FULLER H B CO
Form 10-Q
June 24, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended May 28, 2011

OR

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

For the transition period from to

Commission file number: 001-09225

H.B. FULLER COMPANY

(Exact name of registrant as specified in its charter)

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

(651) 236-5900

(Registrant s telephone number, including area code)

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

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

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

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

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

The number of shares outstanding of the Registrant s Common Stock, par value $1.00 per share, was 49,354,978 as of June 15, 2011.

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 28, 2011	May 29, 2010	May 28, 2011	May 29, 2010
Net revenue	**$ 393,722**	$ 347,908	**$ 733,270**	$ 657,350
Cost of sales	**(281,130)**	(246,800)	**(523,774)**	(458,563)
Gross profit	**112,592**	101,108	**209,496**	198,787
Selling, general and administrative expenses	**(77,608)**	(75,292)	**(153,261)**	(146,740)
Asset impairment charges		(8,785)	**(332)**	(8,785)
Other income (expense), net	**(51)**	1,340	**243**	1,277
Interest expense	**(2,572)**	(3,043)	**(5,153)**	(4,991)
Income before income taxes and income from equity method investments	**32,361**	15,328	**50,993**	39,548
Income taxes	**(9,984)**	(6,022)	**(16,269)**	(13,081)
Income from equity method investments	**2,476**	1,717	**4,336**	3,532
Net income including non-controlling interests	**24,853**	11,023	**39,060**	29,999
Net (income) loss attributable to non-controlling interests	**273**	(12)	**417**	(36)
Net income attributable to H.B. Fuller	**$ 25,126**	$ 11,011	**$ 39,477**	$ 29,963
Earnings per share attributable to H.B. Fuller common stockholders:				
Basic	**$ 0.51**	$ 0.23	**$ 0.81**	$ 0.62
Diluted	**$ 0.50**	$ 0.22	**$ 0.79**	$ 0.60
Weighted-average common shares outstanding:				
Basic	**49,021**	48,572	**49,013**	48,531
Diluted	**49,850**	49,613	**49,863**	49,554
Dividends declared per common share	**$ 0.075**	$ 0.070	**$ 0.1450**	$ 0.1380

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 28, 2011	November 27, 2010
Assets		
Current assets:		
Cash and cash equivalents	**$ 137,609**	$ 133,277
Trade receivables (net of allowances - $5,066 and $5,895, for May 28, 2011 and November 27, 2010, respectively)	**245,182**	221,020
Inventories	**151,849**	121,621
Other current assets	**54,220**	57,699
Total current assets	**588,860**	533,617
Property, plant and equipment	**838,267**	806,804
Accumulated depreciation	**(581,673)**	(555,729)
Property, plant and equipment, net	**256,594**	251,075
Goodwill	**120,488**	108,970
Other intangibles, net	**129,939**	131,517
Other assets	**153,978**	128,278
Total assets	**$ 1,249,859**	$ 1,153,457
Liabilities and total equity		
Current liabilities:		
Notes payable	**$ 27,814**	$ 27,243
Current maturities of long-term debt	**22,500**	22,500
Trade payables	**133,869**	102,107
Accrued compensation	**37,125**	45,645
Income taxes payable	**5,151**	4,931
Other accrued expenses	**25,735**	28,907
Total current liabilities	**252,194**	231,333
Long-term debt, excluding current maturities	**189,521**	200,978
Accrued pension liabilities	**39,070**	42,788
Other liabilities	**44,931**	43,968
Total liabilities	**525,716**	519,067
Commitments and contingencies		
Equity:		
H.B. Fuller stockholders equity:		
Preferred stock (no shares outstanding) Shares authorized 10,045,900		

Common stock, par value $1.00 per share, Shares authorized 160,000,000, Shares outstanding 49,348,077 and 49,194,251, for May 28, 2011 and November 27, 2010, respectively	**49,348**	49,194
Additional paid-in capital	**25,316**	22,701
Retained earnings	**678,848**	646,596
Accumulated other comprehensive income (loss)	**(31,421)**	(86,557)
Total H.B. Fuller stockholders equity	**722,091**	631,934
Non-controlling interests	**2,052**	2,456
Total equity	**724,143**	634,390
Total liabilities and total equity	**$ 1,249,859**	$ 1,153,457

See accompanying notes to consolidated financial statements.

H.B. FULLER COMPANY AND SUBSIDIARIES

Consolidated Statements of Total Equity

(In thousands)

(Unaudited)

	H.B. Fuller Company Shareholders					
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interests	Total
Balance at November 28, 2009	$ 48,658	$ 12,309	$ 589,451	$ (59,064)	$ 2,888	$ 594,242
Net income including non-controlling interests			70,877		(458)	70,419
Foreign currency translation				(28,666)	26	(28,640)
Medicare Part D Subsidy tax adjustment				(1,484)		(1,484)
Defined benefit pension plans adjustment, net of tax of $(1,523)				2,626		2,626
Interest rate swap, net of tax				31		31
Comprehensive income						42,952
Dividends			(13,732)			(13,732)
Stock option exercises	358	3,592				3,950
Share-based compensation plans other, net	196	6,650				6,846
Tax benefit on share-based compensation plans		509				509
Repurchases of common stock	(18)	(359)				(377)
Balance at November 27, 2010	49,194	22,701	646,596	(86,557)	2,456	634,390
Net income including non-controlling interests			39,477		(417)	39,060
Foreign currency translation				31,952	13	31,965
Defined benefit pension plans adjustment, net of tax of $14,225				23,164		23,164
Interest rate swaps, net of tax				20		20
Comprehensive income						94,209
Dividends			(7,225)			(7,225)
Stock option exercises	337	4,906				5,243
Share-based compensation plans other, net	74	2,997				3,071
Tax benefit on share-based compensation plans		133				133
Repurchases of common stock	(257)	(5,421)				(5,678)
Balance at May 28, 2011	**$ 49,348**	**$ 25,316**	**$ 678,848**	**$ (31,421)**	**$ 2,052**	**$ 724,143**

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 28, 2011	**May 29, 2010**
Cash flows from operating activities:		
Net income including non-controlling interests	**$ 39,060**	$ 29,999
Adjustments to reconcile net income including non-controlling interests to net cash provided by operating activities:		
Depreciation	**14,954**	14,810
Amortization	**5,009**	5,824
Deferred income taxes	**436**	(3,347)
Income from equity method investments	**(4,336)**	(3,532)
Share-based compensation	**3,371**	3,562
Excess tax benefit from share-based compensation	**(133)**	(94)
Asset impairment charges	**332**	8,785
Change in assets and liabilities, net of effects of acquisitions:		
Trade receivables, net	**(17,135)**	(11,781)
Inventories	**(25,867)**	(19,860)
Other assets	**6,285**	2,585
Trade payables	**28,516**	14,013
Accrued compensation	**(9,658)**	(7,022)
Other accrued expenses	**(3,770)**	1,469
Income taxes payable	**(357)**	(2,579)
Accrued / prepaid pensions	**(4,285)**	(5,293)
Other liabilities	**(1,409)**	(5,194)
Other	2,927	(6,093)
Net cash provided by operating activities	**33,940**	16,252
Cash flows from investing activities:		
Purchased property, plant and equipment	**(14,064)**	(15,405)
Purchased businesses, net of cash acquired	**(6,000)**	
Proceeds from sale of property, plant and equipment	**28**	2,953
Net cash used in investing activities	**(20,036)**	(12,452)
Cash flows from financing activities:		
Proceeds from long-term debt	**99,000**	312,000
Repayment of long-term debt	**(110,250)**	(240,000)
Net proceeds from notes payable	**21**	4,696
Dividends paid	**(7,150)**	(6,753)
Proceeds from stock options exercised	**5,243**	1,860
Excess tax benefit from share-based compensation	**133**	94
Repurchases of common stock	**(5,678)**	(377)
Net cash provided by (used in) financing activities	**(18,681)**	71,520
Effect of exchange rate changes	**9,109**	(14,386)
Net change in cash and cash equivalents	**4,332**	60,934
Cash and cash equivalents at beginning of period	**133,277**	100,154

Cash and cash equivalents at end of period	**$**	**137,609**	$	161,088
Supplemental disclosure of cash flow information:				
Dividends paid with company stock	**$**	**75**	$	47
Cash paid for interest	**$**	**6,604**	$	4,686
Cash paid for income taxes	**$**	**5,017**	$	17,631

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 for the year ended November 27, 2010 as filed with the Securities and Exchange Commission.

Recently Adopted Accounting Pronouncements:

On November 28, 2010, the beginning of our fiscal 2011, we adopted the new guidance in ASC Topic 605, Revenue Recognition, relating to the accounting for revenue arrangements involving multiple deliverables. The 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 previous requirements. The adoption of this standard did not have a material impact on our consolidated financial statements.

Note 2: Acquisitions

Liquamelt Corp.: On April 15, 2011 we acquired the principal assets and certain liabilities of Liquamelt Corp., a manufacturer and marketer of adhesives and a unique adhesive dispensing system. Liquamelt Corp. is based in Lorain, Ohio. This innovative adhesive system delivers room temperature liquid adhesive to the point of application where it is activated and dispensed. It rapidly forms strong bonds over a wide variety of substrates.

The purchase price of $6,000 was funded through existing cash. Under the terms of the agreement, the assets acquired included trade receivables, inventory, equipment and intangible assets. We assumed a small trade payables balance, but no debt was assumed. We also incurred acquisition related costs of approximately $118, which were recorded as selling, general and administrative expenses in the consolidated statements of income. The acquisition was recorded in our North America Adhesives operating segment.

In addition to the initial consideration, the former owners are entitled to receive a series of semi-annual cash payments based on certain financial performance criteria during the period April 15, 2011 through November 26, 2016 up to a maximum additional consideration of $7,000. We used a present value technique based on expected future cash flows to estimate the fair value of the contingent consideration. The resulting fair value of the contingent consideration was $1,919 which was recorded in long-term liabilities and increased goodwill. Each reporting period we will determine the fair value of the contingent consideration liability and any changes in value will be reflected in the consolidated statements of income.

Based on valuations we recorded:

Current assets	$ 175
Property, plant and equipment	56
Intangibles	2,868
Goodwill	4,882
Current liabilities	(62)
Contingent consideration liabilities	(1,919)
Total cash paid	$ 6,000

Of the $2,868 of acquired intangibles, $2,173 was assigned to intellectual property with an expected life of 12 years, $516 was assigned to trademarks with an expected life of 15 years and $179 was assigned to non-compete agreements with expected lives of 4 or 5 years.

Revertex Finewaters Sdn. Bhd. On June 2, 2010, we acquired the outstanding shares of Revertex Finewaters Sdn. Bhd., a supplier of adhesives in Malaysia and Southeast Asia, based outside Kuala Lumpur, Malaysia. The acquisition further strengthened our market position in Southeast Asia and expanded our geographic presence and customer portfolio in the region. The acquisition was a stock purchase and therefore encompassed all Revertex Finewaters business operations. The acquisition was recorded in our Asia Pacific operating segment.

The purchase price of $26,768, which was net of cash acquired of $557, was funded through existing cash. We also incurred acquisition related costs of approximately $498, which were recorded as selling, general and administrative expenses in the consolidated statements of income.

Of the $11,144 of acquired intangibles, $7,271 was assigned to customer relationships with an expected life of 12 years, $2,978 was assigned to trademarks with an expected life of 15 years and $895 was assigned to non-competition agreements with an expected life of 4 years.

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 complemented our existing product line, enhanced our applications knowledge and enabled us to expand our presence in the flexible packaging segment of the adhesives industry. The acquisition was a stock purchase and therefore encompassed all Nordic Adhesive Technology 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 former shareholders of Nordic Adhesive Technology 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 former shareholders earning 608 or approximately $805. Because this acquisition occurred prior to the new rules on accounting for business combinations, this amount was considered additional purchase price, which increased goodwill. The second earn-out was based on financial performance for a period from April 2010 to April 2011. According to the terms of the agreement, there was no earn-out earned for the second earn-out period. There is one remaining earn-out period that could result in an additional payment of up to 1,992 which would also be considered additional purchase price. No amounts have been accrued for the remaining earn-out period as the contingency has not been resolved and additional consideration is not distributable as of the end of the second quarter of 2011.

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 as of November 27, 2010.

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 28, 2011 and May 29, 2010 were calculated using the following assumptions:

	13 Weeks Ended		26 Weeks Ended	
	May 28, 2011	May 29, 2010	May 28, 2011	May 29, 2010
Expected life (in years)	4.75	5.00	4.75	5.00
Weighted-average expected volatility	51.44%	51.10%	52.23%	50.81%
Expected volatility	51.43% - 51.54%	51.10%	51.43% - 52.30%	50.80% - 51.10%
Risk-free interest rate	1.99%	2.61%	1.94%	2.15%
Expected dividend yield	1.38%	1.17%	1.30%	1.35%
Weighted-average fair value of grants	$8.66	$10.10	$9.18	$8.52

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 share-based compensation expense for option awards with graded vesting and restricted stock awards with graded and cliff vesting. The amount of share-based compensation expense recognized during a period is based on the value of the portion of the awards that are ultimately expected to vest.

Total share-based compensation expense of $1,581 and $1,633 was included in our Consolidated Statements of Income for the 13 weeks ended May 28, 2011 and May 29, 2010, respectively. Total share-based compensation expense of $3,371 and $3,562 was included in our Consolidated Statements of Income for the 26 weeks ended May 28, 2011 and May 29, 2010, respectively. No share-based compensation was capitalized. All share-based compensation was recorded as selling, general and administrative expense. For the 13 weeks ended May 28, 2011 there was $67 charged against the APIC Pool for tax deficiencies. For the 26 weeks ended May 28, 2011 there was $133 of excess tax benefit recognized. For the 13 weeks and 26 weeks ended May 29, 2010 there was $50 and $94 of excess tax benefit recognized, respectively.

As of May 28, 2011, there was $7,596 of unrecognized compensation costs related to unvested stock option awards, which is expected to be recognized over a weighted-average period of 2.0 years. Unrecognized compensation costs related to unvested restricted stock awards was $6,303, which is expected to be recognized over a weighted-average period of 1.2 years.

Share-based Activity

A summary of option activity as of May 28, 2011 and changes during the 26 weeks then ended is presented below:

	Options	Weighted-Average Exercise Price
Outstanding at November 27, 2010	2,820,468	$ 18.25
Granted	489,938	22.20
Exercised	(337,331)	16.81
Forfeited or Cancelled	(373,717)	21.84
Outstanding at May 28, 2011	2,599,358	$ 18.83

The fair values of options granted during the 13 weeks ended May 28, 2011 and May 29, 2010 were $325 and $141, respectively. Total intrinsic values of options exercised during the 13 weeks ended May 28, 2011 and May 29, 2010 were $181 and $402, 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 values of options granted during the 26 weeks ended May 28, 2011 and May 29, 2010 were $4,499 and $4,861, respectively. Total intrinsic values of options exercised during the 26 weeks ended May 28, 2011 and May 29, 2010 were $2,280 and $1,176, respectively. Proceeds received from option exercises during the 13 weeks ended May 28, 2011 and May 29, 2010 were $440 and $650, respectively and $5,243 and $1,860 during the 26 weeks ended May 28, 2011 and May 29, 2010, respectively.

A summary of nonvested restricted stock as of May 28, 2011, 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 27, 2010	111,940	365,829	477,769	$ 19.17	1.7
Granted	77,847	127,994	205,841	22.19	2.7
Vested	(35,437)	(91,465)	(126,902)	21.60	
Forfeited	(8,623)	(90,154)	(98,777)	18.57	1.6
Nonvested at May 28, 2011	145,727	312,204	457,931	$ 21.28	1.4

Total fair values of restricted stock vested during the 13 weeks ended May 28, 2011 and May 29, 2010 were $209 and $79, respectively. Total fair value of restricted stock vested during the 26 weeks ended May 28, 2011 and May 29, 2010 was $2,741 and $1,436, respectively. The total fair value of nonvested restricted stock at May 28, 2011 was $6,823.

We repurchased 2,498 and 1,644 restricted stock shares during the 13 weeks ended May 28, 2011 and May 29, 2010, respectively, and 31,640 and 17,804 restricted stock shares during the 26 weeks ended May 28, 2011 and May 29, 2010, respectively, in conjunction with restricted stock vestings. The repurchases relate to statutory minimum tax withholding. We expect approximately 14,500 additional shares for statutory minimum tax withholding to be repurchased in the remainder of fiscal 2011.

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. We provide a 10 percent match on deferred compensation invested into units, representing shares of our common stock. A summary of deferred compensation units as of May 28, 2011, and changes during the 26 weeks then ended is presented below:

	Non-employee Directors	Employees	Total
Units outstanding November 27, 2010	277,345	88,798	366,143
Participant contributions	9,061	2,467	11,528
Company match contributions	1,709	410	2,119
Payouts	(1,073)	(7,262)	(8,335)
Units outstanding May 28, 2011	287,042	84,413	371,455

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 28, 2011	**May 29, 2010**	**May 28, 2011**	**May 29, 2010**
Weighted-average common shares - basic	**49,020,948**	48,571,860	**49,013,487**	48,531,232
Equivalent shares from share-based compensations plans	**828,795**	1,041,378	**849,889**	1,022,555
Weighted-average common and common equivalent shares - diluted	**49,849,743**	49,613,238	**49,863,376**	49,553,787

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 820,095 and 1,186,954 shares of common stock at the weighted-average exercise price of $24.31 and $23.36 for the 13 week periods ended May 28, 2011 and May 29, 2010, respectively, and options to purchase 893,053 and 1,193,589 shares of common stock at the weighted-average exercise price of $24.50 and $23.37 for the 26 week periods ended May 28, 2011 and May 29, 2010, respectively, were excluded from the diluted earnings per share calculations because they were antidilutive.

Note 5: Accumulated Other Comprehensive Income (Loss)

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

		May 28, 2011	
	Total	**H.B. Fuller Stockholders**	**Non-controlling Interests**
Foreign currency translation adjustment	**$ 82,335**	**$ 82,309**	**$ 26**
Interest rate swap, net of taxes of $76	**(198)**	**(198)**	
Defined benefit pension plans adjustment net of taxes of $59,758	**(113,532)**	**(113,532)**	
Total accumulated other comprehensive income (loss)	**$ (31,395)**	**$ (31,421)**	**$ 26**

		November 27, 2010	
	Total	**H.B. Fuller Stockholders**	**Non-controlling Interests**
Foreign currency translation adjustment	$ 50,370	$ 50,357	$ 13
Interest rate swap, net of taxes of $84	(218)	(218)	
Defined benefit pension plans adjustment net of taxes of $73,983	(136,696)	(136,696)	
Total accumulated other comprehensive income (loss)	$ (86,544)	$ (86,557)	$ 13

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

	13 Weeks Ended May 28, 2011 and May 29, 2010					
	Pension Benefits				Other Postretirement Benefits	
	U.S. Plans		Non-U.S. Plans			
Net periodic cost (benefit):	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Service cost	**$ 909**	$ 1,374	**$ 283**	$ 271	**$ 128**	$ 136
Interest cost	**4,079**	4,276	**1,843**	1,750	**669**	730
Expected return on assets	**(6,125)**	(6,558)	**(2,000)**	(1,959)	**(772)**	(683)
Amortization:						
Prior service cost	**110**	16	**(1)**	(1)	**(1,174)**	(1,159)
Actuarial (gain)/ loss	**1,148**	617	**692**	642	**1,483**	1,583
Settlement				821		
Net periodic cost (benefit)	**$ 121**	$ (275)	**$ 817**	$ 1,524	**$ 334**	$ 607

	26 Weeks Ended May 28, 2011 and May 29, 2010					
	Pension Benefits				Other Postretirement Benefits	
	U.S. Plans		Non-U.S. Plans			
Net periodic cost (benefit):	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Service cost	**$ 2,280**	$ 2,748	**$ 550**	$ 540	**$ 257**	$ 271
Interest cost	**8,360**	8,552	**3,596**	3,588	**1,338**	1,461
Expected return on assets	**(12,497)**	(13,116)	**(3,903)**	(4,011)	**(1,544)**	(1,367)
Amortization:						
Prior service cost	**127**	33	**(2)**	(2)	**(2,347)**	(2,318)
Actuarial (gain)/ loss	**2,649**	1,234	**1,347**	1,306	**2,966**	3,166
Settlement				821		
Net periodic cost (benefit)	**$ 919**	$ (549)	**$ 1,588**	$ 2,242	**$ 670**	$ 1,213

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

The Plan assets and liabilities were remeasured as of April 30, 2011 and the funded position of the Plan improved from an overfunded position of $5,386 as of November 27, 2010 to an overfunded position of $39,085 as of April 30, 2011. The improvement was primarily due to strong asset performance through the first five months of the fiscal year. The discount rate used for the April 30 remeasurement was 5.50 percent as compared to the year-end 2010 discount rate of 5.49 percent. The expected return on assets remained at 8.0 percent for the April 30 remeasurement.

Note 7: Inventories

The composition of inventories follows:

	May 28, 2011	**November 28, 2010**
Raw materials	**$ 85,833**	$ 64,404
Finished goods	**87,050**	76,450

LIFO reserve	**(21,034)**	(19,233)
Total inventories	**$ 151,849**	$ 121,621

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, Swiss franc, Argentine peso, Brazilian real, Chilean peso, Columbian peso, Costa Rican colon, Chinese renminbi, Honduran lempira, Indian rupee and Mexican peso.

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 28, 2011, we had forward foreign currency contracts maturing between June 1, 2011 and April 17, 2012. The mark-to-market effect associated with these contracts, on a net basis, was a loss of $569 at May 28, 2011. These losses were largely offset by the underlying transaction gains and losses resulting from the foreign currency exposures for which these contracts relate.

We have interest rate swap agreements to convert $75,000 of our Senior Notes to variable interest rates. The change in fair value of the Senior Notes, attributable to the change in the risk being hedged, was a liability of $3,896 at May 28, 2011 and was included in long-term debt in the consolidated balance sheet. The fair values of the swaps in total were an asset of $3,769 at May 28, 2011 and were included in other assets in the consolidated balance sheet. The swaps were designated for hedge accounting treatment. The hedge ineffectiveness calculation as of May 28, 2011 resulted in additional pretax income of $80 for the quarter as the fair value of the interest rate swaps increased by more than the change in the fair value of the Senior Notes attributable to the change in the risk being hedged.

Concentrations of credit risk with respect to trade accounts receivable are limited due to the large number of entities in the customer base and their dispersion across many different industries and countries. As of May 28, 2011, there were no significant concentrations of credit risk.

Note 9: Commitments and Contingencies

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

Currently we are involved in various environmental investigations, clean up activities and administrative proceedings and lawsuits. In particular, we are currently deemed a PRP in conjunction with numerous other parties, in a number of government enforcement actions associated with hazardous waste sites. As a PRP, we may be required to pay a share of the costs of investigation and clean up of these sites. In addition, we are engaged in environmental remediation and monitoring efforts at a number of current and former operating facilities, including remediation of environmental contamination at our Sorocaba, Brazil facility. Soil and water samples were collected on and around the Sorocaba facility, and test results indicated that certain contaminants, including carbon tetrachloride and other solvents, exist in the soil and in the groundwater at both the Sorocaba facility and some neighboring properties. We are continuing to work with Brazilian regulatory authorities to implement and operate a remediation system at the site. As of May 28, 2011, $1,084 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 potential liability or contribution of us relative to the other parties, the nature and magnitude of the hazardous substances involved, the method and extent of remediation, the estimated legal and consulting expense with respect to each site and the time period over which any costs would likely be incurred. To the extent we can reasonably estimate the amount of our probable liabilities for environmental matters, we establish a financial provision. As of May 28, 2011, we had reserved $2,436, 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 potentially responsible parties.

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 periods.

Other Legal Proceedings. From time to time and in the ordinary course of business, we are a party to, or a target of, lawsuits, claims, investigations and proceedings, including product liability, personal injury, contract, patent and intellectual property, health and safety and employment matters. While we are unable to predict the outcome of these matters, we 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 periods.

We have been named as a defendant in lawsuits in which plaintiffs have alleged injury due to products containing asbestos manufactured more than 25 years ago. The plaintiffs generally bring these lawsuits against multiple defendants and seek damages (both actual and punitive) in very large amounts. In many cases, plaintiffs are unable to demonstrate that they have suffered any compensable injuries or that the injuries suffered were the result of exposure to products manufactured by us. We are typically dismissed as a defendant in such cases without payment. If the plaintiff presents evidence indicating that compensable injury occurred as a result of exposure to our products, the case is generally settled for an amount that reflects the seriousness of the injury, the length, intensity and character of exposure to products containing asbestos, the number and solvency of other defendants in the case, and the jurisdiction in which the case has been brought.

A significant portion of the defense costs and settlements in asbestos-related litigation continues to be paid by third parties, including indemnification pursuant to the provisions of a 1976 agreement under which we acquired a business from a third party. Historically, this third party routinely defended all cases tendered to it and paid settlement amounts resulting from those cases. In the 1990s, the third party sporadically reserved its rights, but continued to defend and settle all asbestos-related claims tendered to it by us. In 2002, the third party rejected the tender of certain cases and indicated it would seek contributions for past defense costs, settlements and judgments. However, this third party is defending and paying settlement amounts, under a reservation of rights, in most of the asbestos cases tendered to the third party. As discussed below, during the fourth quarter of 2007, we and a group of other defendants, including the third party obligated to indemnify us against certain asbestos-related claims, entered into negotiations with certain law firms to settle a number of asbestos-related lawsuits and claims.

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

As referenced above, during the fourth quarter of 2007, we and a group of other defendants entered into negotiations with certain law firms to settle a number of asbestos-related lawsuits and claims over a period of years. In total, we

had expected to contribute up to $4,114, based on a present value calculation, towards the settlement amounts to be paid to the claimants in exchange for full releases of claims. Of this amount, our insurers had committed to pay $2,043 based on the probable liability of $4,114. Our contributions toward settlements from the time of the agreement through the end of fiscal year 2010 were $1,674 with insurers paying $892 of that amount. Based on this experience we reduced our reserves in the fourth quarter of 2010 to an undiscounted amount of $800 with insurers expected to pay $510. During the first six months of 2011 we contributed another $210 toward settlements with insurers paying $134 of that amount. This reduced our reserves for this agreement to $590 with an insurance receivable of $376. These amounts represent our best estimate for the settlement amounts yet to be paid related to this agreement. Our reserve is recorded on an undiscounted basis.

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

($ in thousands)	**26 Weeks Ended May 28, 2011**	**26 Weeks Ended May 29, 2010**
Lawsuits and claims settled	**3**	3
Settlement amounts	**$ 265**	$ 448
Insurance payments received or expected to be received	**$ 206**	$ 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 liabilities for pending asbestos-related claims, we establish a financial provision and a corresponding receivable for insurance recoveries. As of May 28, 2011, our probable liabilities and insurance recoveries related to asbestos claims were $874 and $616, 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

Through the first quarter of 2011, we managed our business based on four primary geographic regions: North America, EIMEA, Latin America and Asia Pacific which were our reportable segments for SEC disclosure purposes. The change in our CEO at the end of fiscal 2010 resulted in a review of our management reporting structure. Changes in the reporting structure, during the second quarter of 2011, required us to conduct an operating segment assessment in accordance with ASC Topic 280 Segment Reporting , to determine our reportable segments. The conclusion of the assessment is that we now have six reportable segments: North America Adhesives, Construction Products, EIMEA, Latin America Adhesives, Latin America Paints and Asia Pacific. Operating results of each of these segments are regularly reviewed by our chief operating decision maker to make decisions about resources to be allocated to the segments and assess their performance.

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.

The tables below provide certain information regarding the net revenue, operating income, and total assets of each of our operating segments and prior periods have been restated:

	13 Weeks Ended					
	May 28, 2011			May 29, 2010		
	Trade Revenue	Inter-Segment Revenue	Operating Income	Trade Revenue	Inter-Segment Revenue	Operating Income
North America Adhesives	**$ 121,932**	**$ 14,883**	**$ 17,774**	$ 115,399	$ 13,867	$ 16,636
Construction Products	**38,397**	**81**	**2,804**	35,703	79	2,207
EIMEA	**121,691**	**2,362**	**8,078**	104,568	2,108	3,294
Latin America Adhesives	**36,243**	**280**	**2,677**	31,673	249	2,135
Latin America Paints	**25,714**	**594**	**992**	23,065	123	123
Asia Pacific	**49,745**	**1,531**	**2,659**	37,500	1,890	1,421
Total	**$ 393,722**		**$ 34,984**	$ 347,908		$ 25,816

	26 Weeks Ended					
	May 28, 2011			May 29, 2010		
	Trade Revenue	Inter-Segment Revenue	Operating Income	Trade Revenue	Inter-Segment Revenue	Operating Income
North America Adhesives	**$ 229,960**	**$ 27,482**	**$ 33,010**	$ 215,928	$ 24,381	$ 33,866
Construction Products	**65,295**	**174**	**2,449**	62,241	152	2,180
EIMEA	**222,497**	**5,316**	**10,024**	198,586	4,240	7,404
Latin America Adhesives	**67,346**	**564**	**3,653**	60,796	558	4,097
Latin America Paints	**54,507**	**1,244**	**3,374**	49,236	135	1,013
Asia Pacific	**93,665**	**4,346**	**3,725**	70,563	3,489	3,487
Total	**$ 733,270**		**$ 56,235**	$ 657,350		$ 52,047

	May 28, 2011	May 29, 2010
Total assets		
North America Adhesives	**$ 193,178**	**$ 205,456**
Construction Products	**191,200**	**198,920**
EIMEA	**334,793**	**267,597**
Latin America Adhesives	**88,786**	**81,983**
Latin America Paints	**71,519**	**63,951**
Asia Pacific	**163,150**	**95,738**
Corporate	**207,233**	**218,297**
Total	**$ 1,249,859**	**$ 1,131,942**

Segment assets include primarily inventory, trade receivable, property, plant and equipment and other miscellaneous assets. Corporate assets include primarily corporate property, plant and equipment, deferred tax assets, certain investments and other assets.

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

	13 Weeks Ended	26 Weeks Ended

	May 28, 2011	May 29, 2010	**May 28, 2011**	May 29, 2010
Operating income	**$ 34,984**	$ 25,816	**$ 56,235**	$ 52,047
Asset impairment charges		(8,785)	**(332)**	(8,785)
Other income (expense), net	**(51)**	1,340	**243**	1,277
Interest expense	**(2,572)**	(3,043)	**(5,153)**	(4,991)
Income before income taxes and income from equity method investments	**$ 32,361**	$ 15,328	**$ 50,993**	$ 39,548

Note 11: Income Taxes

As of May 28, 2011, we had a $6,557 liability recorded under FASB ASC 740 Income Taxes for gross unrecognized tax benefits (excluding interest). As of May 28, 2011, we had accrued $1,419 of net interest and penalties relating to unrecognized tax benefits. During the second quarter of 2011 our recorded liability for unrecognized tax benefits, net, decreased by $1,113 principally as a result of the settlement of an audit in Germany.

Note 12: Goodwill

During the second quarter of 2011, we acquired the principal assets and certain liabilities of Liquamelt Corp. Based on valuations, we recorded $4,882 to goodwill. See Note 2 for further discussion.

A summary of goodwill activity for the first six months of 2011 is presented below:

Balance at November 27, 2010	$ 108,970
Currency impact	3,422
Balance at February 26, 2011	112,392
Liquamelt Corp. acquisition	4,882
Currency impact	3,214
Balance at May 28, 2011	$ 120,488

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 28, 2011, 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.

		Fair Value Measurements Using:			
Description	May 28, 2011	Level 1	Level 2	Level 3	Total Gains (Losses)
Assets:					
Marketable securities	$ 51,561	$ 51,561	$	$	$
Derivative assets	1,020		1,020		
Interest rate swaps	3,769		3,769		
Liabilities:					
Derivative liabilities	$ 1,589	$	$ 1,589	$	$
Contingent consideration liability	1,919			1,919	

Note 14: Share Repurchase Program

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

During the second quarter of 2011 we repurchased shares under this program with an aggregate value of $2,498. Of this amount $116 reduced common stock and $2,382 reduced additional paid-in capital. During the first six months of 2011 we repurchased shares under this program with an aggregate value of $4,995. Of this amount $226 reduced common stock and $4,769 reduced additional paid-in capital.

Note 15: Impairment of Long-lived Asset

On September 10, 2010 a fire at our Portugal manufacturing site caused significant damage to a portion of one building and production in that specific unit was temporally idled. The portion of the building that was damaged produced water-based polymers used to manufacture both adhesive and resin products. During the first quarter of 2011, a decision was made to discontinue production of the polymers used in certain resin products that had been produced by our Portugal manufacturing site. As a result, we performed an impairment test on the Portugal trademarks and trade names used in resin products. In accordance with accounting standards, we calculated the fair value using a discounted cash flow approach. As a result of this analysis, we recorded an impairment charge of $332 ($220 after tax). The intangible assets are recorded in our EIMEA operating segment.

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

Overview

The Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with the MD&A included in our Annual Report on Form 10-K for the year ended November 27, 2010 for important background information related to our business.

Net revenue in the second quarter of 2011 increased 13.2 percent over the second quarter of 2010. Organic growth, which we define as revenue growth due to changes in sales volume and selling prices, was a positive 8.5 percent as compared to the second quarter of 2010. The growth was broad-based across market segments and geography. Specifically, our Latin America Adhesives, Latin America Paints and EIMEA operating segments all had double digit organic sales growth for the quarter. Net revenue for the first six months of 2011 increased 11.5 percent over the first six months of 2010. Organic sales growth was a positive 8.7 percent for the first six months compared to last year. For the first six months, all six segments showed positive organic sales growth, EIMEA 11.5 percent, Latin America Adhesives 10.8 percent, Latin America Paints 10.7 percent, Asia Pacific 9.3 percent, North America Adhesives 6.0 percent and Construction Products 4.9 percent. The continuation of higher raw material costs contributed to a decline in gross profit margin to 28.6 percent in the second quarter and first six months of 2011 compared to 29.1 percent and 30.2 percent in the second quarter and first six months of 2010, respectively. We reduced our SG&A expenses as a percentage of revenue by 190 basis points in the second quarter relative to last year s second quarter and 140 basis points for the first six months of 2011 compared to the first six months of 2010.

Net income attributable to H.B. Fuller for the second quarter of 2011 was $25.1 million as compared to $11.0 million in the second quarter of 2010. Included in the net income attributable to H.B. Fuller for the second quarter of 2010, were exit costs and asset impairment charges of $8.4 million after tax or $0.17 per share. On a diluted earnings per share basis, the second quarter of 2011 was $0.50 per share as compared to $0.22 per share for the same period last year. Net income attributable to H.B. Fuller for the first six months of 2011 was $39.5 million as compared to $30.0 million in the same period of 2010. On a diluted earnings per share basis, the first six months of 2011 was $0.79 per share as compared to $0.60 per share for the same period last year.

Results of Operations

Net revenue:

	13 Weeks Ended			26 Weeks Ended		
($ in millions)	**May 28, 2011**	**May 29, 2010**	**2011 vs 2010**	**May 28, 2011**	**May 29, 2010**	**2011 vs 2010**
Net revenue	$ 393.7	$ 347.9	13.2%	$ 733.3	$ 657.4	11.5%

We review variances in net revenue in terms of changes related to product pricing, sales volume, changes in foreign currency exchange rates and acquisitions. The pricing/sales volume variance is viewed as organic growth. The following table shows the net revenue variance analysis for the second quarter and the first six months of 2011 compared to the same periods in 2010:

	13 Weeks Ended May 28, 2011	26 Weeks Ended May 28, 2011
Product pricing	8.2%	7.8%
Sales volume	0.3%	0.9%
Currency	3.0%	1.1%
Acquisitions	1.7%	1.7%
	13.2%	11.5%

Organic sales growth was a positive 8.5 percent (positive 8.2 percent from product pricing and positive 0.3 percent from sales volume) in the second quarter of 2011 as compared to the same period last year. For the first six months of 2011, organic sales growth was a positive 8.7 percent as compared to the same period last year. The organic sales growth was driven by double-digit growth in the EIMEA, Latin America Adhesives and Latin America Paints operating segments and nearly double-digit growth in the Asia Pacific operating segment. The positive currency effects in the quarter and first six months were primarily the result of the strengthening of the Euro and the Australian dollar as compared to the U.S dollar. The net revenue increase from acquisitions in 2011 was due to the acquisition of Revertex Finewaters, early in the

third quarter of 2010.

Cost of sales:

	13 Weeks Ended			26 Weeks Ended		
($ in millions)	May 28, 2011	May 29, 2010	2011 vs 2010	May 28, 2011	May 29, 2010	2011 vs 2010
Cost of sales:	$ 281.1	$ 246.8	13.9%	$ 523.8	$ 458.6	14.2%
Percent of net revenue	71.4%	70.9%		71.4%	69.8%	

The 13.9 percent increase in the cost of sales in the second quarter of 2011 as compared to the second quarter of 2010 and the 14.2 percent increase in the first six months of 2011 compared to the same period of last year were both driven by increases in raw material costs primarily due to supply shortages and higher cost of feedstocks. Each of our six operating segments was impacted by the rising raw material costs. The shortages were driven by refineries reducing the supply of the by-products that are used as raw materials in the production of adhesives and by increased demand in adjacent industries.

Gross profit:

	13 Weeks Ended			26 Weeks Ended		
($ in millions)	May 28, 2011	May 29, 2010	2011 vs 2010	May 28, 2011	May 29, 2010	2011 vs 2010
Gross profit	$ 112.6	$ 101.1	11.4%	$ 209.5	$ 198.8	5.4%
Percent of net revenue	28.6%	29.1%		28.6%	30.2%	

The lower gross profit margin for the second quarter and first six months of 2011 as compared to the same periods in 2010 resulted primarily from the raw material cost inflation which outpaced the rate of average selling price increases.

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

	13 Weeks Ended			26 Weeks Ended		
($ in millions)	May 28, 2011	May 29, 2010	2011 vs 2010	May 28, 2011	May 29, 2010	2011 vs 2010
SG&A	$ 77.6	$ 75.3	3.1%	$ 153.3	$ 146.7	4.4%
Percent of net revenue	19.7%	21.6%		20.9%	22.3%	

SG&A expenses increased $2.3 million or 3.1 percent from the second quarter of 2010 and $6.6 million or 4.4 percent for the first six months of 2011 compared to the same periods of 2010. The increases were largely due to higher costs associated with adding resources to our sales and technical organizations. We continue to invest in growth despite the sluggish economic environment. We reduced our SG&A expenses as a percentage of net revenue by 190 basis points in the second quarter and 140 basis points in the first six months compared to the same periods of last year.

Asset impairment charges:

	13 Weeks Ended			26 Weeks Ended		
($ in millions)	May 28, 2011	May 29, 2010	2011 vs 2010	May 28, 2011	May 29, 2010	2011 vs 2010
Asset impairment charges	$	$ 8.8	NMP	$ 0.3	$ 8.8	NMP

NMP = Non-meaningful percentage

During the first quarter of 2011, a decision was made to discontinue production of the polymer used in certain resin products that had been produced in our EIMEA operating segment. Asset impairment charges of $0.3 million relate to the impairment of trademarks and trade names used in the abandoned resin products.

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.

Other income (expense), net:

	13 Weeks Ended			26 Weeks Ended		
($ in millions)	**May 28, 2011**	**May 29, 2010**	**2011 vs 2010**	**May 28, 2011**	**May 29, 2010**	**2011 vs 2010**
Other income (expense), net	$ (0.1)	$ 1.3	NMP	$ 0.2	$ 1.3	(81.0%)

NMP = Non-meaningful percentage

Interest income increased $0.2 million in the second quarter of 2011 compared to the second quarter of 2010 and $0.5 million for the first six months of 2011 compared to the same period last year. Currency translation and re-measurement losses were $0.8 million in the second quarter of 2011 as compared to $0.1 million in the second quarter of 2010. For the first six months of 2011 currency translation and re-measurement losses were $1.2 million compared to a minimal gain of $0.03 million in the first six months of 2010.

Interest expense:

	13 Weeks Ended			26 Weeks Ended		
($ in millions)	**May 28, 2011**	**May 29, 2010**	**2011 vs 2010**	**May 28, 2011**	**May 29, 2010**	**2011 vs 2010**
Interest expense	$ 2.6	$ 3.0	(15.5%)	$ 5.2	$ 5.0	3.2%

The lower interest expense in the second quarter of 2011 as compared to the second quarter of 2010 was due to lower debt balances and lower weighted average interest rates due to the mix of debt. The higher interest expense in the first six months of 2011 as compared to the first six months of 2010 was due to a change in the mix of debt.

Income taxes:

	13 Weeks Ended			26 Weeks Ended		
($ in millions)	**May 28, 2011**	**May 29, 2010**	**2011 vs 2010**	**May 28, 2011**	**May 29, 2010**	**2011 vs 2010**
Income taxes	$ 10.0	$ 6.0	65.8%	$ 16.3	$ 13.1	24.4%
Effective tax rate	30.9%	39.3%		31.9%	33.1%	

Income tax expense of $10 million in the second quarter of 2011 includes $0.2 million of discrete tax expense. Excluding these items, the overall effective tax rate was 30.2 percent. Without a discrete tax benefit of $.1 million and the impact of the exit costs and asset impairment charges, a benefit of $3.0 million in the second quarter of 2010, the overall effective tax rate was 34.1 percent. Excluding discrete expense of $.8 million, the overall effective tax rate for the 26 weeks ended May 28, 2011 was 30.3 percent as compared to 33.9 percent for the 26 weeks ended May 29, 2010. The primary reason for the lower rate in 2011 resulted from changes in the geographic mix of pretax earnings as compared to 2010.

Income from equity method investments:

	13 Weeks Ended			26 Weeks Ended		
($ in millions)	**May 28, 2011**	**May 29, 2010**	**2011 vs 2010**	**May 28, 2011**	**May 29, 2010**	**2011 vs 2010**
Income from equity method investments	$ 2.5	$ 1.7	44.2%	$ 4.3	$ 3.5	22.8%

The income from equity method investments relates to our 50 percent ownership of the Sekisui-Fuller joint venture in Japan. The second quarter and first six months results reflect the higher net income recorded by the joint venture in 2011 compared to the same periods of 2010 due mainly to an increase in net revenue.

Net (income) loss attributable to noncontrolling interests:

	13 Weeks Ended			26 Weeks Ended		
($ in millions)	May 28, 2011	May 29, 2010	2011 vs 2010	May 28, 2011	May 29, 2010	2011 vs 2010
Net (income) loss attributable to noncontrolling interests	$ 0.27	$ (0.01)	NMP	$ 0.42	$ (0.04)	NMP

NMP = Non-meaningful percentage

Operating losses in our China entities led to net loss attributable to noncontrolling interests in the second quarter and first six months of 2011. This compared to net income attributable to noncontrolling interests in the second quarter and first six months of 2010.

Net income attributable to H.B. Fuller:

	13 Weeks Ended			26 Weeks Ended		
($ in millions)	May 28, 2011	May 29, 2010	2011 vs 2010	May 28, 2011	May 29, 2010	2011 vs 2010
Net income attributable to H.B. Fuller	$ 25.1	$ 11.0	128.2%	$ 39.5	$ 30.0	31.8%
Percent of net revenue	6.4%	3.2%		5.4%	4.6%	

The net income attributable to H.B. Fuller for the second quarter of 2011 was $25.1 million compared to $11.0 million for the second quarter of 2010. The diluted earnings per share for the second quarter of 2011 was $0.50 per share as compared to $0.22 per share for the second quarter of 2010. Included in the net income attributable to H.B. Fuller for the second quarter of 2010, were exit costs and asset impairment charges of $8.4 million after tax or $0.17 per share. Net income as a percent of net revenue was 6.4 percent in the second quarter of 2011 compared to 3.2