to accelerated depreciation of long-lived assets. This portion of the Business Integration Project began in the first quarter and is expected to be completed by the end of fiscal year 2014.

In April 2012, we approved a plan for the integration of the acquired business in our North America Adhesives operating segment, including the closure of six production facilities located in Pointe-Claire, Quebec; Morris, Illinois; Kansas City, Kansas; Eugene, Oregon; Jackson, Tennessee and Dallas, Texas. We expect to incur exit costs of approximately \$12.7 million related to these actions. The exit costs for this portion of the Business Integration Project include expenditures of approximately \$5.0 million for severance and related employee costs and approximately \$7.7 million for other associated cash costs, primarily related to facility shutdowns. This portion of the Business Integration Project began in the second quarter and is expected to be completed by the end of fiscal year 2013.

In October of 2012, we approved a plan for the integration of the acquired business in our Asia Pacific operating segment, including the closure of two production facilities located in Shanghai and Guangzhou, China. Production from these facilities will be moved to other existing production facilities in the Shanghai and Guangzhou areas. We expect to incur exit costs of approximately \$3.0 million related to these actions. The exit costs for this portion of the Business Integration Project include expenditures of approximately \$0.9 million for severance and related employee costs, approximately \$0.8 million for other associated cash costs, primarily related to facility shutdowns and non-cash charges of approximately \$1.3 million primarily associated with accelerated depreciation of long-lived assets. This portion of the Business Integration Project began in the fourth quarter and is expected to be completed by the end of fiscal year 2014.

**Asset impairment charges:**

(\$ in millions)	2012	2011	2010
Asset impairment charges	\$ 1.5	\$ 0.3	\$ 8.8

In 2012, we recorded pre-tax asset impairment charges of \$1.5 million to write down the value of two of our cost basis investments to fair value.

During 2011, we discontinued production of the polymer used in certain resin products that had been produced in our EIMEA operating segment. In accordance with accounting standards, we determined that the carrying amount of the trademarks and trade names used in these resin products was impaired. We calculated the fair value using a discounted cash flow approach. As a result of this analysis, we recorded pre-tax asset impairment charges of \$0.3 million related to the impairment of trademarks and trade names used in the abandoned resin products.

In 2010 we exited our polysulfide-based insulating glass product line in Europe. In accordance with accounting standards, we determined that the carrying amount of this asset group was not recoverable and was therefore impaired. We calculated the fair value of the asset group using a discounted cash flow approach. As a result of this analysis, we recorded pre-tax asset impairment charges of \$8.8 million to write-down the value of intangible assets.



**Table of Contents****Other income (expense), net:**

(\$ in millions)	2012	2011	2010
Other income (expense), net	\$ 0.8	\$ 4.1	\$ 1.2

Interest income was \$1.7 million in 2012 compared to \$2.3 million in 2011 and \$0.9 million in 2010. Lower interest rates in EIMEA and a change in mix from cash held in countries with higher interest rates to countries with lower interest rates both contributed to the decreased interest income in 2012 as compared to 2011. Higher interest rates in EIMEA and slightly higher average cash balances both contributed to the increased interest income in 2011 as compared to 2010. Currency transaction and remeasurement losses were \$1.2 million, \$1.5 million and \$0.1 million in 2012, 2011 and 2010, respectively. Gains on disposal of fixed assets were \$0.6 million, \$1.7 million and \$0.6 million in 2012, 2011 and 2010, respectively.

**Interest expense:**

(\$ in millions)	2012	2011	2010	2012 vs 2011	2011 vs 2010
Interest expense	\$ 19.8	\$ 10.8	\$ 10.4	83.1%	3.8%

Interest expense was \$19.8 million in 2012 compared to \$10.8 million in 2011. The higher interest expense in 2012 was due to increased debt obtained to purchase the acquired business on March 5, 2012. Interest expense was slightly higher in 2011 compared to 2010 due to higher interest rates partially offset by lower average debt levels.

**Income taxes:**

(\$ in millions)	2012	2011	2010
Income taxes	\$ 30.5	\$ 31.2	\$ 20.3
Effective tax rate	34.0%	30.5%	26.5%

Income tax expense in 2012 of \$30.5 million included \$2.0 million of discrete tax expense in both the U.S. and foreign jurisdictions. Excluding discrete items, the overall effective tax rate increased by 3.1 percentage points in 2012 as compared to the 2011. The increase in the tax rate is principally due to a change in the geographic mix of pre-tax earnings and reduced tax benefit for special charges, net.

Income tax expense in 2011 of \$31.2 million included \$2.0 million of discrete tax expense in both the U.S. and foreign jurisdictions. Excluding discrete items, the overall effective tax rate increased by 4.9 percentage points in 2011 as compared to the 2010 rate without discrete tax benefits and charges associated with the polysulfide-based insulating glass product line exit. The increase in the tax rate is principally due to a change in the geographic mix of pre-tax earnings and the impact of foreign tax credits in the U.S. as compared to 2010.

**Income from equity method investments:**

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(\$ in millions)	2012	2011	2010	2012 vs 2011	2011 vs 2010
Income from equity method investments	\$ 9.2	\$ 9.0	\$ 8.0	2.4%	12.5%

The income from equity method investments relates to our 50 percent ownership of the Sekisui-Fuller joint venture in Japan. The results reflect the higher net income recorded by the joint venture in 2012 compared to 2011 and 2010.

### Income from discontinued operations, net of tax:

(\$ in millions)	2012	2011	2010
Income from discontinued operations, net of tax	\$ 57.6	\$ 8.8	\$ 6.1

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The income from discontinued operations, net of tax, relates to the results of operations and the gain on the sale of the Central America Paints business, which we sold August 6, 2012. The \$57.6 million in 2012 includes the after-tax gain on the sale of our Central America Paints business of \$51.1 million.

**Net (income) loss attributable to non-controlling interests:**

(\$ in millions)	2012	2011	2010
Net (income) loss attributable to non-controlling interests	\$ (0.2)	\$ 0.1	\$ 0.5

At the end of 2011, we repurchased the 20 percent holding that Sekisui Chemical had in our China entities. For 2012 net (income) loss attributable to non-controlling interests relates to the 10 percent redeemable non-controlling interest in HBF Turkey. For 2011 net (income) loss attributable to non-controlling interests related to the 20 percent holding that Sekisui Chemical had in our China entities and the 10 percent redeemable non-controlling interest in HBF Turkey. For 2010 it relates to the 20 percent holding that Sekisui Chemical had in our China entities.

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

(\$ in millions)	2012	2011	2010	2012 vs 2011	2011 vs 2010
Net income attributable to H.B. Fuller	\$ 125.6	\$ 89.1	\$ 70.9	41.0%	25.7%
Percent of net revenue	6.7%	6.2%	5.6%		

Net income attributable to H.B. Fuller was \$125.6 million in 2012 compared to \$89.1 million in 2011 and \$70.9 million in 2010. Fiscal year 2012 included \$52.5 million of special charges, net (35.4 million after-tax and a negative \$0.70 effect on diluted earnings per share) for costs related to the Business Integration Project compared to \$7.5 million (\$5.8 million after-tax) in 2011. 2012 included \$57.6 million of income from discontinued operations, net of tax, inclusive of an after-tax gain on the sale of discontinued operations of \$51.1 million. Diluted earnings per share, from continuing operations, was \$1.34 per share for 2012, \$1.61 per share for 2011 and \$1.31 per share for 2010.

The \$89.1 million reported for 2011 included after-tax special charges, net of \$5.8 million (\$0.11 per diluted share). The 2010 net income attributable to H.B. Fuller included \$8.4 million (\$0.17 per diluted share) of after-tax charges related to exiting the polysulfide insulating glass product line in Europe.

**Operating Segment Results**

We are required to report segment information in the same way that management internally organizes its business for assessing performance and making decisions regarding allocation of resources. For segment evaluation by the chief operating decision maker, segment operating income is defined as gross profit less SG&A expenses. Segment operating income excludes special charges, net and asset impairment charges. Inter-segment revenues are recorded at cost plus a markup for administrative costs. Corporate expenses are fully allocated to each operating segment. Our operations are managed through five reportable segments: North America Adhesives, Construction Products, EIMEA, Latin America Adhesives and Asia Pacific. Prior periods have been restated for the removal of the Latin America Paints operating segment which is now considered discontinued operations. Corporate expenses, which are fully allocated to each operating segment, have been reallocated to the remaining reportable operating segments.





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

**Net Revenue by Segment:**

(\$ in millions)	2012		2011		2010	
	Net Revenue	% of Total	Net Revenue	% of Total	Net Revenue	% of Total
North America Adhesives	\$ 683.0	36%	\$			