FULLER H B CO
Form 10-Q
March 31, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended February 27, 2010

OR

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

For the transition period from to

Commission file number: 001-09225

H.B. FULLER COMPANY

(Exact name of registrant as specified in its charter)

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

(651) 236-5900

(Registrant s telephone number, including area code)

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

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

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

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

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

The number of shares outstanding of the Registrant s Common Stock, par value $1.00 per share, was 48,930,634 as of March 18, 2010.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

H.B. FULLER COMPANY AND SUBSIDIARIES

Consolidated Statements of Income

(In thousands, except per share amounts)

(Unaudited)

	13 Weeks Ended February 27, 2010	13 Weeks Ended February 28, 2009
Net revenue	**$ 309,442**	$ 278,563
Cost of sales	**(211,763)**	(203,564)
Gross profit	**97,679**	74,999
Selling, general and administrative expenses	**(71,448)**	(62,606)
Goodwill impairment charges		(790)
Other income (expense), net	**(63)**	(1,052)
Interest expense	**(1,948)**	(2,398)
Income before income taxes and income from equity investments	**24,220**	8,153
Income taxes	**(7,059)**	(3,008)
Income from equity investments	**1,815**	961
Net income including non-controlling interests	**18,976**	6,106
Net (income) loss attributable to non-controlling interests	**(24)**	10
Net income attributable to H.B. Fuller	**$ 18,952**	$ 6,116
Earnings per share attributable to H.B. Fuller common shareholders:		
Basic	**$ 0.39**	$ 0.13
Diluted	**$ 0.38**	$ 0.13
Weighted-average common shares outstanding:		
Basic	**48,491**	48,288
Diluted	**49,494**	48,924
Dividends declared per common share	**$ 0.0680**	$ 0.0660

See accompanying notes to consolidated financial statements.

H.B. FULLER COMPANY AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands, except share and per share amounts)

(Unaudited)

	February 27, 2010	November 28, 2009
Assets		
Current assets:		
Cash and cash equivalents	**$ 148,974**	$ 100,154
Trade receivables (net of allowances - $6,497 and $7,119, for February 27, 2010 and November 28, 2009, respectively)	**185,511**	203,898
Inventories	**132,781**	116,907
Other current assets	**55,166**	52,697
Total current assets	**522,432**	473,656
Property, plant and equipment	**803,720**	815,521
Accumulated depreciation	**(555,440)**	(562,221)
Property, plant and equipment, net	**248,280**	253,300
Other assets	**128,248**	128,558
Goodwill	**96,773**	103,731
Other intangibles, net	**136,819**	141,200
Total assets	**$ 1,132,552**	$ 1,100,445
Liabilities and equity		
Current liabilities:		
Notes payable	**$ 12,633**	$ 8,690
Current installments of long-term debt	**52,250**	42,625
Trade payables	**104,634**	109,165
Accrued compensation	**30,860**	43,840
Other accrued expenses	**24,202**	25,427
Income taxes payable	**11,781**	6,261
Total current liabilities	**236,360**	236,008
Long-term debt, excluding current installments	**214,277**	162,713
Accrued pension liabilities	**44,115**	50,684
Other liabilities	**51,246**	56,798
Total liabilities	**545,998**	506,203
Commitments and contingencies		
Equity:		
H.B. Fuller shareholders equity:		
Preferred stock (no shares outstanding) Shares authorized 10,045,900		

Common stock, par value $1.00 per share, Shares authorized 160,000,000, Shares outstanding 48,913,561 and 48,657,618, for February 27, 2010 and November 28, 2009, respectively	**48,914**	48,658
Additional paid-in capital	**15,001**	12,309
Retained earnings	**605,106**	589,451
Accumulated other comprehensive loss	**(85,389)**	(59,064)
Total H.B. Fuller shareholders equity	**583,632**	591,354
Non-controlling interests	**2,922**	2,888
Total equity	**586,554**	594,242
Total liabilities and equity	**$ 1,132,552**	$ 1,100,445

See accompanying notes to consolidated financial statements.

H.B.FULLER COMPANY AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	13 Weeks Ended	
	February 27, 2010	**February 28, 2009**
Cash flows from operating activities:		
Net income including non-controlling interests	**$ 18,976**	$ 6,106
Adjustments to reconcile net income including non-controlling interests to net cash provided by operating activities:		
Depreciation	**7,440**	8,260
Amortization	**3,011**	2,944
Deferred income taxes	**387**	(341)
Share-based compensation	**1,929**	1,428
(Excess tax benefit) tax deficiency from share-based compensation	**(44)**	21
Change in assets and liabilities, net of effects of acquisitions:		
Trade receivables, net	**13,395**	21,611
Inventories	**(18,934)**	3,433
Other assets	**(2,196)**	2,110
Goodwill impairment charges		790
Trade payables	**(2,014)**	(37,697)
Accrued compensation	**(11,867)**	(1,687)
Other accrued expenses	**(710)**	(2,800)
Income taxes payable	**5,857**	(2,544)
Accrued / prepaid pensions	**(4,761)**	(740)
Other liabilities	**(4,560)**	(2,476)
Other	**(4,797)**	3,766
Net cash provided by operating activities	**1,112**	2,184
Cash flows from investing activities:		
Purchased property, plant and equipment	**(9,395)**	(4,870)
Proceeds from sale of property, plant and equipment	**169**	61
Net cash used in investing activities	**(9,226)**	(4,809)
Cash flows from financing activities:		
Proceeds from long-term debt	**273,000**	90,000
Repayment of long-term debt	**(211,000)**	(92,000)
Net proceeds from notes payable	**3,923**	3,701
Dividends paid	**(3,326)**	(3,206)
Proceeds from stock options exercised	**1,210**	
Excess tax benefit (tax deficiency) from share-based compensation	**44**	(21)
Repurchases of common stock	**(376)**	(332)
Net cash provided by (used in) financing activities	**63,475**	(1,858)
Effect of exchange rate changes	**(6,541)**	(5,594)
Net change in cash and cash equivalents	**48,820**	(10,077)
Cash and cash equivalents at beginning of period	**100,154**	80,370
Cash and cash equivalents at end of period	**$ 148,974**	$ 70,293

Supplemental disclosure of cash flow information:				
Dividends paid with company stock	**$**	**15**	$	29
Cash paid for interest	**$**	**2,296**	$	3,559
Cash paid for income taxes	**$**	**3,355**	$	4,211

See accompanying notes to consolidated financial statements.

H.B. FULLER COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

(Unaudited)

Note 1: Accounting Policies

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information necessary for a fair presentation of results of operations, financial position, and cash flows in conformity with U.S. generally accepted accounting principles. In our opinion, the unaudited interim consolidated financial statements reflect all adjustments of a normal recurring nature considered necessary for the fair presentation of the results for the periods presented. Operating results for interim periods are not necessarily indicative of results that may be expected for the fiscal year as a whole. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosures at the date of the financial statements and during the reporting period. Actual results could differ from these estimates. These unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K/A for the year ended November 28, 2009 as filed with the Securities and Exchange Commission.

Recently Adopted Accounting Pronouncements:

In December 2007, the Financial Accounting Standards Board (FASB) issued and, in April 2009, amended a new business combinations standard which establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired. The standard also establishes disclosure requirements that will enable users to evaluate the nature and financial effects of the business combination. The intent of the amendment is to address application issues on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. This standard became effective for us on November 29, 2009, the beginning of our fiscal year 2010. With the adoption of this standard, as amended, our accounting for future business combinations will change on a prospective basis to business combinations completed on or after November 29, 2009.

In December 2007, the FASB issued a new standard which established the accounting for and reporting of non-controlling interests in partially owned consolidated subsidiaries and the loss of control of subsidiaries. This standard requires that non-controlling interests (previously referred to as minority interests) be included in the consolidated balance sheets within equity separate from the parent s equity; consolidated net income be reported at amounts inclusive of both the parent s and the non-controlling interests shares, with disclosure on the face of the consolidated statements of earnings of the amounts attributable to the parent and to the non-controlling interests; changes in a parent s ownership be treated as an equity transaction; and if a subsidiary is deconsolidated, any retained non-controlling interests in the former subsidiary be measured at fair value with gain or loss recognized in net earnings. These provisions are to be applied prospectively, except for the presentation and disclosure requirements, which are to be applied retrospectively to all periods presented. This standard became effective for us on November 29, 2009, the beginning of our fiscal year 2010. Other than the change in presentation of non-controlling interests, this adoption did not have a material impact on our Consolidated Financial Statements.

In April 2008, the FASB issued an accounting standard which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The objective is to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset under the accounting standards. This standard applies to all intangible assets, whether acquired in a business combination or otherwise. The standard became effective for us on November 29, 2009, the beginning of our fiscal year 2010 and will be applied prospectively to intangible assets acquired after November 29, 2009.

H.B. FULLER COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(Unaudited)

New Accounting Pronouncements:

In December 2008, the FASB issued an accounting standard regarding a company s disclosures about postretirement benefit plan assets. This standard provides guidance on disclosures about plan assets of a defined benefit pension or other postretirement plan. These new disclosures will provide users of the financial statements with an understanding of how investment allocation decisions are made, the major categories of plan assets, input and valuation techniques used to measure the fair value of plan assets, the effects of fair value measurements and the significant concentrations of risk in regard to the plan assets. The requirement for the new disclosures is effective for financial statements issued for fiscal years ending after December 15, 2009 which for us will be our 2010 fiscal year ending November 27, 2010.

In October 2009, the FASB updated the revenue recognition accounting guidance relating to the accounting for revenue arrangements involving multiple deliverables. These updates require companies to allocate revenue in arrangements involving multiple deliverables based on the estimated selling price of each deliverable, even though such deliverables are not sold separately either by the company itself or other vendors. This guidance eliminates the requirement that all undelivered elements must have objective and reliable evidence of fair value before a company can recognize the portion of the overall arrangement fee that is attributable to items that already have been delivered. As a result, the new guidance may allow some companies to recognize revenue on transactions that involve multiple deliverables earlier than under current requirements. The updates are effective for revenue arrangements that begin or are changed in fiscal years that start June 15, 2010 or later which will be our fiscal year 2011.

In January 2010, the FASB updated the disclosure requirements for fair value measurements. The updated guidance requires companies to disclose separately the investments that transfer in and out of Levels 1 and 2 and the reasons for those transfers. Additionally, in the reconciliation for fair value measurements using significant unobservable inputs (Level 3), companies should present separately information about purchases, sales, issuances and settlements. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2009, which for us will be February 28, 2010, the beginning of our second quarter in fiscal 2010. However, the disclosures about purchases, sales, issuances and settlements in the Level 3 reconciliation are effective for fiscal years beginning after December 15, 2010, our fiscal 2012.

Note 2: Acquisitions

Nordic Adhesive Technology: On April 20, 2009 we acquired the outstanding shares of Nordic Adhesive Technology GmbH., a developer and manufacturer of flexible packaging adhesives, based in Buxtehude, Germany. The acquisition complements our existing product line, enhances our applications knowledge and will enable us to expand our presence in the flexible packaging segment of the adhesives industry. The acquisition was a stock purchase and therefore encompasses all Nordic business operations. Intangible assets identified were customer lists, technology, trademarks and non-competition agreements.

The final purchase price of $4,175, which was net of cash acquired of $370, was funded through existing cash. We also incurred $295 of direct external costs for legal and due diligence expenses. The shareholders of Nordic Adhesive are entitled to an earn-out of up to 2,600 over the next three years, based on certain financial performance criteria. Any amount paid under the earn-out would be considered additional purchase price. Based on final valuations, we recorded $2,277 to current assets, $98 to property, plant and equipment, $2,767 to intangibles, $2,717 to goodwill, $2,483 to current liabilities and $831 to long term liabilities. The acquisition was recorded in our EIMEA (Europe, India, Middle East and Africa) operating segment.

Note 3: Accounting for Share-Based Compensation

Overview: We have various share-based compensation programs, which provide for equity awards including stock options, restricted stock and deferred compensation. These equity awards fall under several plans and are described in detail in our Annual Report filed on Form 10-K/A as of November 28, 2009.

Grant-Date Fair Value: We use the Black-Scholes option-pricing model to calculate the grant-date fair value of an award. The fair value of options granted during the 13 weeks ended February 27, 2010 and February 28, 2009 were calculated using the following assumptions: