FULLER H B CO
Form 10-Q
April 04, 2008

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 March 1, 2008

or

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

Commission File Number 001-09225

H.B. FULLER COMPANY

(Exact name of Registrant as specified in its charter)

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

(651) 236-5900

(Registrant s telephone number, including area code)

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

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

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

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

The number of shares outstanding of the Registrant s Common Stock, par value $1.00 per share, was 52,863,005 as of March 28, 2008.

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	
	March 1, 2008	**March 3, 2007**
Net revenue	**$ 322,648**	$ 333,354
Cost of sales	**(231,131)**	(233,689)
Gross profit	**91,517**	99,665
Selling, general and administrative expenses	**(64,997)**	(71,639)
Gains from sales of assets	**3**	87
Other income, net	**1,266**	1,368
Interest expense	**(2,928)**	(3,608)
Income from continuing operations before income taxes, minority interests, and income from equity investments	**24,861**	25,873
Income taxes	**(7,210)**	(7,527)
Minority interests in (income) loss of subsidiaries	**83**	(31)
Income from equity investments	**479**	356
Income from continuing operations	**18,213**	18,671
Income from discontinued operations		2,149
Net income	**$ 18,213**	$ 20,820
Basic income per common share[1]:		
Continuing operations	**$ 0.32**	$ 0.31
Discontinued operations		0.04
Net Income	**$ 0.32**	$ 0.35
Diluted income per common share[1]:		
Continuing operations	**$ 0.32**	$ 0.31
Discontinued operations		0.04
Net Income	**$ 0.32**	$ 0.34
Weighted-average shares outstanding:		
Basic	**56,682**	59,933
Diluted	**57,492**	61,212
Dividends declared per common share	**$ 0.06450**	$ 0.06250

1 Income per share amounts may not add due to rounding.

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)

	March 1, 2008	December 1, 2007
Assets		
Current assets:		
Cash and cash equivalents	**$ 195,476**	$ 246,358
Trade receivables	**209,785**	218,774
Allowance for sales and doubtful accounts	**(6,163)**	(6,297)
Inventories	**153,256**	137,564
Other current assets	**48,402**	38,659
Current assets of discontinued operations	**892**	892
Total current assets	**601,648**	635,950
Property, plant and equipment	**803,499**	791,160
Accumulated depreciation	**(527,286)**	(513,326)
Property, plant and equipment, net	**276,213**	277,834
Other assets	**106,927**	106,699
Goodwill	**187,372**	184,660
Other intangibles, net	**157,153**	159,459
Total assets	**$ 1,329,313**	$ 1,364,602
Liabilities and Stockholders Equity		
Current liabilities:		
Notes payable	**$ 12,822**	$ 10,608
Current installments of long-term debt	**25,000**	25,000
Trade payables	**131,020**	156,247
Accrued payroll / employee benefits	**27,102**	40,144
Other accrued expenses	**29,955**	33,057
Income taxes payable	**20,171**	16,904
Current liabilities of discontinued operations	**675**	15,875
Total current liabilities	**246,745**	297,835
Long-term debt, excluding current installments	**177,000**	137,000
Accrued pension liabilities	**62,633**	61,986
Other liabilities	**74,202**	65,731
Minority interests in consolidated subsidiaries	**2,992**	3,057
Total liabilities	**563,572**	565,609
Commitments and contingencies		
Stockholders equity:		
Preferred stock (no shares outstanding) Shares authorized 10,045,900		

Common stock, par value $1.00 per share, Shares authorized 160,000,000, Shares issued and outstanding 54,640,777 and 57,436,515, for March 1, 2008 and December 1, 2007, respectively	**54,641**	57,437
Additional paid-in capital		17,356
Retained earnings	**657,445**	683,698
Accumulated other comprehensive income	**53,655**	40,502
Total stockholders equity	**765,741**	798,993
Total liabilities and stockholders equity	**$ 1,329,313**	$ 1,364,602

See accompanying notes to consolidated financial statements.

H.B. FULLER COMPANY AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	13 Weeks Ended	
	March 1, 2008	**March 3, 2007**
Cash flows from operating activities from continuing operations:		
Net income	**$ 18,213**	$ 20,820
Adjustments to reconcile net income to net cash provided by operating activities:		
Income from discontinued operations, net of tax		(2,149)
Depreciation	**8,632**	8,970
Amortization	**3,058**	4,873
Deferred income taxes	**(440)**	(270)
Gains from sales of assets	**(3)**	(87)
Share-based compensation	**1,062**	580
Excess tax benefit from share-based compensation	**(367)**	(1,273)
Change in assets and liabilities, net of effects of acquisitions and discontinued operations:		
Accounts receivables, net	**10,908**	23,385
Inventories	**(13,554)**	(11,194)
Other assets	**(6,992)**	(2,647)
Trade payables	**(27,003)**	(23,258)
Accrued payroll / employee benefits	**(13,455)**	(17,530)
Other accrued expenses	**(4,639)**	(7,270)
Income taxes payable	**11,762**	8,956
Accrued / prepaid pensions	**(1,800)**	503
Other liabilities	**(642)**	865
Other	**3**	1,180
Net cash (used in) provided by operating activities from continuing operations	**(15,257)**	4,454
Cash flows from investing activities from continuing operations:		
Purchased property, plant and equipment	**(3,313)**	(6,708)
Proceeds from sale of property, plant and equipment	**23**	208
Net cash used in investing activities from continuing operations	**(3,290)**	(6,500)
Cash flows from financing activities from continuing operations:		
Proceeds from long-term debt	**40,000**	
Repayment of long-term debt		(62,000)
Net proceeds from notes payable	**2,191**	434
Dividends paid	**(3,644)**	(3,792)
Proceeds from stock options exercised	**303**	9,152
Excess tax benefit from share-based compensation	**367**	1,273
Repurchases of common stock	**(61,759)**	(37)
Net cash used in financing activities from continuing operations	**(22,542)**	(54,970)
Effect of exchange rate changes	**5,223**	(1,302)
Net change in cash and cash equivalents from continuing operations	**(35,866)**	(58,318)
Cash used in operating activities of discontinued operations	**(15,016)**	(25,080)

Net change in cash and cash equivalents	**(50,882)**	(83,398)
Cash and cash equivalents at beginning of period	**246,358**	255,129
Cash and cash equivalents at end of period	**$ 195,476**	$ 171,731

H.B. FULLER COMPANY AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Continued)

(In thousands)

(unaudited)

	13 Weeks Ended	
	March 1, 2008	**March 3, 2007**
Supplemental disclosure of cash flow information:		
Noncash financing activities		
Dividends paid with company stock	**$ 15**	$ 19
Cash paid for interest	**$ 4,319**	$ 6,144
Cash paid for income taxes	**$ 14,727**	$ 17,732

See accompanying notes to consolidated financial statements.

H.B. FULLER COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

Note 1: Accounting Policies

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information necessary for a fair presentation of results of operations, financial position, and cash flows in conformity with U.S. generally accepted accounting principles. In the opinion of management, the interim consolidated financial statements reflect all adjustments of a normal recurring nature considered necessary for a fair presentation of the results for the periods presented. Operating results for interim periods are not necessarily indicative of results that may be expected for the fiscal year as a whole. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosures at the date of the financial statements and during the reporting period. Actual results could differ from these estimates. These unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the company s Annual Report on Form 10-K for the year ended December 1, 2007 as filed with the Securities and Exchange Commission.

Recently Issued Accounting Pronouncements:

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. We adopted FIN 48 as of December 2, 2007, as further discussed in Note 11.

In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R) (SFAS 158). This statement requires an employer to: (1) recognize in its statement of financial position an asset for a plan s over-funded status or a liability for the plan s under-funded status, (2) measure the plans assets and obligations that determine its funded status as of the end of the employer s fiscal year (with limited exceptions) and (3) recognize as a component of other comprehensive income, the changes in the funded status of the plan that arise during the year but are not recognized as components of net periodic benefit cost pursuant to other relevant accounting standards. SFAS 158 also requires an employer to disclose in the notes to the financial statements additional information on how delayed recognition of certain changes in the funded status of a defined benefit postretirement plan affects net periodic benefit cost for the next fiscal year. Effective December 1, 2007, the company adopted SFAS 158. Measurement of the plans assets and obligations that determine its funded status as of the end of the employer s fiscal year is required to be adopted for fiscal years ending after December 15, 2008, which would be the fiscal year ending November 28, 2009 for the company. See Note 6 for further discussion.

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

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS 141R), which replaces FASB Statement No. 141. SFAS 141R 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 Statement also establishes disclosure requirements that will enable users to evaluate the nature and financial effects of the business combination. SFAS 141R is effective as of the beginning of an entity s fiscal year that begins after December 15, 2008, which will be the company s fiscal year 2010. The company s adoption of SFAS No. 141, beginning fiscal year 2010, will apply prospectively to business combinations completed on or after that date.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS 160). SFAS 160 requires that accounting and reporting for minority interests will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS 160 also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. This statement is effective as of the beginning of an entity s first fiscal year beginning after December 15, 2008, which will be the company s fiscal year 2010. Based upon the March 1, 2008 balance sheet, the impact of adopting SFAS 160 would be to reclassify $2,992 in minority interests in consolidated subsidiaries from total liabilities to a separate component of stockholders equity.

Note 2: Acquisitions and Divestitures

Acquisitions

Sekisui-Fuller Japan: In the second quarter of 2005, the company completed its definitive agreements to enter into business-related partnerships in Japan and China with Sekisui Chemical Co., Ltd. In Japan, Sekisui and the company merged their Japanese adhesives businesses on April 1, 2005 to create Sekisui-Fuller Company, Ltd. In exchange, H.B. Fuller received a 40 percent ownership in Sekisui-Fuller Company, Ltd. with an option to purchase an additional 10 percent in 2007 for $12,000, which the company exercised during the third quarter of 2007 and paid on September 27, 2007. The additional 10 percent increased the company s ownership in the joint venture from 40 percent to 50 percent. Due to the structure of the joint venture, the company continues to account for this investment using the equity method.

With respect to China, the company received $8,000 from Sekisui on May 26, 2005 in exchange for a 20 percent investment in H.B. Fuller s China subsidiaries and an option for Sekisui to increase its investment to 30 percent in 2007 for $4,000. Sekisui s option to purchase an additional 10 percent in 2007 was initially recorded as a liability at a fair value of $688 and was subsequently marked-to-market at December 2, 2006 to $665. The option expired, unexercised, on October 1, 2007 and the remaining value of the option as of that date of $271 was removed from the liability and recorded into other income, net. H.B. Fuller continues to consolidate China with the portion owned by Sekisui represented as a minority interest liability.

Carolina Polymers polymer and adhesive technology: On September 5, 2006, the company acquired Carolina Polymers polymer and adhesive technology for the multi-wall bag industry. The company acquired inventory, accounts receivable, personal property, intellectual property and customer lists. No other assets or liabilities were purchased. The initial cash payment was $4,950 and was funded through existing cash. The company also incurred $49 of direct external costs. Based on preliminary valuation estimates, the company recorded $1,385 of current assets, $1,782 to intangibles, $50 to other non-current assets and $1,782 to goodwill. The acquisition was recorded in the North America operating segment. Carolina Polymers was entitled to an earn-out of up to $1,700 based on the company s shipment volume from September 5, 2006 to September 5, 2007; however, the final valuation and earn-out calculation, which was completed in the third quarter of 2007, resulted in an earn-out payment of $1,124. This entire amount is considered additional purchase price and classified to goodwill. The company also incurred $31 of additional direct external costs in 2007. The total final purchase price was $6,154. Based on final valuations the company recorded $1,385 of current assets, $2,495 to intangibles, $50 to other non-current assets and $2,224 to goodwill.

Henkel KGaA s insulating glass sealant business: On March 27, 2006, the company signed an asset purchase agreement with Henkel KGaA, under which the company agreed to acquire Henkel s insulating glass sealant business. On June 9, 2006, the acquisition was completed. The insulating glass sealant business manufactures sealants for windows used in both residential and commercial construction. This business has a strong presence in Europe and an expanding presence in Asia. The acquired busin