

FULLER H B CO
Form 10-Q
June 30, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended May 29, 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)

Edgar Filing: FULLER H B CO - Form 10-Q

Minnesota (State or other jurisdiction of incorporation or organization)	41-0268370 (I.R.S. Employer Identification No.)
1200 Willow Lake Boulevard, St. Paul, Minnesota (Address of principal executive offices)	55110-5101 (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 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 <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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

The number of shares outstanding of the Registrant's Common Stock, par value \$1.00 per share, was 48,965,000 as of June 17, 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		26 Weeks Ended	
	May 29, 2010	May 30, 2009	May 29, 2010	May 30, 2009
Net revenue	\$ 347,908	\$ 299,193	\$ 657,350	\$ 577,757
Cost of sales	(246,800)	(209,785)	(458,563)	(413,350)
Gross profit	101,108	89,408	198,787	164,407
Selling, general and administrative expenses	(75,292)	(61,516)	(146,740)	(124,122)
Asset impairment charges	(8,785)		(8,785)	(790)
Other income (expense), net	1,340	(1,293)	1,277	(2,345)
Interest expense	(3,043)	(2,188)	(4,991)	(4,586)
Income before income taxes and income from equity investments	15,328	24,411	39,548	32,564
Income taxes	(6,022)	(8,054)	(13,081)	(11,062)
Income from equity investments	1,717	1,106	3,532	2,067
Net income including non-controlling interests	11,023	17,463	29,999	23,569
Net (income) loss attributable to non-controlling interests	(12)	95	(36)	105
Net income attributable to H.B. Fuller	\$ 11,011	\$ 17,558	\$ 29,963	\$ 23,674
Earnings per share attributable to H.B. Fuller common stockholders:				
Basic	\$ 0.23	\$ 0.36	\$ 0.62	\$ 0.49
Diluted	\$ 0.22	\$ 0.36	\$ 0.60	\$ 0.48
Weighted-average common shares outstanding:				
Basic	48,572	48,305	48,531	48,297
Diluted	49,613	48,927	49,554	48,926
Dividends declared per common share	\$ 0.0700	\$ 0.0680	\$ 0.1380	\$ 0.1340

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)

	May 29, 2010	November 28, 2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 161,088	\$ 100,154
Trade receivables (net of allowances - \$5,841 and \$7,119, for May 29, 2010 and November 28, 2009, respectively)	203,920	203,898
Inventories	129,979	116,907
Other current assets	50,427	52,697
Total current assets	545,414	473,656
Property, plant and equipment	777,262	815,521
Accumulated depreciation	(538,679)	(562,221)
Property, plant and equipment, net	238,583	253,300
Other assets	133,212	128,558
Goodwill	90,387	103,731
Other intangibles, net	124,346	141,200
Total assets	\$ 1,131,942	\$ 1,100,445
Liabilities and equity		
Current liabilities:		
Notes payable	\$ 13,405	\$ 8,690
Current installments of long-term debt	41,875	42,625
Trade payables	117,486	109,165
Accrued compensation	34,450	43,840
Other accrued expenses	25,729	25,427
Income taxes payable	3,038	6,261
Total current liabilities	235,983	236,008
Long-term debt, excluding current installments	237,116	162,713
Accrued pension liabilities	42,198	50,684
Other liabilities	48,944	56,798
Total liabilities	564,241	506,203
Commitments and contingencies		
Equity:		
H.B. Fuller stockholders' equity:		
Preferred stock (no shares outstanding) Shares authorized	10,045,900	

Edgar Filing: FULLER H B CO - Form 10-Q

Common stock, par value \$1.00 per share, Shares authorized 160,000,000, Shares outstanding 48,965,816 and 48,657,618, for May 29, 2010 and November 28, 2009, respectively	48,966	48,658
Additional paid-in capital	17,396	12,309
Retained earnings	612,614	589,451
Accumulated other comprehensive loss	(114,209)	(59,064)
 Total H.B. Fuller stockholders' equity	 564,767	 591,354
 Non-controlling interests	 2,934	 2,888
 Total equity	 567,701	 594,242
 Total liabilities and equity	 \$ 1,131,942	 \$ 1,100,445

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**H.B. Fuller Company and Subsidiaries**

(In thousands)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non- Controlling Interests	Total
Balance at November 29, 2008	\$ 48,448	\$ 5,280	\$ 518,937	\$ (37,054)	\$ 2,843	\$ 538,454
Net income including non-controlling interests			83,654		32	83,686
Foreign currency translation				66,758	13	66,771
Defined benefit pension plans adjustment, net of tax of \$49,605				(88,629)		(88,629)
Interest rate swap, net of tax				(139)		(139)
Comprehensive income						61,689
Effect of eliminating early measurement date for pension plans, net of tax of \$116			29			29
Dividends			(13,169)			(13,169)
Stock option exercises	59	777				836
Share-based compensation plans other, net	176	6,388				6,564
Tax benefit on share-based compensation plans		201				201
Repurchases of common stock	(25)	(337)				(362)
Balance at November 28, 2009	48,658	12,309	589,451	(59,064)	2,888	594,242
Net income including non-controlling interests			29,963		36	29,999
Foreign currency translation				(57,398)	10	(57,388)
Defined benefit pension plans adjustment, net of tax of \$1,147				2,242		2,242
Interest rate swaps, net of tax				11		11
Comprehensive income						(25,136)
Dividends			(6,800)			(6,800)
Stock option exercises	136	1,724				1,860
Share-based compensation plans other, net	190	3,628				3,818
Tax benefit on share-based compensation plans		94				94
Repurchases of common stock	(18)	(359)				(377)
Balance at May 29, 2010	\$ 48,966	\$ 17,396	\$ 612,614	\$ (114,209)	\$ 2,934	\$ 567,701

See accompanying notes to consolidated financial statements.

H.B. FULLER COMPANY AND SUBSIDIARIES**Consolidated Statements of Cash Flows**

(In thousands)

(Unaudited)

	26 Weeks Ended	
	May 29, 2010	May 30, 2009
Cash flows from operating activities:		
Net income including non-controlling interests	\$ 29,999	\$ 23,569
Adjustments to reconcile net income including non-controlling interests to net cash provided by operating activities:		
Depreciation	14,810	16,250
Amortization	5,824	5,926
Deferred income taxes	(3,347)	(350)
Share-based compensation	3,562	2,525
Excess tax benefit from share-based compensation	(94)	(26)
Asset impairment charges	8,785	790
Change in assets and liabilities, net of effects of acquisitions:		
Trade receivables, net	(11,781)	27,708
Inventories	(19,860)	32,153
Other assets	(947)	2,747
Trade payables	14,013	(51,841)
Accrued compensation	(7,022)	1,796
Other accrued expenses	1,469	(4,153)
Income taxes payable	(2,579)	(8,038)
Accrued / prepaid pensions	(5,293)	(1,706)
Other liabilities	(5,194)	(2,394)
Other	(6,093)	13,150
Net cash provided by operating activities	16,252	58,106
Cash flows from investing activities:		
Purchased property, plant and equipment	(15,405)	(10,274)
Purchased businesses, net of cash acquired		(4,216)
Proceeds from sale of property, plant and equipment	2,953	141
Net cash used in investing activities	(12,452)	(14,349)
Cash flows from financing activities:		
Proceeds from long-term debt	312,000	177,000
Repayment of long-term debt	(240,000)	(187,000)
Net proceeds from notes payable	4,696	2,515
Dividends paid	(6,753)	(6,510)
Proceeds from stock options exercised	1,860	80
Excess tax benefit from share-based compensation	94	26
Repurchases of common stock	(377)	(358)
Net cash provided by (used in) financing activities	71,520	(14,247)
Effect of exchange rate changes	(14,386)	6,224
Net change in cash and cash equivalents	60,934	35,734
Cash and cash equivalents at beginning of period	100,154	80,370

Edgar Filing: FULLER H B CO - Form 10-Q

Cash and cash equivalents at end of period	\$ 161,088	\$ 116,104
Supplemental disclosure of cash flow information:		
Dividends paid with company stock	\$ 47	\$ 55
Cash paid for interest	\$ 4,686	\$ 4,928
Cash paid for income taxes	\$ 17,631	\$ 8,834
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 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.

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 was February 28, 2010, the beginning of our second quarter in fiscal 2010. The adoption did not have material impact on our Consolidated Financial Statements. 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.

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.

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 enables 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 original 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 acquisition was recorded in our EIMEA (Europe, India, Middle East and Africa) operating segment.

The shareholders of Nordic Adhesive are entitled to an earn-out of up to 2,600, over the first three years, based on certain financial performance criteria. The first earn-out was based on financial performance for a period from April 2009 to April 2010. According to the terms of the agreement, the first earn-out period resulted in the shareholders earning 624 or approximately \$766. This amount was recorded in the second quarter of 2010 and is considered additional purchase price, which increased goodwill. There are two remaining earn-out periods that could result in additional payments of up to 1,976 which would also be considered additional purchase price. No amounts have been accrued for the remaining two earn-out periods as the contingency has not been resolved and additional consideration is not distributable as of the end of the second quarter of 2010.

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 and 26 weeks ended May 29, 2010 and the 26 weeks ended May 30, 2009 were calculated using the following assumptions:

	13 Weeks Ended ¹	26 Weeks Ended	
	May 29, 2010	May 29, 2010	May 30, 2009
Expected life (in years)	5	5	5
Weighted-average expected volatility	51.10%	50.81%	44.79%
Expected volatility	51.10%	50.80% - 51.10%	44.73% - 45.80%
Risk-free interest rate	2.61%	2.15%	1.51%
Expected dividend yield	1.17%	1.35%	1.87%
Weighted-average fair value of grants	\$10.10	\$8.52	\$4.86

¹ There were no options granted for the 13 week period ended May 30, 2009

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

Expected volatility Volatility is calculated using our historical volatility for the same period of time as the expected life. We have no reason to believe that our future volatility will differ from the past.

Risk-free interest rate The rate is based on the U.S. Treasury yield curve in effect at the time of the grant for the same period of time as the expected life.

Expected dividend yield The calculation is based on the total expected annual dividend payout divided by the average stock price.

Expense Recognition: We use the straight-line attribution method to recognize expense for option awards with graded vesting and restricted stock awards with graded and cliff vesting.

The amount of share-based compensation recognized during a period is based on the value of the portion of the awards that are ultimately expected to vest. We currently expect, based on an analysis of our historical forfeitures and known forfeitures on existing awards, that approximately 82 percent and 84 percent of our unvested outstanding options and restricted stock awards will vest, respectively.

Total share-based compensation expense of \$1,633 and \$1,098 was included in our Consolidated Statements of Income for the 13 weeks ended May 29, 2010 and May 30, 2009, respectively. Included in these amounts were \$929 and \$641 of stock option expense, respectively. Total share-based compensation expense of \$3,562 and \$2,525 was included in our Consolidated Statements of Income for the 26 weeks ended May 29, 2010 and May 30, 2009, respectively. Included in these amounts were \$2,232 and \$1,540 of stock option expense, respectively. No share-based compensation was capitalized. All share-based compensation was recorded as selling, general and administrative expense. For the 13 weeks and 26 weeks ended May 29, 2010 there was \$50 and \$94, respectively, of excess tax benefit recognized. For the 13 weeks and 26 weeks ended May 30, 2009, there was \$47 and \$26, respectively, of excess tax benefit recognized.

As of May 29, 2010, there was \$7,040 of unrecognized compensation costs related to unvested stock option awards, which is expected to be recognized over a weighted-average period of 2.4 years. Unrecognized compensation costs related to unvested restricted stock awards was \$4,218, which is expected to be recognized over a weighted-average period of 2.1 years.

Share-based Activity

A summary of option activity as of May 29, 2010 and changes during the 26 weeks then ended is presented below:

	Options	Weighted-Average Exercise Price
--	---------	---------------------------------

Edgar Filing: FULLER H B CO - Form 10-Q

Outstanding at November 28, 2009	2,743,223	\$	15.68
Granted	570,264		20.65
Exercised	(136,431)		13.63
Forfeited or Cancelled	(155,988)		20.26
Outstanding at May 29, 2010	3,021,068	\$	17.59

The fair value of options granted during the 13 weeks ended May 29, 2010 was \$141. No options were granted during the 13 weeks ended May 30, 2009. Total intrinsic value of options exercised during the 13 weeks ended May 29, 2010 and May 30, 2009 were \$402 and \$18, respectively. Intrinsic value is the difference between our closing stock price on the respective trading day and the exercise price, multiplied by the number of options exercised. The fair value of options granted during the 26 weeks ended May 29, 2010 and May 30, 2009 were \$4,861 and \$4,241, respectively. Total intrinsic value of options exercised during the 26 weeks ended May 29, 2010 and May 30, 2009 were \$1,176 and \$18, respectively. Proceeds received from option exercises during the 13 weeks ended May 29, 2010 and May 30, 2009 were \$651 and \$80, respectively and \$1,860 and \$80 during the 26 weeks ended May 29, 2010 and May 30, 2009, respectively.

The following table summarizes information concerning outstanding and exercisable options as of May 29, 2010:

Range of Exercises Prices	Options Outstanding				Options Exercisable			
	Options	Life ¹	Price ²	Value ³	Options	Life ¹	Price ²	Value ³
\$5.01-\$10.00	217,225	0.5	\$ 9.31	\$ 2,610	217,225	0.5	\$ 9.31	\$ 2,610
\$10.01-\$15.00	1,301,048	6.3	13.91	9,660	707,539	4.5	13.77	5,346
\$15.01-\$20.00	389,695	6.5	17.29	1,574	282,567	5.5	16.34	1,411
\$20.01-\$25.00	581,389	9.5	20.66	423	11,985	7.9	20.93	5
\$25.01-\$30.00	531,711	7.1	26.85		325,939	7.0	26.83	
	3,021,068	6.7	\$ 17.59	\$ 14,267	1,545,255	4.7	\$ 16.43	\$ 9,372

¹ Represents the weighted-average remaining contractual life in years.

² Represents the weighted-average exercise price.

³ Represents the aggregate intrinsic value, in thousands, based on our closing stock price on the last trading day of the quarter for in-the-money options.

A summary of nonvested restricted stock activity as of May 29, 2010, and changes during the 26 weeks then ended is presented below:

	Units	Shares	Total	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Contractual Life (in Years)
Nonvested at November 28, 2009	83,266	273,104	356,370	\$ 19.32	1.7
Granted	71,770	154,457	226,227	21.07	2.8
Vested	(13,327)	(52,059)	(65,386)	26.79	
Forfeited	(23,867)	(6,680)	(30,547)	18.77	1.7
Nonvested at May 29, 2010	117,842	368,822	486,664	\$ 19.16	2.1

Total fair value of restricted stock vested during the 13 weeks ended May 30, 2009 was \$79. No restricted stock vested during the 13 weeks ended May 29, 2010. Total fair value of restricted stock vested during the 26 weeks ended May 29, 2010 and May 30, 2009 was \$1,436 and \$1,236, respectively. The total fair value of nonvested restricted stock at May 29, 2010 was \$10,381.

Edgar Filing: FULLER H B CO - Form 10-Q

We repurchased 1,644 restricted stock shares during the 13 weeks ended May 30, 2009 and 17,804 and 24,666 restricted stock shares during the 26 weeks ended May 29, 2010 and May 30, 2009, respectively, in conjunction with restricted stock vestings. No restricted stock vested during the 13 weeks ended May 29, 2010. The repurchases relate to statutory minimum tax withholding. We do not expect any additional restricted stock shares to be repurchased in fiscal 2010.

We have a Directors' Deferred Compensation plan that allows non-employee directors to defer all or a portion of their retainer and meeting fees in a number of investment choices, including units representing shares of our common stock. We also have a Key Employee Deferred Compensation Plan that allows key employees to defer a portion of their eligible compensation in a number of investment choices, including units, representing shares of our common stock. A summary of deferred compensation unit activity as of May 29, 2010, and changes during the 26 weeks then ended is presented below:

	Non-employee		
	Directors	Employees	Total
Units outstanding November 28, 2009	268,863	97,641	366,504
Participant contributions	11,707	2,163	13,870
Company match contributions	1,786	400	2,186
Payouts	(30,691)	(8,498)	(39,189)
Units outstanding May 29, 2010	251,665	91,706	343,371

Deferred compensation units are fully vested at the date of contribution.

Note 4: Earnings Per Share

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

	13 Weeks Ended		26 Weeks Ended	
	May 29, 2010	May 30, 2009	May 29, 2010	May 30, 2009
Weighted-average common shares - basic	48,571,860	48,304,999	48,531,232	48,296,748
Equivalent shares from share-based compensations plans	1,041,378	622,278	1,022,555	628,996
Weighted-average common and common equivalent shares - diluted	49,613,238	48,927,277	49,553,787	48,925,744

Basic earnings per share is calculated by dividing net income attributable to H.B. Fuller by the weighted average number of common shares outstanding during the applicable period. Diluted earnings per share is based upon the weighted average number of common and common equivalent shares outstanding during the applicable period. The difference between basic and diluted earnings per share is attributable to share-based compensation awards. We use the treasury stock method to calculate the effect of outstanding shares, which computes total employee proceeds as the sum of (a) the amount the employee must pay upon exercise of the award, (b) the amount of unearned share-based compensation costs attributed to future services and (c) the amount of tax benefits, if any, that would be credited to additional paid-in capital assuming exercise of the award. Share-based compensation awards for which total employee proceeds exceed the average market price over the applicable period have an antidilutive effect on earnings per share, and accordingly, are excluded from the calculation of diluted earnings per share.

Options to purchase 1,186,954 and 1,869,518 shares of common stock at the weighted-average exercise price of \$23.36 and \$18.80 for the 13 week periods ended May 29, 2010 and May 30, 2009, respectively, and options to purchase 1,193,589 and 1,876,117 shares of common stock at the weighted-average exercise price of \$23.37 and \$18.84 for the 26 week periods ended May 29, 2010 and May 30, 2009, respectively, were excluded from the diluted earnings per share calculations because they were antidilutive.

Note 5: Accumulated Other Comprehensive (Loss)

The components of accumulated other comprehensive income (loss) follows:

	Total	May 29, 2010	Non-controlling Interests
		H.B. Fuller Stockholders	
Foreign currency translation adjustment	\$ 21,622	\$ 21,625	\$ (3)
Defined benefit pension plans adjustment net of taxes	(135,596)	(135,596)	
Interest rate swap	(238)	(238)	
Total accumulated other comprehensive loss	\$ (114,212)	\$ (114,209)	\$ (3)

	Total	November 28, 2009	Non-controlling Interests
		H.B. Fuller Stockholders	
Foreign currency translation adjustment	\$ 79,010	\$ 79,023	\$ (13)
Defined benefit pension plans adjustment net of taxes	(137,838)	(137,838)	
Interest rate swap	(249)	(249)	
Total accumulated other comprehensive loss	\$ (59,077)	\$ (59,064)	\$ (13)

Note 6: Components of Net Periodic Cost (Benefit) related to Pension and Other Postretirement Benefit Plans**13 Weeks Ended May 29, 2010 and May 30, 2009**

	Pension Benefits				Other Postretirement Benefits	
	U.S. Plans		Non-U.S. Plans		2010	2009
	2010	2009	2010	2009		
Net periodic cost (benefit):						
Service cost	\$ 1,374	\$ 1,105	\$ 271	\$ 225	\$ 136	\$ 104
Interest cost	4,276	4,260	1,750	1,688	730	787
Expected return on assets	(6,558)	(5,692)	(1,959)	(1,576)	(683)	(840)
Amortization:						
Prior service cost	16	26	(1)	(1)	(1,159)	(1,159)
Actuarial (gain)/ loss	617	27	642	224	1,583	1,043
Transition amount				5		
Settlement			821			
Net periodic cost (benefit)	\$ (275)	\$ (274)	\$ 1,524	\$ 565	\$ 607	\$ (65)

26 Weeks Ended May 29, 2010 and May 30, 2009

	Pension Benefits				Other Postretirement Benefits	
	U.S. Plans		Non-U.S. Plans		2010	2009
	2010	2009	2010	2009		
Net periodic cost (benefit):						
Service cost	\$ 2,748	\$ 2,211	\$ 540	\$ 450	\$ 271	\$ 208
Interest cost	8,552	8,519	3,588	3,377	1,461	1,575
Expected return on assets	(13,116)	(11,385)	(4,011)	(3,155)	(1,367)	(1,681)
Amortization:						
Prior service cost	33	52	(2)	(2)	(2,318)	(2,318)
Actuarial (gain)/ loss	1,234	55	1,306	448	3,166	2,086
Transition amount				10		
Settlement			821			

Edgar Filing: FULLER H B CO - Form 10-Q

Net periodic cost (benefit)	\$	(549)	\$	(548)	\$	2,242	\$	1,128	\$	1,213	\$	(130)
-----------------------------	----	--------------	----	-------	----	--------------	----	-------	----	--------------	----	-------

As a result of a plant closing, elections for lump-sum payouts made by terminated employees triggered a settlement for the Canadian Pension Plan. Since a portion of the participants that were impacted received their payouts during the second quarter of 2010, an additional expense of \$821 was incurred.

Note 7: Inventories

The composition of inventories follows:

	May 29, 2010	November 28, 2009
Raw materials	\$ 67,916	\$ 61,849
Finished goods	80,674	72,513
LIFO reserve	(18,611)	(17,455)
Total inventories	\$ 129,979	\$ 116,907

Note 8: Financial Instruments

As a result of being a global enterprise, our earnings, cash flows and financial position are exposed to foreign currency risk from foreign currency denominated receivables and payables. These items are denominated in various foreign currencies, including the Euro, Canadian dollar, Australian dollar, British pound sterling, Japanese yen, Argentine peso, Brazilian real, Costa Rican colones, Chinese renminbi and Honduran lempira.

Our objective is to balance, where possible, local currency denominated assets to local currency denominated liabilities to have a natural hedge and minimize foreign exchange impacts. We take steps to minimize risks from foreign currency exchange rate fluctuations through normal operating and financing activities and, when deemed appropriate, through the use of derivative instruments. We do not enter into any speculative positions with regard to derivative instruments.

We enter into derivative contracts with a group of investment grade multinational commercial banks. Each of these banks is a participant in our revolving credit facility. We evaluate the credit quality of each of these banks on a periodic basis as warranted.

Foreign currency derivative instruments outstanding are not designated as hedges for accounting purposes, the gains and losses related to mark-to-market adjustments are recognized as other income or expense in the income statement during the periods in which the derivative instruments are outstanding. See Note 13, Fair Value Measurements, for the fair value amounts of these derivative instruments.

As of May 29, 2010, we had forward foreign currency contracts maturing between June 15, 2010 and April 18, 2011. The mark-to-market effect associated with these contracts was a net loss of \$1,903 at May 29, 2010. These net losses were largely offset by the underlying transaction gains and losses resulting from the foreign currency exposures for which these contracts relate.

Effective November 13, 2009, we entered into interest rate swap agreements to convert all of Series A, all of Series B, and \$25 million of Series C from our new Senior Notes agreement to variable interest rates. The swaps convert our Series A Senior Notes from a fixed rate of 5.13 percent to a variable rate of 6-month LIBOR (in arrears) plus 1.59 percent, our Series B Senior Notes from a fixed rate of 5.61 percent to a variable rate of 6-month LIBOR (in arrears) plus 1.47 percent, and the \$25 million of Series C Senior Notes from a fixed rate of 5.13 percent to a variable rate of 6-month LIBOR (in arrears) plus 1.78 percent. The change in fair value of the Senior Notes swapped into variable rates, was a liability of \$2,991 at May 29, 2010 and was included in long-term debt in the consolidated balance sheet. The fair values of the swaps in total were an asset of \$1,719 at May 29, 2010 and were included in other assets in the consolidated balance sheet. The swaps were designated for hedge accounting treatment. The changes in the fair value of the swap and the fair value of the Senior Notes are recorded as other income (expense), net in the consolidated statement of income. In a perfectly effective hedge relationship, the two fair value calculations would exactly offset each other. Any difference in the calculation represents hedge ineffectiveness. The hedge ineffectiveness calculations as of May 29, 2010 resulted in additional expense of \$244 for the second quarter of 2010.

Note 9: Commitments and Contingencies

Environmental: 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 all 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 the Sorocaba, Brazil facility. Soil and water samples were collected on and around the Sorocaba facility, and test results indicated that certain contaminants, including carbon tetrachloride and other solvents, exist in the soil at the Sorocaba facility and in the groundwater at both the Sorocaba facility and some neighboring properties. We are continuing to work with Brazilian regulatory authorities to implement and operate a remediation system at the site. As of May 29, 2010, \$1,025 was recorded as a liability for expected remediation expenses remaining for this site. Depending on the results of testing of our current remediation actions, we may be required to record additional liabilities related to remediation costs at the Sorocaba facility.

As of May 29, 2010, we had recorded \$2,623 as the best probable estimate of aggregate liabilities for costs of environmental investigation and remediation, inclusive of the accrual related to the Sorocaba facility described above. These estimates are based primarily upon internal or third-party environmental studies, assessments as to our responsibility, the extent of the contamination and the nature of required remedial actions. Our current assessment of the probable liabilities and associated expenses related to environmental matters is based on the facts and circumstances known at this time. Recorded liabilities are adjusted as further information is obtained or circumstances change.

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

Product Liability: As a participant in the chemical and construction products industries, we face an inherent risk of exposure to claims in the event that the alleged failure, use or misuse of our products results in or is alleged to result in property damage and/or bodily injury. From time to time and in the ordinary course of business, 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.

We have been named as a defendant in lawsuits in various courts in which plaintiffs have alleged injury due to products containing asbestos manufactured more than 25 years ago. The plaintiffs generally bring these lawsuits against multiple defendants and seek damages (both actual and punitive) in very large amounts. In many of these cases, the plaintiffs are unable to demonstrate that they have suffered any compensable injuries or that the injuries suffered were the result of exposure to products manufactured by 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 asbestos containing products, 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.

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 expect to contribute up to \$4,114 towards the settlement amount to be paid to the claimants in exchange for a full release of claims. Of this amount, our insurers have committed to pay \$2,043 based on a probable liability of \$4,114. Given that the remaining settlement payouts are expected to occur over a period of years and the accrual is based on the maximum number of cases to be settled, which has been our experience, we applied a present value approach and have accrued \$2,820 and recorded a receivable of \$1,466, due from insurers, as of May 29, 2010.

In addition to the group settlement described above, a summary of the number of and settlement amounts for asbestos-related lawsuits and claims follows.

(\$ in thousands)	26 Weeks Ended May 29, 2010	26 Weeks Ended May 30, 2009
Lawsuits and claims settled	3	1
Settlements reached	\$ 448	\$ 1
Insurance payments received or expected to be received	\$ 359	\$

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 liability for pending asbestos-related claims, we establish a financial provision and a corresponding receivable for insurance recoveries. As of May 29, 2010, our probable liabilities and insurance recoveries related to asbestos claims, inclusive of the amounts related to the group settlement described above, were \$2,993 and \$1,627, respectively. 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 do not believe that asbestos-related litigation, individually or in aggregate, will have a material adverse effect on our long-term financial condition. However, adverse developments and/or periodic settlements in such litigation could negatively impact the results of operations or cash flows in one or more future quarters.

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.

Note 10: Operating Segments

We evaluate the performance of each of our operating segments based on operating income, which is defined as gross profit less selling, general and administrative (SG&A) expenses. Corporate expenses are fully allocated to each operating segment.

In the first quarter of 2010 we changed the name of our EMEA (Europe, Middle East, Africa) operating segment to EIMEA (Europe, India, Middle East Africa). This was to acknowledge that the financial results of our entity in India are now included in this operating segment. The India entity began operations in the second half of 2009 and for that period the results were included in the Asia Pacific operating segment. The 2009 India results will be reclassified to the EIMEA operating segment.

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

	13 Weeks Ended					
	May 29, 2010			May 30, 2009		
	Trade Revenue	Inter-Segment Revenue	Operating Income	Trade Revenue	Inter-Segment Revenue	Operating Income
North America	\$ 151,102	\$ 12,098	\$ 18,843	\$ 135,294	\$ 5,814	\$ 20,107
EIMEA	104,568	2,108	3,294	85,550	1,885	6,313
Latin America	54,738		2,258	50,524	41	1,970
Asia Pacific	37,500	1,891	1,421	27,825	219	(498)
Total	\$ 347,908		\$ 25,816	\$ 299,193		\$ 27,892

	26 Weeks Ended					
	May 29, 2010			May 30, 2009		
	Trade Revenue	Inter-Segment Revenue	Operating Income	Trade Revenue	Inter-Segment Revenue	Operating Income
North America	\$ 278,169	\$ 21,423	\$ 36,046	\$ 254,467	\$ 11,143	\$ 29,879
EIMEA	198,586	4,240	7,404	164,459	3,539	8,197
Latin America	110,032	12	5,110	105,867	41	2,834
Asia Pacific	70,563	3,489	3,487	52,964	1,290	(625)
Total	\$ 657,350		\$ 52,047	\$ 577,757		\$ 40,285

Reconciliation of operating income to income before income taxes and income from equity investments:

	13 Weeks Ended		26 Weeks Ended	
	May 29, 2010	May 30, 2009	May 29, 2010	May 30, 2009
Operating income	\$ 25,816	\$ 27,892	\$ 52,047	\$ 40,285
Asset impairment charges	(8,785)		(8,785)	(790)
Other income (expense), net	1,340	(1,293)	1,277	(2,345)
Interest expense	(3,043)	(2,188)	(4,991)	(4,586)
Income before income taxes and income from equity investments	\$ 15,328	\$ 24,411	\$ 39,548	\$ 32,564

Note 11: Income Taxes

As of May 29, 2010, we had a \$10,521 liability recorded under FASB ASC 740 Income Taxes for gross unrecognized tax benefits (excluding interest). Of this total, \$8,022 represents the amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate. We recognize interest and penalties related to

unrecognized tax benefits in income tax expense. As of May 29, 2010, we had accrued \$2,443 of net interest and penalties relating to unrecognized tax benefits. During the second quarter of 2010 our recorded liability for unrecognized tax benefits, net, decreased by \$502.

We are subject to U.S. federal income tax as well as income tax in numerous state and foreign jurisdictions. We are no longer subject to U.S. federal income tax examination for years prior to 2006 or for Swiss income tax examination for years prior to 2008. We expect the U.S. federal examination of 2007 and 2008, that commenced in the first quarter of 2010, to be completed in the third quarter of 2010. We are in various stages of examination and appeal in several state and other foreign jurisdictions. Although the final outcomes of these examinations cannot currently be determined, we believe that we have adequate accruals with respect to these examinations.

Note 12: Goodwill

As part of our April 20, 2009 acquisition of Nordic Adhesive Technology GmbH, the shareholders are entitled to an earn-out of up to 2,600, over the first three years, based on certain financial performance criteria. According to the terms of the agreement, the first earn-out period was the period between April 2009 and April 2010. Based on actual results, we will be paying the shareholders an earn-out amount of 624 or approximately \$766. This amount has been recorded as additional goodwill as of May 29, 2010.

In the fourth quarter of 2008, we determined that the fair value of our construction products reporting unit, in our North America segment, was less than the carrying value of its assets, including goodwill. As a result, a pretax impairment charge of \$85,000 (\$52,838 after tax), was recorded in the fourth quarter of 2008. The \$85,000 pretax charge was an estimated amount as of our fiscal 2008 year-end. The final valuation work was completed in the first quarter of 2009 and resulted in an additional pretax impairment charge of \$790 (\$496 after tax). The amount of goodwill assigned to the specialty construction reporting unit was \$99,127 prior to any impairment charges. The amount of goodwill after the final valuation and additional impairment charge is \$13,337.

A summary of goodwill activity for the first six months of 2010 is presented below:

Balance at November 28, 2009	\$ 103,731
Currency impact	(6,958)
Balance at February 27, 2010	96,773
Nordic Adhesive earn-out	766
Currency impact	(7,152)
Balance at May 30, 2010	\$ 90,387

Note 13: Fair Value Measurements

The following table presents information about our financial assets and liabilities that are measured at fair value on a recurring basis as of May 29, 2010, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value. The hierarchy is broken down into three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs include data points that are observable such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs (other than quoted prices) such as interest rates and yield curves that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

Description	May 29, 2010	Fair Value Measurements Using:			Total Gains (Losses)
		Level 1	Level 2	Level 3	
Assets:					
Cash equivalents	\$ 75,290	\$ 15,170	\$ 60,119	\$	\$
Derivative assets	128		128		
Interest rate swaps	1,719		1,719		
Liabilities:					
Derivative liabilities	\$ 2,031	\$	\$ 2,031	\$	\$

Edgar Filing: FULLER H B CO - Form 10-Q

Long-term debt	77,991	77,991
----------------	--------	--------

Note 14: Impairment of Long-lived Asset

During the second quarter of 2010, we decided to exit our polysulfide-based insulating glass product line in Europe. This is a commodity product line that was failing to meet return on gross investment targets. Exiting this product line will improve the growth and profitability profile of our EIMEA operating segment. 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 present value technique. As a result of this analysis, we recorded exit costs and impairment charges in the second quarter of \$11,368 (\$8,440 after tax). Pre-tax asset impairment charges of \$8,785 were recorded to write-down the value of intangible assets, a write-down on property, plant and equipment was recorded in costs of sales in the amount of \$607 and exit costs of \$1,975 were recorded of which \$1,223 were recorded in cost of sales and \$752 are in SG&A expense.

Note 15: Subsequent Event

On March 11, 2010, we entered into a stock purchase agreement to acquire all of the shares of Revertex Finewaters Sdn Bhd, headquartered outside Kuala Lumpur, Malaysia. The acquisition was completed on June 2, 2010. The purchase price was approximately \$27,000. Revertex Finewaters is a leading supplier of adhesives in Malaysia, with a well developed export network throughout Southeast Asia. Their 2009 net revenue was approximately \$18,000.

We have evaluated subsequent events through the date the unaudited consolidated financial statements were issued. No other subsequent events have taken place that meet the definition of a subsequent event that requires disclosure in this filing.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

The Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with the MD&A included in our Annual Report on Form 10-K/A for the year ended November 28, 2009 for important background information related to our business.

The financial results of the second quarter were highlighted by net revenue growth of 16.3 percent over the second quarter of 2009. While sales volume benefited from better economic conditions in 2010 and a relatively easy year-over-year comparison, we continued to successfully add new business and grow existing customer relationships. Organic revenue growth, which we define as revenue growth due to sales volume and changes in selling prices, increased by 13.0 percent as compared to the second quarter of 2009. Each of our four operating segments recorded strong organic growth in the second quarter of 2010, led by the Asia Pacific and EIMEA operating segments, both of which recorded 18 percent organic growth.

As expected, raw material costs increased during the second quarter of 2010 driving the gross profit margin down to 29.1 percent from the 31.6 percent recorded in the first quarter of 2010. In the second quarter of 2009 the margin was 29.9 percent. Selling price increases were implemented late in the second quarter of 2010 to help mitigate the effects of the raw material increases, however the majority of the benefits from the price increases will not be realized until the third quarter. SG&A expenses increased \$13.8 million from the second quarter of 2009 as we continue to invest in our commercial organizations.

During the second quarter of 2010 we decided to exit the polysulfide-based insulating glass product line in Europe. This is a commodity product line that was failing to meet return on gross investment targets. Exiting this product line will improve the growth and profitability profile of our EIMEA operating segment. This decision resulted in exit costs and asset impairment charges in the second quarter of \$11.4 million. On an after-tax basis, these costs had a negative \$8.4 million impact on net income and a negative \$0.17 effect on earnings per share.

Net income attributable to H.B. Fuller for the second quarter of 2010 was \$11.0 million as compared to \$17.6 million in the second quarter of 2009. On a diluted earnings per share basis, the second quarter of 2010 was \$0.22 per share as compared to \$0.36 per share in the second quarter of 2009. Through the first six months of 2010 net revenue increased 13.8 percent over the first six months of 2009. The net income attributable to H.B. Fuller of \$30.0 million in the first six months of 2010 was 26.6 percent over the \$23.7 million recorded in the first six months of 2009.

Our expectation for the full year is that net revenue growth will be in the range of 10 to 12 percent. This is below our performance of the first half of the year however the year-over-year comparisons become more difficult in the second half of the year. The recent weakness in the Euro as compared to the U.S. Dollar is expected to be offset by improved sales volumes. Raw material costs are expected to increase 8 percent for the full year. Investments in the SG&A expense area will be accelerated as we continue to invest in profitable growth. The effective income tax rate for the remainder of 2010 is expected to be approximately 34 percent.

Results of Operations

Net revenue:

(\$ in millions)	13 Weeks Ended			26 Weeks Ended		
	May 29, 2010	May 30, 2009	2010 vs 2009	May 29, 2010	May 30, 2009	2010 vs 2009
Net revenue	\$ 347.9	\$ 299.2	16.3%	\$ 657.4	\$ 577.8	13.8%

We review variances in net revenue in terms of changes related to product pricing, sales volume, acquisitions and changes in foreign currency exchange rates. The following table shows the net revenue variance analysis for the second quarter and first six months of 2010 compared to the same periods in 2009.

	13 Weeks Ended May 29, 2010	26 Weeks Ended May 29, 2010
Product pricing	(0.7%)	(1.2%)
Sales volume	13.7%	10.9%
Currency	2.7%	3.5%
Acquisitions	0.6%	0.6%
	16.3%	13.8%

Organic sales growth was a positive 13.0 percent (positive 13.7 percent from sales volume and negative 0.7 percent from product pricing) in the second quarter of 2010 as compared to the same period last year. Organic sales growth was a positive 9.7 percent (positive 10.9 percent from sales volume and negative 1.2 percent from product pricing) in the first six months of 2010 as compared to the first six months of 2009. All four operating segments achieved positive organic revenue growth in the second quarter and first six months compared to the same periods of last year. The positive currency effects resulted primarily from the stronger Euro and Australian dollar in the first half of 2010 as compared to the first half of 2009. The 0.6 percent net revenue increase from acquisitions was due to the acquisition of Nordic Adhesive Technology during the second quarter of 2009.

Cost of sales:

(\$ in millions)	13 Weeks Ended			26 Weeks Ended		
	May 29, 2010	May 30, 2009	2010 vs 2009	May 29, 2010	May 30, 2009	2010 vs 2009
Cost of sales:	\$ 246.8	\$ 209.8	17.6%	\$ 458.6	\$ 413.4	10.9%
Percent of net revenue	70.9%	70.1%		69.8%	71.5%	

Cost increases were due to the higher sales volume and the weaker U.S. dollar in the second quarter and first six months of 2010 as compared to the same periods of 2009. Raw material prices increased during the second quarter

of 2010 compared to the second quarter of 2009 contributing to the higher cost of sales. Costs were also impacted by \$1.8 million of charges in the second quarter of 2010 related to exiting the polysulfide insulating glass product line in Europe.

Gross profit:

(\$ in millions)	13 Weeks Ended			26 Weeks Ended		
	May 29, 2010	May 30, 2009	2010 vs 2009	May 29, 2010	May 30, 2009	2010 vs 2009
Gross profit	\$ 101.1	\$ 89.4	13.1%	\$ 198.8	\$ 164.4	20.9%
Percent of net revenue	29.1%	29.9%		30.2%	28.5%	

The lower gross profit margin for the second quarter of 2010 as compared to the same period in 2009 resulted from the increase in raw material costs which more than offset the benefits from the increased sales volume. The \$1.8 million of charges taken in the quarter related to exiting the polysulfide insulating glass product line in Europe reduced the margin by 0.5 percentage points. The higher gross profit margin for the first six months of 2010 as compared to the same period in 2009 was mainly due to lower raw material costs in the first quarter of 2010 as compared to the same period in 2009.

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

(\$ in millions)	13 Weeks Ended			26 Weeks Ended		
	May 29, 2010	May 30, 2009	2010 vs 2009	May 29, 2010	May 30, 2009	2010 vs 2009
SG&A	\$ 75.3	\$ 61.5	22.4%	\$ 146.7	\$ 124.1	18.2%
Percent of net revenue	21.6%	20.6%		22.3%	21.5%	

SG&A expenses increased \$13.8 million or 22.4 percent from the second quarter of 2009 and \$22.6 million or 18.2 percent from the first six months of 2009. The increase was largely due to higher costs associated with adding resources to our sales and technical organizations. Also contributing to the expense increases were the effects of the weaker U.S. dollar compared to the major foreign currencies, acquisition costs related to last year's Nordic acquisition and this year's acquisition in Malaysia that closed early in the third quarter. Increases in management incentive compensation also contributed to the 2010 increase in SG&A expenses for both the second quarter and first six months as compared to the same periods of 2009.

Asset impairment charges:

(\$ in millions)	13 Weeks Ended			26 Weeks Ended		
	May 29, 2010	May 30, 2009	2010 vs 2009	May 29, 2010	May 30, 2009	2010 vs 2009
Asset impairment charges	\$ 8.8	\$ NMP		\$ 8.8	\$ 0.8	NMP

NMP = Non-meaningful percentage

In the second quarter of 2010, \$8.8 million of asset impairment charges were taken as a result of the decision to exit the polysulfide-based insulating glass sealant product line in Europe. The impairment charges reduced intangible assets.

In the fourth quarter of 2008 an \$85.0 million impairment charge was taken as a reduction of the goodwill balance of the construction products reporting unit in the North America segment. This amount was considered an estimate as of November 29, 2008 with final valuation work to be completed in the first quarter of 2009. The additional charge of \$0.8 million in the first quarter of 2009 was the result of the final valuation work.

Other income (expense), net:

(\$ in millions)	13 Weeks Ended			26 Weeks Ended		
	May 29, 2010	May 30, 2009	2010 vs 2009	May 29, 2010	May 30, 2009	2010 vs 2009
Other income (expense), net	\$ 1.3	\$ (1.3)	NMP	\$ 1.3	\$ (2.3)	NMP

NMP = Non-meaningful percentage

Other income in the second quarter included \$1.2 million of gains on sales of fixed assets. The most significant gain was \$1.0 million on vacant land in Honduras. Currency transaction and re-measurement losses were \$0.1 million in the second quarter of 2010 as compared to losses of \$1.4 million in the second quarter of 2009. The gains from sales of assets in 2010 and the 2009 currency transaction and re-measurement losses were also the reasons for the six month variance.

Interest expense:

(\$ in millions)	13 Weeks Ended			26 Weeks Ended		
	May 29, 2010	May 30, 2009	2010 vs 2009	May 29, 2010	May 30, 2009	2010 vs 2009
Interest expense	\$ 3.0	\$ 2.2	39.1%	\$ 5.0	\$ 4.6	8.8%

The higher interest expense in the second quarter and first six months of 2010 as compared to the second quarter and first six months of 2009 was due to higher interest rates and higher average debt levels in 2010 as compared to last year.

Income taxes:

(\$ in millions)	13 Weeks Ended			26 Weeks Ended		
	May 29, 2010	May 30, 2009	2010 vs 2009	May 29, 2010	May 30, 2009	2010 vs 2009
Income taxes	\$ 6.0	\$ 8.1	(25.2%)	\$ 13.1	\$ 11.1	18.3%
Effective tax rate	39.3%	33.0%		33.1%	34.0%	

Income tax expense in the second quarter of 2010 was \$6.0 million. Without a discrete tax benefit of 0.1 million and the impact of the exit costs and asset impairment charges, a benefit of \$3.0 million, income tax expense for the second quarter of 2010 was \$9.1 million, for an effective tax rate of 34.1 percent as compared to 34.6 percent without discrete tax benefits in the second quarter of 2009. Excluding discrete benefits of \$1.3 million and the impact of the exit costs and asset impairment charges, a benefit of \$3.0 million, the overall effective tax rate for the 26 weeks ended May 29, 2010 was 33.9 percent, as compared to 35.2 percent for the 26 weeks ended May 30, 2009.

Income from equity investments:

(\$ in millions)	13 Weeks Ended			26 Weeks Ended		
	May 29, 2010	May 30, 2009	2010 vs 2009	May 29, 2010	May 30, 2009	2010 vs 2009
Income from equity investments	\$ 1.7	\$ 1.1	55.2%	\$ 3.5	\$ 2.1	70.9%

The income from equity investments relates to our 50 percent ownership of the Sekisui-Fuller joint venture in Japan. The second quarter and first six months results reflected the higher net income recorded by the joint venture in 2010 compared to the same periods of 2009 due mainly to stronger gross profit margins.

Net (income) loss attributable to noncontrolling interests:

(\$ in millions)	13 Weeks Ended			26 Weeks Ended		
	May 29, 2010	May 30, 2009	2010 vs 2009	May 29, 2010	May 30, 2009	2010 vs 2009
Net (income) loss attributable to noncontrolling interests	\$ (0.01)	\$ 0.10	NMP	\$ (0.04)	\$ 0.11	NMP

NMP = Non-meaningful percentage

Improvements in the operating performance of our China entities resulted in net income attributable to noncontrolling interests of \$12 thousand and \$36 thousand in the second quarter and first six months of 2010, respectively, as compared to net loss attributable to noncontrolling interests of \$95 thousand and \$105 thousand on this line in the second quarter and first six months of 2009, respectively. In the second quarter and first six months of 2009 the China entities recorded operating losses.

Net income attributable to H.B. Fuller:

(\$ in millions)	13 Weeks Ended			26 Weeks Ended		
	May 29, 2010	May 30, 2009	2010 vs 2009	May 29, 2010	May 30, 2009	2010 vs 2009
Net income attributable to H.B. Fuller	\$ 11.0	\$ 17.6	(37.3%)	\$ 30.0	\$ 23.7	26.6%
Percent of net revenue	3.2%	5.9%		4.6%	4.1%	

The net income attributable to H.B. Fuller for the second quarter of 2010 was \$11.0 million compared to \$17.6 million for the second quarter of 2009. The diluted EPS for the second quarter of 2010 was \$0.22 per share as compared to \$0.36 per share for the second quarter of 2009. Included in net income attributable to H.B. Fuller for the second quarter of 2010, were exit costs and asset impairment charges of \$8.4 million or \$0.17 per share. The net income improvement (exclusive of the exit costs and impairment charges) in the second quarter of 2010 was primarily the result of the 13.0 percent organic sales growth. The net income attributable to H.B. Fuller for the first six months of 2010 was \$30.0 million compared to \$23.7 million for the same period of 2009. The net income improvement in the first half of 2010 was primarily the result of the 9.7 percent organic sales growth combined with the improved gross profit margin as compared to 2009. The diluted EPS for the first six months of 2010 was \$0.60 per share as compared to \$0.48 per share for the first six months of 2009. Exit costs and asset impairment charges of \$8.4 million or \$0.17 per share, were included in net income attributable to H.B. Fuller for the first six months of 2010.

Operating Segment Results

Our operations are managed through the four primary geographic regions: North America, EIMEA (Europe, India, Middle East, Africa), Latin America and Asia Pacific. Region Vice Presidents report directly to the Chief Executive Officer and are accountable for the financial results of their entire region.

In the first quarter of 2010 we changed the name of our EMEA operating segment to EIMEA. This was to acknowledge that the financial results of our entity in India are now included in this operating segment. The India entity began operations in the second half of 2009 and for that period the results were included in the Asia Pacific operating segment. The 2009 India results will be reclassified to the EIMEA operating segment.

In the second quarter of 2010 we changed the name of our Specialty Construction reporting unit in the North America operating segment to Construction Products. There was no change in the reporting unit in terms of how the reporting unit operates. The name of the subsidiary was changed from Specialty Construction Brands, Inc. to H.B. Fuller Construction Products, Inc. The purpose of the change was to better leverage the H.B. Fuller name.

The tables below set forth certain information regarding the net revenue and operating income of each of our operating segments. Operating income is defined as gross profit less SG&A expenses.

Net Revenue by Segment:

(\$ in millions)	13 Weeks Ended				26 Weeks Ended			
	May 29, 2010		May 30, 2009		May 29, 2010		May 30, 2009	
	Net Revenue	% of Total	Net Revenue	% of Total	Net Revenue	% of Total	Net Revenue	% of Total
North America	\$ 151.1	43%	\$ 135.3	45%	\$ 278.2	42%	\$ 254.5	44%
EIMEA	104.6	30%	85.6	29%	198.6	30%	164.4	29%
Latin America	54.7	16%	50.5	17%	110.0	17%	105.9	18%
Asia Pacific	37.5	11%	27.8	9%	70.6	11%	53.0	9%
Total	\$ 347.9	100%	\$ 299.2	100%	\$ 657.4	100%	\$ 577.8	100%

Operating Income (loss) by Segment:

(\$ in millions)	13 Weeks Ended				26 Weeks Ended			
	May 29, 2010		May 30, 2009		May 29, 2010		May 30, 2009	
	Operating Income	% of Total	Operating Income (loss)	% of Total	Operating Income	% of Total	Operating Income (loss)	% of Total
North America	\$ 18.8	73%	\$ 20.1	72%	\$ 36.0	69%	\$ 29.9	74%
EIMEA	3.3	13%	6.3	23%	7.4	14%	8.2	20%
Latin America	2.3	9%	2.0	7%	5.1	10%	2.8	7%
Asia Pacific	1.4	5%	(0.5)	(2%)	3.5	7%	(0.6)	(1%)
Total	\$ 25.8	100%	\$ 27.9	100%	\$ 52.0	100%	\$ 40.3	100%

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

(\$ in millions)	13 Weeks Ended		26 Weeks Ended	
	May 29, 2010	May 30, 2009	May 29, 2010	May 30, 2009
Operating income	\$ 25.8	\$ 27.9	\$ 52.0	\$ 40.3
Asset impairment charges	(8.8)		(8.8)	(0.8)
Other income (expense), net	1.3	(1.3)	1.3	(2.3)
Interest expense	(3.0)	(2.2)	(5.0)	(4.6)
Income before income taxes and income from equity investments	\$ 15.3	\$ 24.4	\$ 39.5	\$ 32.6

North America

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

(\$ in millions)	13 Weeks Ended			26 Weeks Ended		
	May 29, 2010	May 30, 2009	2010 vs 2009	May 29, 2010	May 30, 2009	2010 vs 2009
Adhesives	\$ 115.4	\$ 105.2	9.7%	\$ 216.0	\$ 198.2	8.9%
Construction Products	35.7	30.1	18.6%	62.2	56.3	10.6%

Edgar Filing: FULLER H B CO - Form 10-Q

Total	\$ 151.1	\$ 135.3	11.7%	\$ 278.2	\$ 254.5	9.3%
-------	----------	----------	-------	----------	----------	------

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

	13 Weeks Ended May 29, 2010 vs May 30, 2009			26 Weeks Ended May 29, 2010 vs May 30, 2009		
	Adhesives	Construction Products	Total	Adhesives	Construction Products	Total
Pricing/Sales Volume	8.2%	18.6%	10.5%	7.6%	10.6%	8.2%
Currency	1.5%		1.2%	1.3%		1.1%
Total	9.7%	18.6%	11.7%	8.9%	10.6%	9.3%

The following table reflects the operating income (loss) by component of the North America operating segment.

(\$ in millions)	13 Weeks Ended			26 Weeks Ended		
	May 29, 2010	May 30, 2009	2010 vs 2009	May 29, 2010	May 30, 2009	2010 vs 2009
Adhesives	\$ 16.6	\$ 19.2	(13.2%)	\$ 33.8	\$ 31.0	9.2%
Construction Products	2.2	0.9	135.3%	2.2	(1.1)	NMP
Total	\$ 18.8	\$ 20.1	(6.3%)	\$ 36.0	\$ 29.9	20.6%

Segment profit margin %

	12.4%	14.9%	13.0%	11.7%
--	-------	-------	-------	-------

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

Total North America: New business generation and a more favorable economic environment in 2010 as compared to 2009 were the main drivers of the North America net revenue growth in both the second quarter and first six months of 2010. Raw material costs increased during the second quarter of 2010 resulting in a lower gross profit margin as compared to the second quarter of 2009. The raw material cost increases were a continuation of the increases that began in the fourth quarter of 2009. Selling price increases announced near the end of the second quarter did not have a significant impact on the margin in the second quarter of 2010. SG&A expenses increased as compared to last year as vacant sales positions were filled and new positions were added to strengthen the commercial organizations. The decrease in gross profit margin combined with higher SG&A expenses resulted in operating income declining 6.3 percent in the second quarter of 2010 compared to the second quarter of 2009. Through six months the operating income in 2010 was 20.6 percent higher than the first six months of 2009.

Adhesives: The organic sales growth in the second quarter and first six months of 2010 was driven entirely by increases in sales volume. Average selling prices were slightly below the pricing levels of 2009. The improved economic conditions in 2010 resulted in higher sales volume at existing customers. New business gains have also contributed to the year-over-year improvement in net revenue for both the second quarter and first six months of 2010. The gross profit margin declined in the second quarter of 2010 as raw material cost increases, which began in the fourth quarter of 2009, continued through the second quarter of 2010. The full impact of selling price increases that were announced in the second quarter will not be realized until the second half of 2010. Investments continue to be made to strengthen the commercial organization resulting in higher SG&A expenses for both the second quarter and first six months of 2010 as compared to the same periods in 2009. The resulting operating income in the second quarter fell 13.2 percent below the operating income in the second quarter of 2009. Through six months, however, the operating income improved 9.2 percent over last year.

Construction Products: The net revenue growth in both the second quarter and first six months of 2010 was largely due to new product introductions and additional shelf space gained in the retail market. Sales increases in the distribution channel also contributed to the second quarter growth. The second quarter net revenue included a \$0.9 million charge for reset fees associated with gaining shelf space in the retail market. Raw material costs were higher in the second quarter of 2010 resulting in some downward pressure on the gross profit margin. Efficiencies gained from the 2009 project to consolidate manufacturing facilities helped mitigate the impact from the raw material cost

increases. SG&A expenses increased in both the second quarter and first six months of 2010 as compared to the same periods of 2009, however the rate of increase was significantly less than the net revenue growth rate. The year-over-year improvement in operating income for both the second quarter and first six months of 2010 was driven primarily by the double-digit growth in net revenue.

EIMEA

(\$ in millions)	13 Weeks Ended			26 Weeks Ended		
	May 29, 2010	May 30, 2009	2010 vs 2009	May 29, 2010	May 30, 2009	2010 vs 2009
Net Revenue	\$ 104.6	\$ 85.6	22.2%	\$ 198.6	\$ 164.4	20.8%
Operating Income	\$ 3.3	\$ 6.3	(47.8%)	\$ 7.4	\$ 8.2	(9.7%)
Segment profit margin%	3.2%	7.4%		3.7%	5.0%	

The following table provides details of the EIMEA net revenue variances. The Pricing/Sales Volume variance is viewed as organic growth.

	13 Weeks Ended May 29, 2010 vs May 30, 2009	26 Weeks Ended May 29, 2010 vs May 30, 2009
Pricing/Sales Volume	18.2%	13.4%
Currency	2.0%	5.3%
Acquisitions	2.0%	2.1%
Total	22.2%	20.8%

Total EIMEA: The strong organic sales growth in the second quarter and first six months of 2010 resulted from improvements across all key markets. The improved economic conditions of 2010 as compared to 2009 contributed to existing customers increasing their purchases in 2010, investments in the sales organization have led to market share gains and success in the emerging markets such as in the Middle East have all contributed to the 2010 organic sales growth. Raw material cost increases accelerated in the second quarter of 2010 contributing to a decrease in the gross profit margin as compared to the second quarter of 2009. The second quarter of 2010 includes \$2.6 million of charges related to exiting the polysulfide-based insulating glass product line in Europe. The cost of sales includes \$1.8 million of these charges and SG&A expenses include \$0.8 million. Other SG&A expense increases over last year related to the continuing investments in the segment's commercial organization and expenses associated with the Nordic acquisition. The year-over-year decrease in operating income for both the second quarter and first six months of 2010 was due primarily to the costs related to exiting the polysulfide product line.

Latin America

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

(\$ in millions)	13 Weeks Ended			26 Weeks Ended		
	May 29, 2010	May 30, 2009	2010 vs 2009	May 29, 2010	May 30, 2009	2010 vs 2009
Adhesives	\$ 31.7	\$ 26.7	18.4%	\$ 60.8	\$ 54.5	11.5%
Paints	23.0	23.8	(3.0%)	49.2	51.4	(4.1%)
Total Latin America	\$ 54.7	\$ 50.5	8.3%	\$ 110.0	\$ 105.9	3.9%

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

	13 Weeks Ended May 29, 2010 vs May 30, 2009			26 Weeks Ended May 29, 2010 vs May 30, 2009		
	Adhesives	Paints	Total	Adhesives	Paints	Total
Pricing/Sales Volume	18.4%	(3.0%)	8.3%	11.5%	(4.1%)	3.9%

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

(\$ in millions)	13 Weeks Ended			26 Weeks Ended		
	May 29, 2010	May 30, 2009	2010 vs 2009	May 29, 2010	May 30, 2009	2010 vs 2009
Adhesives	\$ 2.2	\$ 1.7	30.7%	\$ 4.1	\$ 2.3	78.8%
Paints	0.1	0.3	(63.3%)	1.0	0.5	86.7%
Total Latin America	\$ 2.3	\$ 2.0	14.6%	\$ 5.1	\$ 2.8	80.3%

Segment profit margin %

	4.1%	3.9%	4.7%	2.7%
--	------	------	------	------

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

Total Latin America: Strong organic growth in the Adhesives reporting unit more than offset the decreases in the Paints market resulting in the overall net revenue growth of 8.3 percent for the segment. Adhesives experienced improved economic conditions while the Paints market continued to be impacted by slow construction-related activity in Central America. Raw material cost increases had a minimal effect on the second quarter results however they are expected to have a larger negative effect beginning in the third quarter of 2010. An improved gross profit margin combined with the strong organic sales growth in Adhesives resulted in year-over-year increases in operating income for both the second quarter and first six months of 2010.

Adhesives: In addition to the improved economic conditions, a key component of the Adhesives sales growth in the second quarter of 2010 was the successful expansion of relationships with global accounts. The gross profit margin increased in both the second quarter and first six months of 2010 as compared to last year as raw material costs were stable in the first half of the year. Increases in raw material prices have been announced and are expected to have a negative effect on the margin beginning in the third quarter of 2010. SG&A expenses increased in 2010 as compared to 2009 primarily in the sales and marketing areas, however operating income still increased 30.7 percent in the second quarter and 78.8 percent in the first six months of 2010 as compared to the same period in 2009.

Paints: The net revenue decline in the second quarter and first six months of 2010 as compared to 2009 was mainly due to the slow economic recovery in Central America. Construction activity remains depressed in this region. Sales in the retail stores were up slightly over last year for the second quarter but sales to distributors, who sell primarily to contractors, were down significantly from 2009. The gross profit margin increased over last year for both the second quarter and first six months due to the favorable mix of a higher percentage of sales going through the retail channel. The improved margin in 2010 was the key factor in the Paints reporting unit generating positive operating income for both the second quarter and first six months of the year.

Asia Pacific

(\$ in millions)	13 Weeks Ended			26 Weeks Ended		
	May 29, 2010	May 30, 2009	2010 vs 2009	May 29, 2010	May 30, 2009	2010 vs 2009
Net Revenue	\$ 37.5	\$ 27.8	34.8%	\$ 70.6	\$ 53.0	33.2%
Operating Income (loss)	\$ 1.4	\$ (0.5)	NMP	\$ 3.5	\$ (0.6)	NMP
Segment profit margin %	3.8%	(1.8%)		4.9%	(1.2%)	

NMP = Non-meaningful percentage

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

Edgar Filing: FULLER H B CO - Form 10-Q

	13 Weeks Ended May 29, 2010 vs May 30, 2009	26 Weeks Ended May 29, 2010 vs May 30, 2009
Pricing/Sales Volume	18.0%	16.6%
Currency	16.8%	16.6%
Total	34.8%	33.2%

Total Asia Pacific: The 18.0 percent organic sales growth in the second quarter of 2010 was driven by higher sales volumes across most countries and markets as the regional economic recovery began to pick up. The net revenue increase due to currency continued to be primarily due to the strength of the Australian dollar versus the U.S. dollar. Based on average exchange rates for the first six months of 2009 and 2010, the Australian dollar strengthened by approximately 33 percent over that time period. This had the effect of increasing both the Australian dollar denominated sales and costs by 33 percent when measured in U.S. dollars. The gross profit margin improved over 2009 for both the second quarter and first six months as raw material costs were below the 2009 levels. Raw material increases are expected to have a negative impact on the second half of the year. SG&A expenses increased significantly over 2009 as we continue to invest for growth in this segment. The improved gross profit generation more than offset the increases in SG&A expenses resulting in positive operating income for both the second quarter and first six months of 2010 as compared to operating losses in the same periods of 2009.

Financial Condition, Liquidity and Capital Resources

Total cash and cash equivalents as of May 29, 2010 were \$161.1 million as compared to \$100.2 million as of November 28, 2009 and \$116.1 million as of May 30, 2009. Total long and short-term debt was \$292.4 million as of May 29, 2010, \$214.0 million as of November 28, 2009 and \$233.0 million as of May 30, 2009. The total debt to total capital ratio as measured by Total Debt divided by (Total Debt plus Total Equity) was 34.0 percent as of May 29, 2010 as compared to 26.5 percent as of November 28, 2009 and 27.8 percent as of May 30, 2009. The higher ratio as of May 29, 2010 compared to November 28, 2009 and May 30, 2009 was due primarily to the \$150.0 million of new long-term debt from our November 13, 2009 note purchase agreement.

We believe that cash flows from operating activities will be adequate to meet our ongoing liquidity and capital expenditure needs. In addition, we believe we have the ability to obtain both short-term and long-term debt to meet our financing needs for the foreseeable future.

Our credit agreements include restrictive covenants that, if not met, could lead to a renegotiation of our credit lines and a significant increase in our cost of financing. At May 29, 2010, we were in compliance with all covenants of our contractual obligations as shown in the following table:

(\$ in millions)

Debt Instrument	Covenant	Measurement	Result as of May 29, 2010
Revolving Credit Facility & Term Loan	TTM EBITDA / TTM Interest Expense	Not less than 2.5	23.4
Revolving Credit Facility & Term Loan	Total Indebtedness / TTM EBITDA	Not greater than 3.5	1.5
2010 Private Placement	TTM EBITDA / TTM Interest Expense	Not less than 2.5	22.4
2010 Private Placement	Total Indebtedness / TTM EBITDA	Not greater than 3.5	1.6
1998 Private Placement	Total Debt / Total Capital	Not greater than 70%	34%
1998 Private Placement	Total Equity	Not less than \$200.0	\$567.7

TTM = Trailing 12 months

For the revolving credit facility and term loan, EBITDA is defined as income from continuing operations plus goodwill and other impairment charges plus interest expense plus income tax expense plus depreciation and amortization expense.

For the 2010 private placement, EBITDA is defined as income from continuing operations plus interest expense plus income tax expense plus depreciation and amortization expense.

We believe we have the ability to meet all of our contractual obligations and commitments in fiscal 2010. Included in these obligations are the following scheduled debt payments:

The final installment of \$25.0 million on senior long-term debt, was paid June 2, 2010, in our third quarter, using existing cash

\$5.6 million payment on term loan, due September 30, 2010 is expected to be paid using existing cash and cash expected to be generated during the remainder of fiscal year 2010

Selected Metrics of Liquidity

Key metrics we monitor are net working capital as a percent of annualized net revenue, trade account receivable days sales outstanding (DSO), inventory days on hand, free cash flow and debt capitalization ratio.

	May 29, 2010	May 30, 2009
Net working capital as a percentage of annualized net revenue ¹	15.6%	18.2%
Accounts receivable DSO ²	52 Days	57 Days
Inventory days on hand ³	48 Days	53 Days
Free cash flow ⁴	(\$5.9) million	\$41.3 million
Total debt to total capital ratio ⁵	34.0%	27.8%

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

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

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

⁴ Net cash provided by operations from continuing operations, less purchased property, plant and equipment and dividends paid.

⁵ Total debt divided by (total debt plus total stockholders' equity).

Another key metric is the return on gross investment, or ROGI. The calculation is represented by gross cash flow divided by Gross Investment.

Gross cash flow is defined as: gross profit, less SG&A less taxes at a non-GAAP standard rate of 29 percent, plus depreciation and amortization expenses, less maintenance capital expenditures, a non-GAAP financial measure defined as 50 percent of total depreciation expense. Gross cash flow is calculated using trailing 12 month information.

Gross investment is defined as total assets plus accumulated depreciation less non-debt current liabilities less cash.

ROGI was introduced because we believe it provides a true measure of return on investment, it is a better way to internally measure performance and it is focused on the long term. The ROGI calculated at May 29, 2010 was 8.6 percent as compared to 7.7 percent at November 28, 2009. Higher operating income in the first six months of 2010 as compared to the first six months of 2009 was the primary reason for the increase in ROGI.

The following table shows the ROGI calculation based on the definition above compared to a calculation using all GAAP-based data. We believe the use of certain non-GAAP financial measures provides a better calculation of ROGI because they eliminate fluctuations not specifically related to the return on the current investment base.

(\$ in millions)	Trailing 12 months as of May 29, 2010	
	ROGI (Management calculation)	ROGI (GAAP-based calculation)
Gross profit ¹	\$ 407.5	\$ 405.7
Selling, general and administrative expenses ²	(286.0)	(286.8)
Operating income	121.5	118.9
Taxes ³	(35.2)	(38.8)
Depreciation and amortization	45.2	45.2
Maintenance capital expenditures ⁴	(16.7)	(27.8)
Gross cash flow	\$ 114.8	\$ 97.5
Gross investment	\$ 1,328.8	\$ 1,328.8
Return on gross investment	8.6%	7.3%

¹ The ROGI (management calculation) gross profit excludes exit costs and asset impairment charges of \$1.8 associated with the exiting the polysulfide insulating glass product line in Europe.

² The ROGI (management calculation) selling, general and administrative expenses excludes exit costs of \$0.8 associated with exiting the polysulfide insulating glass product line in Europe.

³ The ROGI calculation for management measurement purposes uses a tax rate of 29 percent. The GAAP rate is based on actual tax expense including any discrete items.

⁴ Maintenance capital expenditures used for the management calculation of ROGI is 50 percent of total depreciation expense whereas the GAAP-based amount is the actual capital expenditures from the cash flow statement.

Summary of Cash Flows

Cash Flows from Operating Activities:

(\$ in millions)	26 Weeks Ended	
	May 29, 2010	May 30, 2009
Net cash provided by operating activities	\$ 16.3	\$ 58.1

Net income attributable to H.B. Fuller plus depreciation and amortization expense totaled \$50.6 million in the first six months of 2010 as compared to \$45.7 million for the same period of 2009. Changes in net working capital (trade receivables, inventory and trade payables) accounted for a use of cash of \$17.6 million in the first six months of 2010 as compared to a source of cash of \$8.0 million in the first six months of 2009. The overriding factor in the decrease in cash flow from operations in 2010 as compared to 2009 was that in 2009 as sales volumes and business activity were decreasing, the balances such as accounts receivable and inventory were being liquidated, resulting in positive cash flow. In 2010, investments in working capital are increasing in response to the significant growth in net revenue.

The table below shows the cash flow impact due to changes in the components of net working capital:

Edgar Filing: FULLER H B CO - Form 10-Q

(\$ in millions)	26 Weeks Ended	
	May 29, 2010	May 30, 2009
Trade receivables, net	\$ (11.8)	\$ 27.7
Inventory	(19.8)	32.1
Trade payables	14.0	(51.8)
Total cash flow impact	\$ (17.6)	\$ 8.0

Trade Receivables, net The increase in sales activity in the first six months of 2010 was the primary reason for the use of cash of \$11.8 million compared to a source of cash of \$27.7 million in 2009, when sales activity was declining. The DSO was 52 days at May 29, 2010 and 57 days at May 30, 2009. The DSO decrease was driven by significant reductions in the EIMEA and Asia Pacific operating segments.

Inventory The increase in inventory in 2010 is directly related to the increase in sales volume. In the first half of 2009 inventories were held at lower levels due to the lower sales levels and the uncertain economic environment. In 2010 certain raw materials have been in short supply so purchases have been made based on availability instead of on forecasted usage. This resulted in some balances being higher than normal as of May 29, 2010. Inventory days on hand were 48 days as of May 29, 2010 as compared to 53 days as of May 30, 2009. All four operating segments reported lower days on hand at the end of the second quarter of 2010 as compared to the end of the second quarter of 2009.

Trade Payables The large use of cash in the first six months of 2009 was primarily due to economic uncertainty in the first quarter of 2009 that resulted in the year-end 2008 payables balances being paid down without a corresponding increase in purchasing activity during the first half of 2009. The increase in the payables balance during the first half of 2010 was due to the overall increase in business activity.

Cash Flows from Investing Activities:

(\$ in millions)	26 Weeks Ended	
	May 29, 2010	May 30, 2009
Net cash used in investing activities	\$ (12.5)	\$ (14.3)

Purchases of property, plant and equipment were \$15.4 million in the first six months of 2010 as compared to \$10.3 million for the same period of 2009. The construction of the new manufacturing plant in Nanjing, China accounted for \$3.3 million of the increased spending in 2010 as compared to last year. Proceeds from sales of property, plant and equipment were \$3.0 million and \$0.1 million for the first six months of 2010 and 2009, respectively. During the second quarter of 2009, we purchased the outstanding shares of Nordic Adhesive Technology for \$4.2 million. We do not anticipate significant repair and maintenance activities on existing property, plant and equipment as a result of current or past capital spending policies.

Cash Flows from Financing Activities:

(\$ in millions)	26 Weeks Ended	
	May 29, 2010	May 30, 2009
Net cash provided by (used in) financing activities	\$ 71.5	\$ (14.2)

Proceeds of long-term debt were \$312.0 million in the first six months of 2010 compared to \$177.0 million for the first six months of 2009. Included in the 2010 proceeds of long-term debt is our November 13, 2009 note purchase agreement under which we issued \$150.0 million in aggregate principal amount of senior unsecured notes. Repayments of long-term debt were \$240.0 million in the first six months of 2010 compared to \$187.0 million for the same period of 2009. The repayments in the first six months of 2010 were primarily to pay down the revolving credit that had been used to fund pension contributions in the fourth quarter of 2009.

Forward-Looking Statements and Risk Factors

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. In this Quarterly Report on Form 10-Q, we discuss expectations regarding our future performance which include anticipated financial performance, savings from restructuring and process initiatives, global economic conditions,

liquidity requirements, the impact of litigation and environmental matters, the effect of new accounting pronouncements and one-time accounting charges and credits, and similar matters. This Quarterly Report on Form 10-Q contains forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements may be identified by the use of words like plan, expect, aim, believe, project, anticipate, intend, estimate, will, should, could (including the negative or variations thereof) and other expressions of future events and trends. These plans and expectations are based upon certain underlying assumptions, including those mentioned with the specific statements. Such assumptions are in turn based upon internal estimates and analyses of current market conditions and trends, our plans and strategies, economic conditions and other factors. These plans and expectations and the assumptions underlying them are necessarily subject to risks and uncertainties inherent in projecting future conditions and results. Actual results could differ materially from expectations expressed in the forward-looking statements if one or more of the underlying assumptions and expectations proves to be inaccurate or is unrealized. In addition to the factors described in this report, Part II, Item 1A. Risk Factors in this report and Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K/A for the fiscal year ended November 28, 2009, identify some of the important factors that could cause our actual results to differ materially from those in any such forward-looking statements. This list of important factors does not include all such factors nor necessarily present them in order of importance. In order to comply with the terms of the safe harbor, we have identified these important factors which could affect our financial performance and could cause our actual results for future periods to differ materially from the anticipated results or other expectations expressed in the forward-looking statements. Additionally, the variety of products sold by us and the regions where we do business makes it difficult to determine with certainty the increases or decreases in revenues resulting from changes in the volume of products sold, currency impact, changes in geographic and product mix and selling prices. Our best estimates of these changes as well as changes in other factors have been included. References to volume changes include volume, product mix and delivery charges, combined. These factors should be considered, together with any similar risk factors or other cautionary language, which may be made elsewhere in this Quarterly Report on Form 10-Q.

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

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

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

Interest Rate Risk: Exposure to changes in interest rates result primarily from borrowing activities used to fund operations. Committed floating rate credit facilities are used to fund a portion of operations. We believe that probable near-term changes in interest rates would not materially affect financial condition, results of operations or cash flows. The annual impact on interest expense of a one-percentage point interest rate change on the outstanding balance of our variable rate debt as of May 29, 2010 would be approximately \$1.9 million.

Foreign Exchange Risk: As a result of being a global enterprise, there is exposure to market risks from changes in foreign currency exchange rates, which may adversely affect operating results and financial condition.

Approximately 58 percent of net revenue was generated outside of the United States for the first six months of 2010. Principal foreign currency exposures relate to the Euro, Canadian dollar, Australian dollar, British pound sterling, Japanese yen, Argentine peso, Brazilian real, Costa Rican colones, Chinese renminbi and Honduran lempira.

Our objective is to balance, where possible, local currency denominated assets to local currency denominated liabilities to have a natural hedge and minimize foreign exchange impacts. We enter into cross border transactions through importing and exporting goods to and from different countries and locations. These transactions generate foreign exchange risk as they create assets, liabilities and cash flows in currencies other than the local currency. This also applies to services provided and other cross border agreements among subsidiaries.

We take steps to minimize risks from foreign currency exchange rate fluctuations through normal operating and financing activities and, when deemed appropriate, through the use of derivative instruments. We do not enter into any speculative positions with regard to derivative instruments.

From a sensitivity analysis viewpoint, based on the financial results of the first six months of 2010, and foreign currency balance sheet positions as of May 29, 2010, a hypothetical overall 10 percent change in the U.S. dollar would have resulted in a change in net income attributable to H.B. Fuller of approximately \$1.4 million or \$0.03 per diluted share.

Raw Materials: The principal raw materials used to manufacture products include resins, polymers, synthetic rubbers, vinyl acetate monomer and plasticizers. We generally avoid sole source supplier arrangements for raw materials. While alternate supplies of most key raw materials are available, unplanned supplier production outages may lead to strained supply-demand situations for several key raw materials such as ethylene and propylene, several polymers and other petroleum derivatives such as waxes.

For the six months ended May 29, 2010, our single largest expenditure was the purchase of raw materials. Our objective is to purchase raw materials that meet both our quality standards and production needs at the lowest total cost. Most raw materials are purchased on the open market or under contracts that limit the frequency but not the magnitude of price increases. In some cases, however, the risk of raw material price changes is managed by strategic sourcing agreements which limit price increases to increases in supplier feedstock costs, while requiring decreases as feedstock costs decline. The leverage of having substitute raw materials approved for use wherever possible is used to minimize the impact of possible price increases.

Item 4. Controls and Procedures

(a) Controls and procedures

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our president and chief executive officer and senior vice president, chief financial officer, of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on this evaluation, the president and chief executive officer and the senior vice president, chief financial officer concluded that, as of May 29, 2010, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms and to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to us, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

(b) Change in internal control over financial reporting

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Environmental Matters. From time to time, we 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 the Sorocaba, Brazil facility. Soil and water samples were collected on and around the Sorocaba facility, and test results indicated that certain contaminants, including carbon tetrachloride and other solvents, exist in the soil at the Sorocaba facility and in the groundwater at both the Sorocaba facility and some neighboring properties. We are continuing to work with Brazilian regulatory authorities to implement and operate a remediation system at the site. As of May 29, 2010, \$1.0 million was recorded as a liability for expected remediation expenses remaining for this site. Depending on the results of the testing of our current remediation actions, we may be required to record additional liabilities related to remediation costs at the Sorocaba facility.

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 our potential liability or contribution 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 May 29, 2010, we had reserved \$2.6 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. 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 PRP.

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

Other Legal Proceedings. From time to time and in the ordinary course of business, 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 do not believe, based upon currently available information, that the ultimate resolution of any pending matter, individually or in aggregate, including the asbestos litigation described in the following paragraphs, will have a material adverse effect on our long-term financial condition. However, adverse developments and/or periodic settlements could negatively impact the results of operations or cash flows in one or more future quarters.

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 asbestos containing products, 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.

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 expect to contribute up to \$4.1 million towards the settlement amount to be paid to the claimants in exchange for a full release of claims. Of this amount, our insurers have committed to pay \$2.0 million based on a probable liability of \$4.1 million. Given that the remaining settlement payouts are expected to occur over a period of years and that the accrual is based on the maximum number of cases to be settled, which has been our experience, we applied a present value approach and have accrued \$2.8 million and recorded a receivable of \$1.5 million, due from insurers, as of May 29, 2010.

In addition to the group settlement described above, a summary of the number of and settlement amounts for asbestos-related lawsuits and claims follows.

(\$ in millions)	26 Weeks Ended May 29, 2010	26 Weeks Ended May 30, 2009
Lawsuits and claims settled	3	1
Settlements reached	\$ 0.4	\$ 0.0
Insurance payments received or expected to be received	\$ 0.4	\$ 0.0

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 May 29, 2010, our probable liabilities and insurance recoveries related to asbestos claims, inclusive of the amounts related to the group settlement described above, were \$3.0 million and \$1.6 million respectively. 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 do not believe that asbestos-related litigation, individually or in aggregate, will have a material adverse effect on our long-term financial condition. However, adverse developments and/or periodic settlements in such litigation could negatively impact the results of operations or cash flows in one or more future quarters.

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 1A. Risk Factors

This Form 10-Q contains forward-looking statements concerning our future programs, products, expenses, revenue, liquidity and cash needs as well as our plans and strategies. These forward-looking statements are based on current expectations and we assume no obligation to update this information. Numerous factors could cause actual results to differ significantly from the results described in these forward-looking statements, including the risk factors identified under Part I, Item 1A. Risk Factors contained in our Annual Report on Form 10-K/A for the fiscal year ended November 28, 2009. There have been no material changes in the risk factors disclosed by us under Part I, Item 1A. Risk Factors contained in the Annual Report on Form 10-K/A for the fiscal year ended November 28, 2009.

Item 1B. Unresolved Staff Comments

None.

Item 6. Exhibits

- | | | |
|------|---------------------------|-----------------|
| 31.1 | Form of 302 Certification | Michele Volpi |
| 31.2 | Form of 302 Certification | James R. Giertz |
| 32.1 | Form of 906 Certification | Michele Volpi |
| 32.2 | Form of 906 Certification | James R. Giertz |

SIGNATURES

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

H.B. Fuller Company

Dated: June 30, 2010

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

Exhibit Index

Exhibits

31.1	Form of 302 Certification	Michele Volpi
31.2	Form of 302 Certification	James R. Giertz
32.1	Form of 906 Certification	Michele Volpi
32.2	Form of 906 Certification	James R. Giertz