CROSS TIMBERS ROYALTY TRUST
Form 10-K
March 14, 2014
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2013 **Commission file number 1-10982**

Cross Timbers Royalty Trust

(Exact Name of Registrant as Specified in the Cross Timbers Royalty Trust Indenture)

Texas	**75-6415930**
(State or Other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification No.)*

U.S. Trust, Bank of America

Private Wealth Management

Trustee

P.O. Box 830650

Dallas, Texas	**75283-0650**
(Address of Principal Executive Offices)	*(Zip Code)*

Registrant s Telephone Number Including Area Code: (877) 228-5084

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

Title of Each Class	**Name of Each Exchange on Which Registered**
Units of Beneficial Interest	New York Stock Exchange

Securities Registered pursuant to Section 12(g) of the Act:

None

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

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

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

The aggregate market value of the units of beneficial interest of the trust, based on the closing price on the New York Stock Exchange as of June 28, 2013 (the last business day of its most recently completed second fiscal quarter), held by non-affiliates of the registrant on that date was approximately $163 million.

At February 14, 2014, there were 6,000,000 units of beneficial interest of the trust outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Listed below is the only document parts of which are incorporated herein by reference and the parts of this report into which the document is incorporated:

None

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CROSS TIMBER ROYALTY TRUST

2013 ANNUAL REPORT ON FORM 10-K

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GLOSSARY OF TERMS

The following is a glossary of certain defined terms used in this Annual Report on Form 10-K.

GLOSSARY

Bbl	Barrel (of oil)
Bcf	Billion cubic feet (of natural gas)
Mcf	Thousand cubic feet (of natural gas)
MMBtu	One million British Thermal Units, a common energy measurement
net proceeds	Gross proceeds received by XTO Energy from sale of production from the underlying properties, less applicable costs, as defined in the net profits interest conveyances
net profits income	Net proceeds multiplied by the applicable net profits percentage of 75% or 90%, which is paid to the trust by XTO Energy. Net profits income is referred to as royalty income for income tax purposes.
net profits interest	An interest in an oil and gas property measured by net profits from the sale of production, rather than a specific portion of production. The following defined net profits interests were conveyed to the trust from the underlying properties: *90% net profits interests* interests that entitle the trust to receive 90% of the net proceeds from the underlying properties that are royalty or overriding royalty interests in Texas, Oklahoma and New Mexico *75% net profits interests* interests that entitle the trust to receive 75% of the net proceeds from the underlying properties that are working interests in Texas and Oklahoma
royalty interest (and overriding royalty interest)	A nonoperating interest in an oil and gas property that provides the owner a specified share of production without any production expense or development costs

underlying properties	XTO Energy s interest in certain oil and gas properties from which the net profits interests were conveyed. The underlying properties include royalty and overriding royalty interests in producing and nonproducing properties in Texas, Oklahoma and New Mexico, and working interests in producing properties located in Texas and Oklahoma.
working interest	An operating interest in an oil and gas property that provides the owner a specified share of production that is subject to all production expense and development costs

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PART I

Item 1. *Business*

Cross Timbers Royalty Trust is an express trust created under the laws of Texas pursuant to the Cross Timbers Royalty Trust Indenture entered into on February 12, 1991 between predecessors of XTO Energy Inc. (formerly known as Cross Timbers Oil Company), as grantors, and NCNB Texas National Bank, as trustee. Bank of America, N.A. is now the trustee of the trust. In 2007 the Bank of America private wealth management group officially became known as U.S. Trust, Bank of America Private Wealth Management. The legal entity that serves as the trustee of the trust did not change, and references in this Form 10-K to U.S. Trust, Bank of America Private Wealth Management shall describe the legal entity Bank of America, N.A. The principal office of the trust is located at 901 Main Street, Dallas, Texas 75202 (telephone number 877-228-5084).

On January 9, 2014, U.S. Trust, Bank of America Private Wealth Management gave notice to unitholders that it will be resigning as trustee subject to the conditions set forth below. Bank of America, N.A. intends to nominate Southwest Bank, an independent state bank chartered under the laws of the State of Texas and headquartered in Fort Worth, Texas (Southwest Bank), as successor trustee at a meeting of unitholders of the trust to be called for the purpose of approving a successor trustee of the Trust. U.S. Trust, Bank of America Private Wealth Management s resignation is conditioned on the satisfaction or waiver by U.S. Trust, Bank of America Private Wealth Management of each of the following: (i) the appointment of Southwest Bank as trustee of Sabine Royalty Trust (another royalty trust for which U.S. Trust, Bank of America Private Wealth Management currently serves as trustee); (ii) the appointment of Southwest Bank or another successor trustee as trustee of the trust and five other royalty trusts for which U.S. Trust, Bank of America Private Wealth Management currently serves as trustee and as agent under a disbursing arrangement for which it currently serves as agent; (iii) the accuracy of certain representations and warranties and performance of certain agreements made by Southwest Bank in an agreement between U.S. Trust, Bank of America Private Wealth Management and Southwest Bank; and (iv) no governmental injunction, order or other action that would prohibit Southwest Bank s appointment, U.S. Trust, Bank of America Private Wealth Management s resignation or the other actions described above. The effective date of U.S. Trust, Bank of America Private Wealth Management s resignation shall be May 30, 2014, assuming all of the conditions described above have been satisfied or waived as of such date.

The trust s internet web site is www.crosstimberstrust.com. We make available free of charge, through our web site, our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. These reports are accessible through our internet web site as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission.

On February 12, 1991, the predecessors of XTO Energy conveyed defined net profits interests to the trust under five separate conveyances:

- one in each of the states of Texas, Oklahoma and New Mexico, to convey a 90% defined net profits interest carved out of substantially all royalty and overriding royalty interests owned by the predecessors in those states, and one in each of the states of Texas and Oklahoma, to convey a 75% defined net profits interest carved out of specific working interests owned by the predecessors in those states.

The conveyance of these net profits interests was effective for production from October 1, 1990. The net profits interests and the underlying properties are further described under Item 2, Properties.

In exchange for the net profits interests conveyed to the trust, the predecessors of XTO Energy received 6,000,000 units of beneficial interest of the trust. Predecessors of XTO Energy distributed units to their owners in February 1991 and November 1992, and in February 1992, sold units in the trust s initial public offering. Units are listed and traded on the New York Stock Exchange under the symbol CRT. XTO Energy currently is not a unitholder of the trust.

On June 25, 2010, XTO Energy became a wholly owned subsidiary of Exxon Mobil Corporation.

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Under the terms of each of the five conveyances, the trust receives net profits income from the net profits interests generally on the last business day of each month. Net profits income is determined by XTO Energy by multiplying the net profit percentage (90% or 75%) times net proceeds from the underlying properties for each conveyance during the previous month. Net proceeds are the gross proceeds received from the sale of production, less production costs, as defined in the conveyances. For the 90% net profits interests and the 75% net profits interests, production costs generally include applicable property taxes, transportation, marketing and other charges. For the 75% net profits interests only, production costs also include capital and operating costs paid (e.g., drilling, production and other direct costs of owning and operating the property) and a monthly overhead charge that is adjusted annually. The monthly overhead charge at December 31, 2013 was $35,947 ($26,960 net to the trust). XTO Energy deducts an overhead charge as operator of the Hewitt Unit. As of December 31, 2013, monthly overhead attributable to the Hewitt Unit was $5,135 ($3,851 net to the trust). If production costs exceed gross proceeds for any conveyance, this excess is carried forward to future monthly computations of net proceeds until the excess costs (plus interest accrued as specified in the conveyances) are completely recovered. Excess production costs and related accrued interest from one conveyance cannot be used to reduce net proceeds from any other conveyance.

Costs exceeded revenues on properties underlying the Texas working interest in January 2013, March 2013, April 2013 and August 2012. There were no excess costs remaining at December 31, 2013. For further information on excess costs, see Trustee s Discussion and Analysis of Financial Condition and Results of Operations, under Item 7.

The trust is not liable for any production costs or liabilities attributable to the underlying properties. If at any time the trust receives net profits income in excess of the amount due, the trust is not obligated to return the overpayment, but net profits income payable to the trust for the next month will be reduced by the overpayment, plus interest at the prime rate.

Approximately 20 of the underlying royalty interests in the San Juan Basin burden working interests in properties operated by XTO Energy. XTO Energy operates the Hewitt Unit which is one of the properties underlying the Oklahoma 75% net profits interests. Other than this property, XTO Energy and ExxonMobil do not operate or control any of the underlying properties or related working interests.

As a working interest owner, XTO Energy can generally decline participation in any operation and allow consenting parties to conduct such operations, as provided under the operating agreements. XTO Energy also can assign, sell, or otherwise transfer its interest in the underlying properties, subject to the net profits interests, or can abandon an underlying property that is a working interest if it is incapable of producing in paying quantities, as determined by XTO Energy.

To the extent allowed, XTO Energy is responsible for marketing its production from the underlying properties under existing sales contracts or new arrangements on the best terms reasonably obtainable in the circumstances.

Net profits income received by the trust on or before the last business day of the month is generally attributable to oil production two months prior and gas production three months prior. The monthly distribution amount to unitholders is determined by:

Adding

(1) net profits income received,
(2)

estimated interest income to be received on the monthly distribution amount, including an adjustment for the difference between the estimated and actual interest received for the prior monthly distribution amount,

(3) cash available as a result of reduction of cash reserves, and

(4) other cash receipts, then

Subtracting

(1) liabilities paid and

(2) the reduction in cash available due to establishment of or increase in any cash reserve.

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The monthly distribution amount is distributed to unitholders of record within ten business days after the monthly record date. The monthly record date is generally the last business day of the month. The trustee calculates the monthly distribution amount and announces the distribution per unit at least ten days prior to the monthly record date.

The trustee may establish cash reserves for contingencies. Cash held for such reserves, as well as for pending payment of the monthly distribution amount, may be invested in federal obligations or certificates of deposit of major banks.

The trustee s function is to collect the net profits income from the net profits interests, to pay all trust expenses and pay the monthly distribution amount to unitholders. The trustee s powers are specified by the terms of the indenture. The trust cannot engage in any business activity or acquire any assets other than the net profits interests and specific short-term cash investments. The trust has no employees since all administrative functions are performed by the trustee.

Approximately 48% of the net profits income received by the trust during 2013, as well as 54% of the estimated proved reserves of the net profits interests at December 31, 2013 (based on estimated future net cash flows using 12-month average oil and gas prices, based on the first-day-of-the-month price for each month in the period), is attributable to natural gas. There is generally a greater demand for gas during the winter. Otherwise, trust income is not subject to seasonal factors, nor dependent upon patents, licenses, franchises or concessions. The trust conducts no research activities.

The oil and gas industry is highly competitive in all its phases. Operators of the properties in which the trust holds interests encounter competition from other oil and gas companies and from individual producers and operators. Oil and natural gas are commodities, for which market prices are determined by external supply and demand factors.

Item 1A. *Risk Factors*

The following factors could cause actual results to differ materially from those contained in forward-looking statements made in this report and presented elsewhere by the trustee from time to time. Such factors may have a material adverse effect upon the trust s financial condition, distributable income and changes in trust corpus.

The following discussion of risk factors should be read in conjunction with the financial statements and related notes included under Item 8, Financial Statements and Supplementary Data. Because of these and other factors, past financial performance should not be considered an indication of future performance.

The market price for the trust units may not reflect the value of the net profits interests held by the trust.

The public trading price for the trust units tends to be tied to the recent and expected levels of cash distributions on the trust units. The amounts available for distribution by the trust vary in response to numerous factors outside the control of the trust or XTO Energy, including prevailing prices for oil and natural gas produced from the underlying properties. The market price of the trust units is not necessarily indicative of the value that the trust would realize if the net profits interests were sold to a third party buyer. In addition, such market price is not necessarily reflective of the fact that, since the assets of the trust are depleting assets, a portion of each cash distribution paid on the trust units should be considered by investors as a return of capital, with the remainder being considered as a return on investment. There is no guarantee that distributions made to a unitholder over the life of these depleting assets will equal or exceed the purchase price paid by the unitholder.

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Oil and natural gas prices fluctuate due to a number of uncontrollable factors, and any decline will adversely affect the net proceeds payable to the trust and trust distributions.

The trust s monthly cash distributions are highly dependent upon the prices realized from the sale of natural gas and, to a lesser extent, oil. Oil and natural gas prices can fluctuate widely on a month-to-month basis in response to a variety of factors that are beyond the control of the trust and XTO Energy. Factors that contribute to price fluctuations include instability in oil-producing regions, worldwide economic conditions, weather conditions, the supply and price of domestic and foreign oil, natural gas and natural gas liquids, consumer demand, the price and availability of alternative fuels, the proximity to, and capacity of, transportation facilities and the effect of worldwide energy conservation measures. Moreover, government regulations, such as regulation of natural gas transportation and price controls, can affect product prices in the long term. Lower oil and natural gas prices may reduce the amount of oil and natural gas that is economic to produce and will reduce net profits available to the trust. The volatility of energy prices reduces the predictability of future cash distributions to trust unitholders.

Higher production expense and/or development costs, without concurrent increases in revenue, will directly decrease the net proceeds payable to the trust from the properties underlying the 75% net profits interests.

Production expense and development costs are deducted in the calculation of the trust s share of net proceeds from properties underlying the 75% net profits interests. Accordingly, higher or lower production expense and development costs, without concurrent changes in revenue, will directly decrease or increase the amount received by the trust for its 75% net profits interests. If development costs and production expense for properties underlying the 75% net profits in a particular state exceed the production proceeds from the properties (as was the case with respect to the properties underlying the Texas working interest in January 2013, March 2013, April 2013 and August 2012), the trust will not receive net proceeds for those properties until future proceeds from production in that state exceed the total of the excess costs plus accrued interest during the deficit period. Development activities may not generate sufficient additional revenue to repay the costs.

Proved reserve estimates depend on many assumptions that may turn out to be inaccurate. Any material inaccuracies in reserve estimates or underlying assumptions could cause the quantities and net present value of the reserves to be overstated.

Estimating proved oil and gas reserves is inherently uncertain. Petroleum engineers consider many factors and make assumptions in estimating reserves and future net cash flows. Those factors and assumptions include historical production from the area compared with production rates from similar producing areas, the effects of governmental regulation, assumptions about future commodity prices, production expense and development costs, taxes and capital expenditures, the availability of enhanced recovery techniques and relationships with landowners, working interest partners, pipeline companies and others. Lower oil and gas prices generally cause lower estimates of proved reserves. Ultimately, actual production, revenues and expenditures for the underlying properties will vary from estimates and those variances could be material. Because the trust owns net profits interests, it does not own a specific percentage of the oil and gas reserves. Estimated proved reserves for the net profits interests are based on estimates of reserves for the underlying properties and an allocation method that considers estimated future net proceeds and oil and gas prices. Because trust reserve quantities are determined using an allocation formula, increases or decreases in oil and gas prices can significantly affect estimated reserves of the 75% net profits interests.

Operational risks and hazards associated with the development of the underlying properties may decrease trust distributions.

There are operational risks and hazards associated with the production and transportation of oil and natural gas, including without limitation natural disasters, blowouts, explosions, fires, leakage of oil or natural gas, releases of other hazardous materials, mechanical failures, cratering, and pollution. Any of these or similar occurrences could result in the interruption or cessation of operations, personal injury or loss of life, property damage, damage to productive formations or equipment, damage to the environment or natural resources, or cleanup obligations. The operation of oil and gas properties is also subject to various laws and regulations. Non-compliance with such laws and regulations could subject the operator to additional costs, sanctions or liabilities. The uninsured costs resulting from any of the above or similar occurrences could be deducted as a production expense or development cost in calculating the net proceeds payable to the trust from properties underlying the 75% net profits interests, and would therefore reduce trust distributions by the amount of such uninsured costs.

Cash held by the trustee is not fully insured by the Federal Deposit Insurance Corporation, and future royalty income may be subject to risks relating to the creditworthiness of third parties.

Currently, cash held by the trustee as a reserve for liabilities and for the payment of expenses and distributions to unitholders is invested in Bank of America, N.A. certificates of deposit which are backed by the good faith and credit of Bank of America, N.A., but are only insured by the Federal Deposit Insurance Corporation up to $250,000. Each unitholder should independently assess the creditworthiness of Bank of America, N.A. For more information about the credit rating of Bank of America, N.A., please refer to its periodic filings with the SEC. The trust does not lend money and has limited ability to borrow money, which the trustee believes limits the trust s risk from the currently tight credit markets. The trust s future royalty income, however, may be subject to risks relating to the creditworthiness of the operators of the underlying properties and other purchasers of crude oil and natural gas produced from the underlying properties, as well as risks associated with fluctuations in the price of crude oil and natural gas. Information contained in Bank of America, N.A. s periodic filings with the SEC is not incorporated by reference into this Annual Report on Form 10-K and should not be considered part of this report or any other filing that the trust makes with the SEC.

Trust unitholders and the trustee have no influence over the operations on, or future development of, the underlying properties.

Because XTO Energy does not operate most of the underlying properties, it is unable to significantly influence the operations or future development of the underlying properties. Neither the trustee nor the trust unitholders can influence or control the operation or future development of the underlying properties. The failure of an operator to conduct its operations or discharge its obligations in a proper manner could have an adverse effect on the net proceeds payable to the trust. Although XTO Energy and the other operators of the underlying properties must adhere to the standard of a prudent operator, they are under no obligation to continue operating the properties. Neither the trustee nor trust unitholders have the right to replace an operator.

The assets of the trust represent interests in depleting assets and, if XTO Energy or any other operators developing the underlying properties do not perform additional successful development projects, the assets may deplete faster than expected. Eventually, the assets of the trust will cease to produce in commercial quantities and the trust will cease to receive proceeds from such assets.

The net proceeds payable to the trust are derived from the sale of hydrocarbons from depleting assets. The reduction in proved reserve quantities is a common measure of the depletion. Future maintenance and development projects on the underlying properties will affect the quantity of proved reserves and can offset the reduction in proved reserves. The timing and size of these projects will depend on the market prices of oil and natural gas. If the operator(s) of the properties do not implement additional maintenance and development projects, the future rate of production decline of proved reserves may be higher than the rate currently expected by the trust. Because the net proceeds payable to the trust are derived from the sale of hydrocarbons from depleting assets, the portion of distributions to unitholders attributable to depletion may be considered a return on capital as opposed to a return on investment. Distributions that are a return of capital will ultimately diminish the depletion tax benefits available to the unitholders, which could reduce the market value of the units over time. Eventually, the properties underlying the trust s net profits interest will cease to produce in commercial quantities and the trust will, therefore, cease to receive any net proceeds therefrom.

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Terrorism and continued geopolitical hostilities could adversely affect trust distributions or the market price of the trust units.

Terrorist attacks and the threat of terrorist attacks, whether domestic or foreign, as well as military or other actions taken in response, cause instability in the global financial and energy markets. Terrorism and other geopolitical hostilities could adversely affect trust distributions or the market price of the trust units in unpredictable ways, including through the disruption of fuel supplies and markets, increased volatility in oil and natural gas prices, or the possibility that the infrastructure on which the operators of the underlying properties rely could be a direct target or an indirect casualty of an act of terror.

XTO Energy may transfer its interest in the underlying properties without the consent of the trust or the trust unitholders.

XTO Energy may at any time transfer all or part of its interest in the underlying properties to another party. Neither the trust nor the trust unitholders are entitled to vote on any transfer of the properties underlying the trust s net profits interests, and the trust will not receive any proceeds of any such transfer. Following any transfer, the transferred property will continue to be subject to the net profits interests of the trust, but the calculation, reporting and remitting of net proceeds to the trust will be the responsibility of the transferee.

XTO Energy or any other operator of any underlying property may abandon the property, thereby terminating the related net profits interest payable to the trust.

XTO Energy or any other operator of the underlying properties, or any transferee thereof, may abandon any well or property without the consent of the trust or the trust unitholders if they reasonably believe that the well or property can no longer produce in commercially economic quantities. This could result in the termination of the net profits interest relating to the abandoned well or property.

The net profits interests can be sold and the trust would be terminated.

The trust may sell the net profits interests if the holders of 80% or more of the outstanding trust units approve the sale or vote to terminate the trust. The trust will terminate if it fails to generate gross proceeds from the underlying properties of at least $1,000,000 per year over any consecutive two-year period. Sale of all of the net profits interests will terminate the trust. The net proceeds of any sale must be for cash with the proceeds promptly distributed to the trust unitholders.

Trust unitholders have limited voting rights and have limited ability to enforce the trust s rights against XTO Energy or any other operator of the underlying properties.

The voting rights of a trust unitholder are more limited than those of stockholders of most public corporations. For example, there is no requirement for annual meetings of trust unitholders or for an annual or other periodic re-election of the trustee. Additionally, trust unitholders have no voting rights in XTO Energy or Exxon Mobil Corporation.

The trust indenture and related trust law permit the trustee and the trust to sue XTO Energy or any other operator of the underlying properties to compel them to fulfill the terms of the conveyance of the net profits interests. If the trustee does not take appropriate action to enforce provisions of the conveyance, the recourse of the trust unitholders would likely be limited to bringing a lawsuit against the trustee to compel the trustee to take specified actions. Trust unitholders probably would not be able to sue XTO Energy or any other operator of the underlying properties.

Financial information of the trust is not prepared in accordance with U.S. GAAP.

The financial statements of the trust are prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles, or U.S. GAAP. Although

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this basis of accounting is permitted for royalty trusts by the Securities and Exchange Commission, the financial statements of the trust differ from U.S. GAAP financial statements because net profits income is not accrued in the month of production, expenses are not recognized when incurred and cash reserves may be established for certain contingencies that would not be recorded in U.S. GAAP financial statements.

The limited liability of trust unitholders is uncertain.

The trust unitholders are not protected from the liabilities of the trust to the same extent that a shareholder would be protected from a corporation s liabilities. The structure of the trust does not include the interposition of a limited liability entity such as a corporation or limited partnership which would provide further limited liability protection to trust unitholders. While the trustee is liable for any excess liabilities incurred if the trustee fails to ensure that such liabilities are to be satisfied only out of trust assets, under the laws of Texas, which are unsettled on this point, a unitholder may be jointly and severally liable for any liability of the trust if the satisfaction of such liability was not contractually limited to the assets of the trust and the assets of the trust and the trustee are not adequate to satisfy such liability. As a result, trust unitholders may be exposed to personal liability. The trust, however, is not liable for production costs or other liabilities of the underlying properties.

Drilling oil and natural gas wells is a high-risk activity and subjects the trust to a variety of factors that it cannot control.

Drilling oil and natural gas wells involves numerous risks, including the risk that commercially productive oil and natural gas reservoirs are not encountered. The presence of unanticipated pressures or irregularities in formations, miscalculations or accidents may cause drilling activities to be unsuccessful. In addition, there is often uncertainty as to the future cost or timing of drilling, completing and operating wells. Further, development activities may be curtailed, delayed or canceled as a result of a variety of factors, including:

- unexpected drilling conditions;
- title problems;
- restricted access to land for drilling or laying pipeline;
- pressure or irregularities in formations;
- equipment failures or accidents;
- adverse weather conditions; and
- costs of, or shortages or delays in the availability of, drilling rigs, tubular materials and equipment.

While these risks do not expose the trust to liabilities of the drilling contractor or operator of the well, they can reduce net proceeds payable to the trust and trust distributions by decreasing oil and gas revenues or increasing production expense or development costs from the underlying properties. Furthermore, these risks may cause the costs of development activities on properties underlying the 75% net profits interests to exceed the revenues therefrom, thereby reducing net proceeds payable to the trust and trust distributions.

The underlying properties are subject to complex federal, state and local laws and regulations that could adversely affect net proceeds payable to the trust and trust distributions.

Extensive federal, state and local regulation of the oil and natural gas industry significantly affects operations on the underlying properties. In particular, oil and natural gas development and production are subject to stringent environmental regulations. These regulations have increased the costs of planning, designing, drilling, installing, operating and abandoning oil and natural gas wells and other related facilities, which costs could reduce net proceeds payable to the trust and trust distributions. These regulations may become more demanding in the future.

Item 1B. ***Unresolved Staff Comments***

As of December 31, 2013, the trust did not have any unresolved Securities and Exchange Commission staff comments.

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Item 2. *Properties*

The net profits interests are the principal asset of the trust. The trustee cannot acquire any other asset, with the exception of certain short-term investments as specified under Item 1, Business. The trustee is prohibited from selling any portion of the net profits interests unless approved by holders of at least 80% or more of the outstanding trust units or at such time as trust gross revenue is less than $1 million for two successive years.

The net profits interests comprise:

the 90% net profits interests which are carved from:

a) producing royalty and overriding royalty interest properties in Texas, Oklahoma and New Mexico, and

b) 11.11% nonparticipating royalty interests in nonproducing properties located primarily in Texas and Oklahoma; and

the 75% net profits interests which are carved from working interests in four properties in Texas and three properties in Oklahoma.

All underlying royalties, underlying nonproducing royalties and underlying working interest properties are currently owned by XTO Energy. XTO Energy may sell all or any portion of the underlying properties at any time, subject to and burdened by the net profits interests.

The underlying properties include over 2,900 producing properties with established production histories in Texas, Oklahoma and New Mexico. The average reserve-to-production index for the underlying properties as of December 31, 2013 is approximately 12 years. This index is calculated using total proved reserves and estimated 2014 production for the underlying properties. The projected 2014 production is from proved developed producing reserves as of December 31, 2013. Based on estimated future net cash flows at 12-month average oil and gas prices, based on the first-day-of-the-month price for each month in the period, the proved reserves of the underlying properties are approximately 46% oil and 54% natural gas. The underlying properties also include certain nonproducing properties in Texas, Oklahoma and New Mexico that are primarily mineral interests.

Producing Acreage, Wells and Drilling

90% Net Profits Interests Underlying Royalties. Royalty and overriding royalty properties underlying the 90% net profits interests represent 73% of the discounted future net cash flows from trust proved reserves at December 31, 2013. Approximately 70% of the discounted future net cash flows from the 90% net profits interests are from gas reserves, totaling 20.6 Bcf. Oil reserves allocated to the 90% net profits interests are primarily located in West Texas and are estimated to be 487,000 Bbls at December 31, 2013.

The underlying royalties are royalty and overriding royalty interests primarily located in mature producing oil and gas fields. The most significant producing region in which the underlying royalties are located is the San Juan Basin in northwestern New Mexico. The San Juan Basin royalties gas production accounted for approximately 71% of the trust s gas sales volumes and 32% of the net profits income for 2013. The trust s estimated proved gas reserves from this region totaled 16.7 Bcf at December 31, 2013, or approximately 80% of trust total gas reserves at that date. XTO Energy estimates that underlying royalties in the San Juan Basin include more than 4,849 gross (approximately 47.8

net) wells, covering almost 60,000 gross acres. Approximately half of these wells are operated by BP America Production Company or ConocoPhillips.

San Juan Basin oil and gas accumulations, inclusive of the Fruitland Coal, Picture Cliffs, Mancos, Mesaverde, and Dakota formations, have produced within the basin for over 90 years. Although these reservoirs have seen almost a

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century of development, numerous upside opportunities are still available to basin operators via down-spacing drilling, recompletions, lateral drilling, and lease cost optimizations. Recently, operators have moved development toward the more liquid-rich portions of the basin.

- Reduced dry gas drilling with a shift toward horizontal drilling in the more liquids-rich areas
- Lease optimization via compression upgrades, restimulations, and improved artificial lift
- Basinal work to rail crude oil out of basin to improve pricing
- Stable gas pipeline infrastructure

The underlying royalties also include royalties in the Sand Hills field of Crane County, Texas. Most of these properties are operated by major operators. The Sand Hills field was discovered in 1931 and includes production from three main intervals, the Tubb, McKnight and Judkins. Development potential for the field includes recompletions and additional infill drilling.

The underlying royalties contain approximately 178,092 gross (approximately 38,288 net) producing acres. Well counts for the underlying royalties cannot be provided because information regarding the number of wells on royalty properties is generally not made available to royalty interest owners.

Because the properties related to the 90% net profits interests are primarily royalty interests and overriding royalty interests, net profits income from these properties is not reduced by production expense or development costs. Additionally, net profits income from these interests cannot be reduced by any excess costs of the 75% net profits interests. The trust, therefore, should generally receive monthly net profits income from these interests, as determined by oil and gas sales volumes and prices.

75% Net Profits Interests Underlying Working Interest Properties. Underlying the 75% net profits interests are working interests in seven large, predominantly oil-producing properties in Texas and Oklahoma operated primarily by established oil companies. These properties are located in mature fields undergoing secondary or tertiary recovery operations. Most of the oil produced from the 75% net profits interest properties is sour oil, which is sold at a decrement to NYMEX sweet crude oil prices. XTO Energy is the operator of the Hewitt Unit, which is one of the properties underlying the Oklahoma 75% net profits interests. With the exception of the Hewitt Unit, XTO Energy and ExxonMobil generally have little influence or control over operations on any of these properties.

Proved reserves from the 75% net profits interests are almost entirely oil, estimated to be approximately 513,000 Bbls at year-end 2013. Proved reserves from these interests represent 27% of the discounted future net cash flows of the trust s proved reserves at December 31, 2013.

The underlying working interest properties are detailed below:

			Ownership of XTO Energy	
Unit	**County/State**	**Operator**	**Working Interest**	**Revenue Interest**
North Cowden	Ector/Texas	Occidental Permian, Ltd.	1.7%	1.5%
North Central Levelland	Hockley/Texas	Apache Corporation	3.2%	2.6%
Penwell	Ector/Texas	Merit Energy Corporation	5.2%	4.6%

Sharon Ridge Canyon	Borden/Texas	Occidental Permian, Ltd.	4.3%	2.8%
Hewitt	Carter/Oklahoma	XTO Energy Inc.	11.3%	9.9%
Wildcat Jim Penn	Carter/Oklahoma	Citation Oil and Gas Corporation	8.6%	7.5%
South Graham Deese	Carter/Oklahoma	Linn Energy, LLC	9.2%	8.7%

The underlying working interest properties consist of 3,823 net producing acres. As of December 31, 2013, there were 1,438 gross (67.1 net) productive oil wells and 2 gross (0.0 net) wells in process of drilling on these properties. There were 11 gross (1.0 net) wells drilled in 2013, 24 gross (1.7 net) wells drilled in 2012 and 8 gross (0.3 net) wells drilled in 2011.

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Because these underlying properties are working interests, production expense and development costs are deducted in calculating net profits income from the 75% net profits interests. As a result, net profits income from these interests is affected by the level of maintenance and development activity on these underlying properties. Net profits income is also dependent upon oil and gas sales volumes and prices and is subject to reduction for any prior period excess costs.

Total 2013 development costs were $3,481,306, up 134% from 2012 development costs of $1,490,054. Development costs were higher in 2013 because of increased development activity and costs and the timing of cash expenditures related to non-operated Texas and Oklahoma oil properties underlying the 75% net profits interest. January and February 2014 development costs totaled approximately $602,000, primarily incurred in fourth quarter 2013.

As reported to XTO Energy by unit operators in February of each year, budgeted development costs were $2.9 million for 2013 and $2.4 million for 2012. Actual development costs often differ from amounts budgeted because of changes in product prices and other factors that may affect the timing or selection of projects. Also, costs are deducted in the calculation of trust net profits income several months after they are incurred by the operator. Unit operators have reported total budgeted costs, net to the underlying properties, of approximately $2.4 million for 2014 and $3.6 million for 2015.

Costs exceeded revenues on properties underlying the Texas working interest in January 2013, March 2013, April 2013 and August 2012. There were no excess costs remaining at December 31, 2013. For information regarding the effect of excess costs on trust net profits income, see Trustee s Discussion and Analysis of Financial Condition and Results of Operations, under Item 7.

Estimated Proved Reserves and Future Net Cash Flows

The following are proved reserves of the underlying properties, as estimated by independent engineers, and proved reserves and future net cash flows from proved reserves of the net profits interests, based on an allocation of these reserves, at December 31, 2013:

	Underlying Properties Proved Reserves[a]		**Net Profits Interests Proved Reserves[a][b]**		**Future Net Cash Flows from Proved Reserves[a][c]**	
(in thousands)	**Oil (Bbls)**	**Gas (Mcf)**	**Oil (Bbls)**	**Gas (Mcf)**	**Undiscounted**	**Discounted**
90% Net Profits Interests						
San Juan Basin	23	18,518	21	16,666	$ 74,160	$ 35,492
Other New Mexico	33	103	30	79	3,138	1,575
Texas	441	2,881	397	2,592	50,838	26,333
Oklahoma	44	1,458	39	1,219	8,038	4,294
Total	541	22,960	487	20,556	136,174	67,694
75% Net Profits Interests						
Texas	606	351	142	82	12,852	7,784
Oklahoma	1,155	261	371	84	31,199	17,116
Total	1,761	612	513	166	44,051	24,900

TOTAL	2,302	23,572	1,000	20,722	$ 180,225	$ 92,594

(a) Based on 12-month average oil price of $91.03 per Bbl and $5.15 per Mcf for gas, based on the first-day-of-the-month price for each month in the period. Discounted estimated future net cash flows from proved reserves increased 9% from year-end 2012 to 2013, primarily because of a 4% increase in oil prices and a 21% increase in natural gas prices.

(b)	Since the trust has defined net profits interests, the trust does not own a specific percentage of the oil anTD>	**50,223**	49,903
Additional paid-in capital		**43,461**	37,965
Retained earnings		**867,270**	830,031
Accumulated other comprehensive income (loss)		**(144,546)**	(139,626)
Total H.B. Fuller stockholders equity		**816,408**	778,273
Non-controlling interests		**391**	425
Total equity		**816,799**	778,698
Total liabilities, redeemable non-controlling interest and total equity		**$ 1,773,853**	$ 1,786,320

See accompanying Notes to Condensed Consolidated Financial Statements.

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H.B. FULLER COMPANY AND SUBSIDIARIES

Condensed 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 December 3, 2011	$ 49,450	$ 23,770	$ 720,989	$ (89,005)	$ 373	$ 705,577
Net income including non-controlling interests			125,622		233	125,855
Foreign currency translation				(2,985)	28	(2,957)
Defined benefit pension plans adjustment, net of tax of $26,075				(47,283)		(47,283)
Interest rate swap, net of tax				41		41
Cash-flow hedges, net of tax				(394)		(394)
Comprehensive income						75,262
Dividends			(16,580)			(16,580)
Stock option exercises	426	6,975				7,401
Share-based compensation plans other, net	181	10,136				10,317
Excess tax benefit on share-based compensation		1,263				1,263
Repurchases of common stock	(154)	(4,179)				(4,333)
Redeemable non-controlling interest					(209)	(209)
Balance at December 1, 2012	49,903	37,965	830,031	(139,626)	425	778,698
Net income including non-controlling interests			46,606		216	46,822
Foreign currency translation				(9,070)	(39)	(9,109)
Defined benefit pension plans adjustment, net of tax of $(2,126)				3,941		3,941
Interest rate swap, net of tax				20		20
Cash-flow hedges, net of tax				189		189
Comprehensive income						41,863
Dividends			(9,367)			(9,367)
Stock option exercises	236	4,135				4,371
Share-based compensation plans other, net	271	6,249				6,520
Excess tax benefit on share-based compensation		2,029				2,029
Repurchases of common stock	(187)	(6,917)				(7,104)
Redeemable non-controlling interest					(211)	(211)
Balance at June 1, 2013	**$ 50,223**	**$ 43,461**	**$ 867,270**	**$ (144,546)**	**$ 391**	**$ 816,799**

See accompanying Notes to Condensed Consolidated Financial Statements.

H.B. FULLER COMPANY AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	26 Weeks Ended	
	June 1, 2013	**June 2, 2012**
Cash flows from operating activities from continuing operations:		
Net income including non-controlling interests	**$ 46,822**	$ 17,337
(Income) loss from discontinued operations, net of tax		1,330
Adjustments to reconcile net income including non-controlling interests to net cash provided by operating activities from continuing operations:		
Depreciation	**18,887**	18,030
Amortization	**11,101**	7,969
Deferred income taxes	**(428)**	1,393
(Income) from equity method investments, net of dividends received	**4,984**	(4,344)
Share-based compensation	**6,215**	5,012
Excess tax benefit from share-based compensation	**(2,029)**	(1,039)
Non-cash charge for the sale of inventories revalued at the date of acquisition		3,314
Asset impairment charges		671
Change in assets and liabilities, net of effects of acquisitions and discontinued operations:		
Trade receivables, net	**1,152**	(19,725)
Inventories	**(16,950)**	(26,764)
Other assets	**(8,959)**	15,944
Trade payables	**1,046**	11,780
Accrued compensation	**(11,951)**	7,467
Other accrued expenses	**(1,888)**	(721)
Income taxes payable	**(8,231)**	362
Accrued / prepaid pensions	**(1,499)**	(4,188)
Other liabilities	**(4,280)**	4,180
Other	**6,719**	(3,198)
Net cash provided by operating activities from continuing operations	**40,711**	34,810
Cash flows from investing activities from continuing operations:		
Purchased property, plant and equipment	**(48,039)**	(12,504)
Purchased businesses	**1,625**	(404,725)
Purchased technology	**(2,387)**	
Proceeds from sale of property, plant and equipment	**353**	352
Net cash used in investing activities from continuing operations	**(48,448)**	(416,877)
Cash flows from financing activities from continuing operations:		
Proceeds from long-term debt	**95,000**	490,000
Repayment of long-term debt	**(110,000)**	(103,125)
Net proceeds (repayments) from notes payable	**(5,807)**	(3,774)
Dividends paid	**(9,294)**	(7,968)
Distribution to redeemable non-controlling interest	**(244)**	
Proceeds from stock options exercised	**4,371**	6,031
Excess tax benefit from share-based compensation	**2,029**	1,039
Repurchases of common stock	**(7,104)**	(1,295)
Net cash provided by (used in) financing activities from continuing operations	**(31,049)**	380,908
Effect of exchange rate changes	**(391)**	(6,030)

Net change in cash and cash equivalents from continuing operations	**(39,177)**	(7,189)
Cash provided by (used in) operating activities of discontinued operations	**(74)**	6,047
Cash provided by investing activities of discontinued operations		792
Net change in cash and cash equivalents	**(39,251)**	(350)
Cash and cash equivalents at beginning of period	**200,436**	154,649
Cash and cash equivalents at end of period	**$ 161,185**	$ 154,299
Supplemental disclosure of cash flow information:		
Dividends paid with company stock	**$ 73**	$ 58
Cash paid for interest, net of amount capitalized of $443 and $13 for the periods ended June 1, 2013 and June 2, 2012, respectively	**$ 11,999**	$ 7,338
Cash paid for income taxes, net of refunds	**$ 20,406**	$ 2,953

See accompanying Notes to Condensed Consolidated Financial Statements.

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H.B. FULLER COMPANY AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

Note 1: Accounting Policies

The accompanying unaudited interim Condensed 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 Condensed 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 Condensed 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 December 1, 2012 as filed with the Securities and Exchange Commission.

Recently Adopted Accounting Pronouncements:

In June 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-05, Presentation of Comprehensive Income. These updates require entities to present items of net income and other comprehensive income either in a single continuous statement, or in separate, but consecutive, statements of net income and other comprehensive income. The new requirements do not change which components of comprehensive income are recognized in net income or other comprehensive income, or when an item of other comprehensive income must be reclassified to net income. The updates are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and are to be applied retroactively. We adopted the new requirements in the first quarter of our 2013 fiscal year. The adoption of these updates did not have an impact on our condensed consolidated results of operations or financial condition.

New Accounting Pronouncements:

In February 2013, the FASB issued ASU No. 2013-02, Comprehensive Income: Reporting of Amounts Reclassified out of AOCI which further amended the disclosure requirements for comprehensive income. The update requires entities to disclose items reclassified out of accumulated other comprehensive income (AOCI) and into net income in a single location either in the notes to the condensed consolidated financial statements or parenthetically on the face of the condensed consolidated statements of income. The amendment is effective for fiscal years, and interim periods within those years, beginning after December 15, 2012 which is our fiscal year 2014 and is to be applied prospectively. Since this standard impacts disclosure requirements only, its adoption will not have a material impact on our condensed consolidated results of operations or financial condition.

Note 2: Acquisitions and Divestitures

Acquisitions

Engent, Inc.: On September 10, 2012 we acquired the outstanding shares of Engent, Inc., a provider of manufacturing, research and development services to the electronics industry. The purchase price of $7,881 was funded through existing cash and was recorded in our North America Adhesives operating segment.

In addition to the initial consideration, the former owners of the Engent, Inc. business are entitled to receive a series of annual cash payments based on certain financial performance criteria during the period September 10, 2012 through November 28, 2015 up to a maximum additional consideration of $2,000. We used a probability-weighted 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 $1,200 which was recorded in other liabilities and increased goodwill. Each reporting period we determine the fair value of the contingent consideration liability and any changes in value are reflected in the Condensed Consolidated Statements of Income.

The following table summarizes the final fair value measurement of the assets acquired and liabilities assumed as of the date of acquisition:

	Preliminary Valuation December 1, 2012	Fair Value Adjustments	Final Valuation
Current assets	$ 603	$	$ 603
Property, plant and equipment	1,471		1,471
Goodwill	5,434	247	5,681
Other intangibles			
Customer relationships	2,300		2,300
Noncompetition agreements	400		400
Trademarks/trade names	300		300
Other assets	325	(305)	20
Current liabilities	(84)	(6)	(90)
Other liabilities	(1,668)	64	(1,604)
Contingent consideration liabilities	(1,200)		(1,200)
Total purchase price	$ 7,881	$	$ 7,881

The adjustments to the purchase price allocation primarily relate to non-current deferred tax assets and liabilities.

Forbo Industrial Adhesives. On March 5, 2012 we completed the acquisition of the global industrial adhesives and synthetic polymers business of Forbo Holding AG. The purchase price was 368,514 Swiss francs or $403,100 which we financed with the proceeds from our March 5, 2012 note purchase agreement and a term loan.

As of March 5, 2013, we completed our final purchase price allocation including final tax adjustments. The following table summarizes the fair value measurement of the assets acquired and liabilities assumed as of the date of acquisition:

	Preliminary Valuation December 1, 2012	Purchase Price and Fair Value Adjustments	Final Valuation
Current assets	$ 172,345	$	$ 172,345
Property, plant and equipment	92,443		92,443
Goodwill	136,658	343	137,001
Other intangibles			
Developed technology	42,190		42,190
Customer relationships	58,910		58,910
Trademarks/trade names	21,880		21,880
Other	479		479
Other assets	4,605		4,605
Current liabilities	(84,251)	(184)	(84,435)
Other liabilities	(40,534)	(1,784)	(42,318)
Total purchase price	$ 404,725	$ (1,625)	$ 403,100

The adjustments to the purchase price allocation primarily relate to non-current deferred tax liabilities and purchase price adjustments.

Divestitures

Central America Paints. On August 6, 2012 we completed the sale of our Central America Paints business to Compania Global de Pinturas S.A., a company of Inversiones Mundial S.A for cash proceeds of $118,566. In accordance with ASC 205-20 Discontinued Operations , we have classified the results of this business as discontinued operations. The operational results of this business are presented in the Income from discontinued operations, net of tax line item on the Condensed Consolidated Statements of Income. Also in accordance with ASC 205-20, we have not allocated general corporate charges to this business. The assets and liabilities of this business are presented on the Condensed Consolidated Balance Sheets as assets and liabilities of discontinued operations.

Revenue and income (loss) from discontinued operations for the period ended June 2, 2012 were as follows:

	13 Weeks Ended June 2, 2012	26 Weeks Ended June 2, 2012
Net revenue	$ 26,321	$ 56,129
Income from operations	3,819	6,662
Income taxes	(6,872)	(7,992)
Net income (loss) from discontinued operations	$ (3,053)	$ (1,330)

The major classes of assets and liabilities of discontinued operations as of June 1, 2013 and December 1, 2012 were as follows:

	June 1, 2013	December 1, 2012
Other current assets	**1,865**	
Current assets of discontinued operations	**1,865**	
Other assets		1,865
Long-term assets of discontinued operations		1,865
Trade payables		74
Other accrued expenses	**5,000**	
Current liabilities of discontinued operations	**5,000**	74
Other liabilities		5,000
Long-term liabilities of discontinued operations		5,000

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 shares, restricted stock units 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 December 1, 2012.

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 June 1, 2013 and June 2, 2012 were calculated using the following weighted average assumptions:

	13 Weeks Ended		26 Weeks Ended	
	June 1, 2013	June 2, 2012	June 1, 2013	June 2, 2012
Expected life (in years)	**4.75**	4.75	**4.75**	4.75
Weighted-average expected volatility	**47.65%**	51.29%	**48.00%**	51.76%
Expected volatility	**47.65%**	51.29%	**47.65% 48.02%**	51.29% 51.76%
Risk-free interest rate	**0.69%**	0.84%	**0.73%**	0.71%

Expected dividend yield	**1.04%**	1.02%	**0.87%**	1.06%
Weighted-average fair value of grants	**$ 14.27**	$ 12.97	**$15.09**	$11.43

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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 materially 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 share and restricted stock units 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 $2,895 and $2,217 was included in our Condensed Consolidated Statements of Income for the 13 weeks ended June 1, 2013 and June 2, 2012, respectively. Total share-based compensation expense of $6,215 and $5,012 was included in our Condensed Consolidated Statements of Income for the 26 weeks ended June 1, 2013 and June 2, 2012, respectively. All share-based compensation expense was recorded as selling, general and administrative expense. For the 13 weeks ended June 1, 2013 and June 2, 2012 there was $225 and $158 of excess tax benefit recognized, respectively. For the 26 weeks ended June 1, 2013 and June 2, 2012 there was $2,029 and $1,039 of excess tax benefit recognized, respectively.

As of June 1, 2013, there was $9,794 of unrecognized compensation costs related to unvested stock option awards, which is expected to be recognized over a weighted-average period of 1.9 years. Unrecognized compensation costs related to unvested restricted stock shares was $9,364 and unvested restricted stock units was $2,914, both of which are expected to be recognized over a weighted-average period of 1.6 years.

Share-based Activity

A summary of option activity as of June 1, 2013 and changes during the 26 weeks then ended is presented below:

	Options	Weighted-Average Exercise Price
Outstanding at December 1, 2012	2,429,750	$ 21.63
Granted	452,229	39.58
Exercised	(236,277)	18.50
Forfeited or cancelled	(11,902)	24.43
Outstanding at June 1, 2013	2,633,800	$ 24.98

The total fair values of options granted during the 13 weeks ended June 1, 2013 and June 2, 2012 were $277 and $61, respectively. Total intrinsic values of options exercised during the 13 weeks ended June 1, 2013 and June 2, 2012 were $533 and $549, 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 total fair values of options granted during the 26 weeks ended June 1, 2013 and June 2, 2012 were $6,823 and $5,842, respectively. Total intrinsic values of options exercised during the 26 weeks ended June 1, 2013 and June 2, 2012 were $4,770 and $4,087, respectively. Proceeds received from option exercises during the 13 weeks ended June 1, 2013 and June 2, 2012 were $597 and $806, respectively and $4,371 and $6,031 during the 26 weeks ended June 1, 2013 and June 2, 2012, respectively.

A summary of nonvested restricted stock as of June 1, 2013 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 December 1, 2012	141,184	245,231	386,415	$ 25.41	0.9
Granted	62,701	183,752	246,453	39.60	2.1
Vested	(64,112)	(109,424)	(173,536)	37.75	
Forfeited	(357)	(1,291)	(1,648)	28.76	1.5
Nonvested at June 1, 2013	139,416	318,268	457,684	$ 33.57	1.6

Total fair values of restricted stock vested during the 13 weeks ended June 1, 2013 and June 2, 2012 were $278 and $228, respectively. Total fair values of restricted stock vested during the 26 weeks ended June 1, 2013 and June 2, 2012 were $6,550 and $4,439, respectively. The total fair value of nonvested restricted stock at June 1, 2013 was $12,278.

We repurchased 1,972 and 2,331 restricted stock shares during the 13 weeks ended June 1, 2013 and June 2, 2012, respectively and 61,624 and 52,975 restricted stock shares during the 26 weeks ended June 1, 2013 and June 2, 2012, respectively. The repurchases relate to statutory minimum tax withholding.

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 June 1, 2013, and changes during the 26 weeks then ended is presented below:

	Non-employee Directors	Employees	Total
Units outstanding December 1, 2012	338,769	68,662	407,431
Participant contributions	7,258	1,468	8,726
Company match contributions	807	163	970
Payouts	(18,564)	(4,647)	(23,211)
Units outstanding June 1, 2013	328,270	65,646	393,916

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	
(Shares in thousands)	June 1, 2013	June 2, 2012	June 1, 2013	June 2, 2012
Weighted-average common shares basic	**49,935**	49,652	**49,876**	49,509
Equivalent shares from share-based compensations plans	**1,217**	1,070	**1,214**	979
Weighted-average common and common equivalent shares diluted	**51,152**	50,722	**51,090**	50,488

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.

Our June 1, 2013 and March 2, 2013 stock prices were higher than any of our stock option grant prices at that time, therefore no option shares were excluded from the diluted earnings per share calculations for the first two quarters of 2013. Options to purchase 4,652 shares of common stock at a weighted-average exercise price of $32.32 for the 13 weeks and 26 weeks ended June 2, 2012, 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:

	June 1, 2013		
	Total	**H.B. Fuller Stockholders**	**Non-controlling Interests**
Foreign currency translation adjustment	**$ 41,693**	**$ 41,684**	**$ 9**
Interest rate swap, net of taxes of $45	**(115)**	**(115)**	
Cash-flow hedges, net of taxes of $129	**(205)**	**(205)**	
Defined benefit pension plans adjustment, net of taxes of $101,535	**(185,910)**	**(185,910)**	
Total accumulated other comprehensive income (loss)	**$ (144,537)**	**$ (144,546)**	**$ 9**

	December 1, 2012		
	Total	**H.B. Fuller Stockholders**	**Non-controlling Interests**
Foreign currency translation adjustment	$ 50,802	$ 50,754	$ 48
Interest rate swap, net of taxes of $52	(135)	(135)	
Cash-flow hedges, net of taxes of $248	(394)	(394)	
Defined benefit pension plans adjustment, net of taxes of $103,661	(189,851)	(189,851)	
Total accumulated other comprehensive income (loss)	$ (139,578)	$ (139,626)	$ 48

Note 6: Special Charges, net

The integration of the Forbo industrial adhesives business we acquired in March 2012 involves a significant amount of restructuring and capital investment to optimize the new combined entity. In addition, we are taking a series of actions in our existing EIMEA operating segment to improve the profitability and future growth prospects of this operating segment. We have combined these two initiatives into a single project which we refer to as the Business Integration Project . During the 13 weeks ended June 1, 2013 and June 2, 2012, we incurred special charges, net of $10,843 and $32,127, respectively and $16,176 and $38,609 for the 26 weeks ended June 1, 2013 and June 2, 2012, respectively, for costs related to the Business Integration Project.

The following table provides detail of special charges, net:

	13 Weeks Ended		26 Weeks Ended	
	June 1, 2013	**June 2, 2012**	**June 1, 2013**	**June 2, 2012**
Acquisition and transformation related costs:				
Professional services	**$ 1,884**	$ 11,087	**$ 4,166**	$ 19,514
Financing availability costs				4,300
Foreign currency option contract				841
Loss (gain) on foreign currency forward contracts		4		(11,621)
Other related costs	**1,995**	316	**2,773**	557
Restructuring costs:				
Workforce reduction costs	**3,697**	19,567	**4,181**	23,522
Facility exit costs	**3,267**	1,153	**5,056**	1,496
Special charges, net	**$ 10,843**	$ 32,127	**$ 16,176**	$ 38,609

Professional services of $1,884 for the 13 weeks ended June 1, 2013 and $11,087 for the 13 weeks ended June 2, 2012, include costs related to organization consulting, investment advisory, financial advisory, legal and valuation services necessary to acquire and integrate the Forbo industrial adhesives business into our existing operating segments. For the 26 weeks ended June 1, 2013 and June 2, 2012 we incurred professional services costs of $4,166 and $19,514, respectively. For the 26 weeks ended 2012, we also incurred other costs related to the acquisition of the Forbo industrial adhesives business including an expense of $4,300 to make a bridge loan available if needed and an expense of $841 related to the purchase of a foreign currency option to hedge a portion of the acquisition purchase price. Also during the first quarter of 2012, we entered into forward currency contracts maturing on March 5, 2012 to purchase 370,000 Swiss francs. Our objective was to economically hedge the purchase price for the pending acquisition of the global industrial adhesives business of Forbo Group after the price was established. The currency contracts were not designated as hedges for accounting purposes. For the 26 weeks ended June 2, 2012, the net gain on the forward currency contracts was $11,621 which partially offset other acquisition and transformation related costs.

During the 13 weeks ended June 1, 2013, we incurred workforce reduction costs of $3,697, other related costs of $1,995, cash facility exit costs of $2,316 and non-cash facility exit costs of $951 related to the Business Integration Project. During the 26 weeks ended June 1, 2013, we incurred workforce reduction costs of $4,181, other related costs of $2,773, cash facility exit costs of $3,714 and non-cash facility exit costs of $1,342 related to the Business Integration Project. During the 13 weeks and 26 weeks ended June 2, 2012, we incurred workforce reduction costs of $19,567 and $23,522, respectively, other related costs of $316 and $557, respectively and non-cash facility exit costs of $1,153 and $1,496, respectively related to the Business Integration Project.

For the 26 weeks ended June 1, 2013, the activity in accrued compensation associated with the Business Integration Project, is as follows:

	Workforce Reduction Costs
Balance at December 1, 2012	$ 19,848
Restructuring charges	4,181
Cash payments	(5,994)
Foreign currency translation adjustment	(92)
Balance at June 1, 2013	$ 17,943

Of the $17,943 in accrued restructuring costs at June 1, 2013, $17,380 was included in accrued compensation and $563 was included in other liabilities on our Condensed Consolidated Balance Sheets as this portion is not expected to be paid within the next year. In Europe, the accrued restructuring charges included statutory minimum amounts for one site for which final agreement has not been reached with the works council and communicated to the affected employees as well as amounts being accrued ratably for four sites in which works council agreements have been reached. At the communication date to employees, final termination benefits will be measured and will be recognized ratably over the service period employees are required to work to be eligible for termination benefits. In North America and Asia, the benefits were accrued based primarily on the formal severance plans in place for the various locations. The restructuring costs are not allocated to our operating segments.

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Note 7: Components of Net Periodic Cost (Benefit) related to Pension and Other Postretirement Benefit Plans

	13 Weeks Ended June 1, 2013 and June 2, 2012					
	Pension Benefits				Other Postretirement Benefits	
	U.S. Plans		Non-U.S. Plans			
Net periodic cost (benefit):	2013	2012	2013	2012	2013	2012
Service cost	**$ 27**	$ 22	**$ 416**	$ 329	**$ 156**	$ 135
Interest cost	**3,680**	4,024	**1,820**	2,165	**533**	617
Expected return on assets	**(5,680)**	(5,938)	**(2,318)**	(2,136)	**(931)**	(816)
Amortization:						
Prior service cost	**12**	12	**(1)**	(1)	**(1,034)**	(1,173)
Actuarial (gain)/ loss	**1,685**	964	**935**	634	**1,429**	1,283
Net periodic cost (benefit)	**$ (276)**	$ (916)	**$ 852**	$ 991	**$ 153**	$ 46

	26 Weeks Ended June 1, 2013 and June 2, 2012					
	Pension Benefits				Other Postretirement Benefits	
	U.S. Plans		Non-U.S. Plans			
Net periodic cost (benefit):	2013	2012	2013	2012	2013	2012
Service cost	**$ 54**	$ 44	**$ 839**	$ 589	**$ 312**	$ 270
Interest cost	**7,360**	8,048	**3,689**	3,894	**1,066**	1,234
Expected return on assets	**(11,360)**	(11,876)	**(4,700)**	(3,936)	**(1,862)**	(1,632)
Amortization:						
Prior service cost	**24**	24	**(2)**	(2)	**(2,068)**	(2,346)
Actuarial (gain)/ loss	**3,370**	1,928	**1,886**	1,263	**2,858**	2,578
Net periodic cost (benefit)	**$ (552)**	$ (1,832)	**$ 1,712**	$ 1,808	**$ 306**	$ 104

Note 8: Inventories

The composition of inventories follows:

	June 1, 2013	December 1, 2012
Raw materials	**$ 117,932**	$ 110,820
Finished goods	**125,925**	119,123
LIFO reserve	**(21,476)**	(21,412)
Total inventories	**$ 222,381**	$ 208,531

Note 9: 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, British pound sterling, Canadian dollar, Chinese renminbi, Japanese yen, Australian dollar, Swiss franc, Argentine peso, Brazilian real, Colombian peso, Mexican peso, Turkish lira, Egyptian pound, Indian rupee and Malaysian ringgit.

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. We evaluate the credit quality of each of these banks on a periodic basis as warranted.

Effective March 5, 2012, we entered into two cross-currency swap agreements to convert a notional amount of $151,598 of foreign currency denominated intercompany loans into US dollars. One of the cross-currency swaps matures in 2014 and the other swap matures in 2015. As of June 1, 2013, the combined fair value of the swaps were an asset of $1,769 and were included in other assets in the Condensed Consolidated Balance Sheets. The swaps were designated as cash-flow hedges for accounting treatment. The lesser amount between the cumulative change in the fair value of the actual swaps and the cumulative change in the fair value of hypothetical swaps is recorded in accumulated other comprehensive income (loss) in the Condensed Consolidated Balance Sheets. The difference between the cumulative change in the fair value of the actual swaps and the cumulative change in the fair value of hypothetical swaps are recorded as other income (expense), net in the Condensed Consolidated Statements 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 ineffectiveness calculations as of June 1, 2013 resulted in additional pre-tax gain of $6 year-to-date as the change in fair value of the cross-currency swaps was more than the change in the fair value of the hypothetical swaps. The amount in accumulated other comprehensive income (loss) related to cross-currency swaps was a loss of $205 at June 1, 2013. The estimated net amount of the existing loss that is reported in accumulated other comprehensive income (loss) at June 1, 2013 that is expected to be reclassified into earnings within the next twelve months is $163. At June 1, 2013, we believe the original forecasted transactions will occur, therefore, we do not believe any gains or losses will be reclassified into earnings as a result of the discontinuance of these cash flow hedges.

The following table summarizes the cross-currency swaps outstanding as of June 1, 2013:

	Fiscal Year of Expiration	Interest Rate	Notional Value	Fair Value
Pay EUR	2014	4.15%	$ 52,860	$ 833
Receive USD		4.30%		
Pay EUR	2015	4.30%	$ 98,738	$ 936
Receive USD		4.45%		
Total			$ 151,598	$ 1,769

Except for the two cross currency swap agreements listed above, 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 14 to Condensed Consolidated Financial Statements for fair value amounts of these derivative instruments.

As of June 1, 2013, we had forward foreign currency contracts maturing between June 5, 2013 and November 1, 2013. The mark-to-market effect associated with these contracts, on a net basis, was a gain of $481 at June 1, 2013. These gains 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 $6,909 at June 1, 2013 and was included in long-term debt in the Condensed Consolidated Balance Sheets. The fair values of the swaps in total were an asset of $7,133 at June 1, 2013 and were included in other assets in the Condensed Consolidated Balance Sheets. The swaps were designated for hedge accounting treatment as fair value hedges. The changes in the fair value of the swap and the fair value of the Senior Notes attributable to the change in the risk being hedged are recorded as other income (expense), net in the Condensed Consolidated Statements 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 calculation as of June 1, 2013 resulted in additional pre-tax loss of $387 year-to-date as the fair value of the interest rate swaps decreased 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 June 1, 2013, there were no significant concentrations of credit risk.

Note 10: Commitments and Contingencies

Environmental Matters. 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. Also, 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. To the extent we can reasonably estimate the amount of our probable liabilities for environmental matters, we establish a financial provision.

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. While uncertainties exist with respect to the amounts and timing of the ultimate environmental liabilities, based on currently available information, we have concluded that these matters, individually or in the aggregate, will not have a material adverse effect on our results of operations, financial condition or cash flow.

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, environmental, health and safety, tax and employment matters. While we are unable to predict the outcome of these matters, we have concluded, based upon currently available information, that the ultimate resolution of any pending matter, individually or in the aggregate, including the asbestos litigation described in the following paragraphs, will not have a material adverse effect on our results of operations, financial condition or cash flow.

We have been named as a defendant in lawsuits in which plaintiffs have alleged injury due to products containing asbestos manufactured more than 30 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 is paid by third parties, including indemnification pursuant to the provisions of a 1976 agreement under which we acquired a business from a third party. Currently, 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.

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.

A summary of the number of and settlement amounts for asbestos-related lawsuits and claims is as follows:

($ in thousands)	26 Weeks Ended June 1, 2013	26 Weeks Ended June 2, 2012	3 Years Ended December 1, 2012
Lawsuits and claims settled		8	20
Settlement amounts	**$**	$ 490	$ 1,535
Insurance payments received or expected to be received	**$**	$ 350	$ 1,174

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.

Based on currently available information, we have concluded that the resolution of any pending matter, including asbestos-related litigation, individually or in the aggregate, will not have a material adverse effect on our results of operations, financial condition or cash flow.

Note 11: Operating Segments

We are required to report segment information in the same way that we internally organize our business for assessing performance and making decisions regarding allocation of resources. We evaluate the performance of each of our operating segments based on segment operating income, which is defined as gross profit less selling, general and administrative (SG&A) expenses. Segment operating income excludes special charges, net. Corporate expenses are fully allocated to each operating segment. Corporate assets are not allocated to the segments. Inter-segment revenues are recorded at cost plus a markup for administrative costs. Operating results of each segment are regularly reviewed by our chief operating decision maker to make decisions about resources to be allocated to the segments and assess their performance.

The net revenue and segment operating income of the industrial adhesives business acquired in 2012 was recorded in our North America Adhesives, EIMEA, Latin America and Asia Pacific operating segments.

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

	13 Weeks Ended					
	June 1, 2013			June 2, 2012		
	Trade Revenue	Inter-Segment Revenue	Segment Operating Income	Trade Revenue	Inter-Segment Revenue	Segment Operating Income
North America Adhesives	**$ 190,641**	**$ 14,220**	**$ 28,448**	$ 193,382	$ 15,615	$ 25,115
Construction Products	**42,934**	**134**	**4,047**	39,679	105	3,148
EIMEA	**185,194**	**2,793**	**14,145**	193,943	2,307	9,485
Latin America	**38,132**	**141**	**3,377**	38,555	289	3,729
Asia Pacific	**62,115**	**3,788**	**2,793**	61,436	4,596	2,118
Total	**$ 519,016**		**$ 52,810**	$ 526,995		$ 43,595

	26 Weeks Ended					
	June 1, 2013			June 2, 2012		
	Trade Revenue	Inter-Segment Revenue	Segment Operating Income	Trade Revenue	Inter-Segment Revenue	Segment Operating Income
North America Adhesives	**$ 362,903**	**$ 26,832**	**$ 51,922**	$ 311,478	$ 29,386	$ 42,610
Construction Products	**76,965**	**215**	**5,411**	72,173	210	3,620
EIMEA	**362,695**	**5,469**	**20,618**	304,594	4,356	16,033
Latin America	**73,601**	**214**	**5,828**	74,152	676	6,116

Asia Pacific	**122,694**	**7,279**	**4,767**	110,052	8,050	2,873
Total	**$ 998,858**		**$ 88,546**	$ 872,449		$ 71,252

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

	13 Weeks Ended		26 Weeks Ended	
	June 1, 2013	**June 2, 2012**	**June 1, 2013**	**June 2, 2012**
Segment operating income	**$ 52,810**	$ 43,595	**$ 88,546**	$ 71,252
Special charges, net	**(10,843)**	(32,127)	**(16,176)**	(38,609)
Asset impairment charges		(671)		(671)
Other income (expense), net	**(1,814)**	231	**(1,436)**	648
Interest expense	**(4,884)**	(5,749)	**(10,211)**	(8,367)
Income from continuing operations before income taxes and income from equity method investments	**$ 35,269**	$ 5,279	**$ 60,723**	$ 24,253

Note 12: Income Taxes

As of June 1, 2013, we had a $5,301 liability recorded under FASB ASC 740, Income Taxes for gross unrecognized tax benefits (excluding interest). As of June 1, 2013, we had accrued $801 of gross interest relating to unrecognized tax benefits. During the second quarter of 2013 our recorded liability for gross unrecognized tax benefits decreased by $95.

Note 13: Goodwill

A summary of goodwill activity for the first six months of 2013 is presented below:

Balance at December 1, 2012	$ 254,345
Forbo Industrial Adhesives acquisition (Note 2)	343
Engent, Inc. acquisition (Note 2)	247
Currency impact	(2,460)
Balance at June 1, 2013	$ 252,475

Note 14: Fair Value Measurements

The following tables present information about our financial assets and liabilities that are measured at fair value on a recurring basis as of June 1, 2013 and December 1, 2012, 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	**June 1, 2013**	**Level 1**	**Level 2**	**Level 3**
Assets:				
Marketable securities	$ 905	$ 905	$	$
Derivative assets	1,742		1,742	
Interest rate swaps	7,133		7,133	
Cash-flow hedges	1,769		1,769	
Liabilities:				
Derivative liabilities	$ 1,261	$	$ 1,261	$

Contingent consideration liability, continuing operations	1,638	1,638
Contingent consideration liability, discontinued operations	5,000	5,000

Description	December 1, 2012	Fair Value Measurements Using: Level 1	Level 2	Level 3
Assets:				
Marketable securities	$ 15,499	$ 15,499	$	$
Derivative assets	830		830	
Interest rate swaps	9,473		9,473	
Cash-flow hedges	1,610		1,610	
Liabilities:				
Derivative liabilities	$ 956	$	$ 956	$
Contingent consideration liability, continuing operations	1,649			1,649
Contingent consideration liability, discontinued operations	5,000			5,000

Note 15: Share Repurchase Program

On September 30, 2010, the Board of Directors authorized a 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 2013 we repurchased shares under this program, with an aggregate value of $4,775. Of this amount, $125 reduced common stock and $4,650 reduced additional paid-in capital. There were no shares repurchased under this program during the first quarter of 2013 or the first six months of 2012.

Note 16: Impairment of Long-lived Asset

During the second quarter of 2012, we determined the fair value of one of our cost basis investments was lower than the investment value on our balance sheet based on investor approval of a buy-out offer from the majority shareholder. As a result, we recorded an impairment charge of $671.

Note 17: Redeemable Non-Controlling Interest

We account for the non-controlling interest in H.B. Fuller Kimya San. Tic A.S. (HBF Kimya) as a redeemable non-controlling interest because both the non-controlling shareholder and H.B. Fuller have an option, exercisable beginning August 1, 2018, to require the redemption of the shares owned by the non-controlling shareholder at a price determined by a formula based on 24 months trailing EBITDA. Since the option makes the redemption of the non-controlling ownership shares of HBF Kimya outside of our control, these shares are classified as a redeemable non-controlling interest in temporary equity in the Condensed Consolidated Balance Sheets. The option is subject to a minimum price of 3,500. The redemption value of the option, if it were currently redeemable, is estimated to be 3,500.

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HBF Kimya s results of operations are consolidated in our financial statements. Both the non-controlling interest and the accretion adjustment to redemption value are included in income or loss attributable to non-controlling interests in the Condensed Consolidated Statements of Income and in the carrying value of the redeemable non-controlling interest on the Condensed Consolidated Balance Sheets. HBF Kimya s functional currency is the Turkish lira and changes in exchange rates will affect the reported amount of the redeemable non-controlling interest. As of June 1, 2013 the redeemable non-controlling interest was:

Balance at December 1, 2012	$ 3,981
Net income attributed to redeemable non-controlling interest	161
Accretion adjustment to redemption value	48
Distributions to non-controlling shareholder	(244)
Foreign currency translation adjustment	2
Balance at June 1, 2013	$ 3,948

Note 18: Subsequent Event

On June 6, 2013 we completed the purchase of Plexbond Quimica, S.A., a provider of chemical polyurethane specialties and polyester resins, for approximately $12,000. Plexbond Quimica, S.A. operates a manufacturing facility in Curitiba, Brazil. The acquisition will be recorded in our Latin America 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 December 1, 2012 for important background information related to our business.

We completed the acquisition of the Forbo industrial adhesives business on March 5, 2012. The Forbo industrial adhesives business acquired is referred to as the acquired business in the MD&A.

Net revenue in the second quarter of 2013 decreased 1.5 percent over the second quarter of 2012. Pricing increased 0.2 percent offset by 1.4 percent decrease in sales volume. The weakening of the Euro for the second quarter of 2013 compared to the second quarter of 2012 were the main drivers of the negative 0.3 percent currency effect compared to the U.S. dollar. Gross profit margin improved by 230 basis points driven by synergies from integrating the acquired business, other profit margin improvement initiatives over the past year and the recognition of the non-cash charge for the sale of inventories revalued at the date of the acquisition which reduced gross profit margin 60 basis points in the second quarter of 2012. We incurred special charges, net of $10.8 million for costs related to the Business Integration Project in the second quarter of 2013 and $32.1 million in the second quarter of 2012.

Net income attributable to H.B. Fuller in the second quarter of 2013 was $25.9 million as compared to $1.9 million in the second quarter of 2012. The 2012 net income attributable to H.B. Fuller includes a loss of $3.1 million from discontinued operations, net of tax or $0.06 diluted per share. On a diluted earnings per share basis, the second quarter of 2013 was $0.51 per share as compared to $0.04 per share for the same period last year.

Net revenue in the first six months of 2013 increased 14.5 percent over the first six months of 2012. Organic growth, which we define as revenue growth due to changes in sales volume and selling prices, was 0.5 percent as compared to the first six months of 2012. The organic growth consisted of 0.5 percent higher pricing with no percentage change in volume. Inclusion of the acquired business increased net revenue by approximately $121.8 million. Gross profit margin improved by 60 basis points driven by synergies from integrating the acquired business. Our SG&A expenses increased by 14.0 percent in the first six months of 2013 compared to the same period last year, however, SG&A expenses as a percentage of net revenue decreased by 10 basis points. The increase in SG&A expense was primarily due to the inclusion of the acquired business. We incurred special charges, net of $16.2 million for costs related to the Business Integration Project in the first six months of 2013 and $38.6 million in the first six months of 2012.

Net income attributable to H.B. Fuller in the first six months of 2013 was $46.6 million as compared to $17.2 million in the first six months of 2012. The 2012 net income attributable to H.B. Fuller includes a $1.3 million loss from discontinued operations, net of tax or $0.03 diluted per share. On a diluted earnings per share basis, the first six months of 2013 was $0.91 per share as compared to $0.34 per share for the same period last year.

Results of Operations

Net revenue:

	13 Weeks Ended			26 Weeks Ended		
($ in millions)	June 1, 2013	June 2, 2012	2013 vs 2012	June 1, 2013	June 2, 2012	2013 vs 2012
Net revenue	$ 519.0	$ 527.0	(1.5%)	$ 998.9	$ 872.4	14.5%

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 and small niche acquisitions including Engent which was acquired in the fourth quarter of 2012 are viewed as organic growth. The following table shows the net revenue variance analysis for the second quarter and six months compared to the same period in 2012:

	13 Weeks Ended June 1, 2013	26 Weeks Ended June 1, 2013
Product pricing	0.2%	0.5%
Sales volume	(1.4%)	0.0%

Currency	(0.3%)	0.0%
Acquisitions	0.0%	14.0%
	(1.5%)	14.5%

Product pricing increased 0.2 percent offset by decreased sales volume of 1.4 percent for the second quarter of 2013 as compared to the same period last year. The negative currency effects in the quarter were primarily the result of the weakening of the Euro compared to the U.S dollar.

Year-to-date organic growth was 0.5 percent with increased product pricing of 0.5 percent with no percentage change in volume for the first six months of 2013 as compared to the same period last year. The organic growth was driven by growth in the North America Adhesives, Construction Products, and Asia Pacific operating segments. Currency changes had no year-to-date effects in 2013. The inclusion of the acquired business added $121.8 million to net revenue.

Cost of sales:

	13 Weeks Ended			26 Weeks Ended		
($ in millions)	**June 1, 2013**	**June 2, 2012**	**2013 vs 2012**	**June 1, 2013**	**June 2, 2012**	**2013 vs 2012**
Raw materials	$ 295.4	$ 308.5	(4.2%)	$ 567.1	$ 501.5	13.1%
Other manufacturing costs	77.0	81.9	(6.0%)	151.8	131.7	15.3%
Cost of sales	$ 372.4	$ 390.4	(4.6%)	$ 718.9	$ 633.2	13.5%
Percent of net revenue	71.8%	74.1%		72.0%	72.6%	

The 4.6 percent decrease in cost of sales in the second quarter of 2013 compared to the second quarter of 2012 was driven by the integration of the acquired business. Cost of sales as a percentage of net revenue decreased 230 basis points primarily driven by synergies from integrating the acquired business and the recognition of the non-cash charge for the sale of inventories revalued at the date of the acquisition which increased cost of sales by 60 basis points in the second quarter of 2012. Raw material costs as a percentage of sales decreased 160 basis points relative to the prior year, reflecting material cost synergies, other profit improvement initiatives undertaken over the last twelve months and the recognition of the non-cash charge which increased raw material costs as a percentage of sales by 60 basis points in the second quarter of 2012. Other manufacturing costs as a percentage of revenue decreased by 70 basis points as benefits of the manufacturing network consolidation projects within the Business Integration Project were realized. We expect raw material costs to remain at or near second quarter exit levels through the end of this year.

The 13.5 percent increase in cost of sales for the first six months of 2013 compared to the first six months of 2012 was driven by the inclusion of the acquired business. Cost of sales as a percentage of net revenue decreased 60 basis points primarily driven by synergies from integrating the acquired business. Raw material costs as a percentage of sales decreased 70 basis points relative to the prior year, reflecting material cost synergies and other profit improvement initiatives undertaken over the last twelve months. Other manufacturing costs as a percentage of revenue increased by 10 basis points compared to last year; this ratio is expected to improve over the next three quarters as the benefits of the manufacturing network consolidation projects within the Business Integration Project are completed.

Gross profit:

	13 Weeks Ended			26 Weeks Ended		
($ in millions)	**June 1, 2013**	**June 2, 2012**	**2013 vs 2012**	**June 1, 2013**	**June 2, 2012**	**2013 vs 2012**
Gross profit	$ 146.6	$ 136.6	7.4%	$ 280.0	$ 239.2	17.0%
Percent of net revenue	28.2%	25.9%		28.0%	27.4%	

Gross profit for the second quarter of 2013 increased by $10.0 million compared to the second quarter of 2012 and gross profit margin improved by 230 basis points driven by synergies from integrating the acquired business, other profit margin improvement initiatives over the past year and the recognition of the non-cash charge for the sale of inventories revalued at the date of the acquisition which reduced gross profit margin 60 basis points in the second quarter of 2012.

Gross profit for the first six months of 2013 increased by $40.8 million compared to the first six months of 2012 and gross profit margin improved by 60 basis points. The synergies from integrating the acquired business were the primary reason for the margin improvement.

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

($ in millions)	13 Weeks Ended June 1, 2013	13 Weeks Ended June 2, 2012	13 Weeks Ended 2013 vs 2012	26 Weeks Ended June 1, 2013	26 Weeks Ended June 2, 2012	26 Weeks Ended 2013 vs 2012
SG&A	$ 93.8	$ 93.0	0.9%	$ 191.4	$ 168.0	14.0%
Percent of net revenue	18.1%	17.6%		19.2%	19.3%	

SG&A expenses increased $0.8 million or 0.9 percent compared to the second quarter of 2012. SG&A expense as a percentage of net revenue increased 50 basis points due to the slight decline in period over period revenue.

SG&A expenses increased $23.4 million or 14.0 percent compared to the first six months of 2012. The lower relative cost structure of the acquired business and the increased net revenue resulted in the 10 basis point decrease in SG&A expense as a percentage of net revenue.

We make SG&A expense plans at the beginning of each fiscal year and barring significant changes in business conditions or our outlook for the future, we maintain these spending plans for the entire year. Management routinely monitors our SG&A spending relative to these fiscal year plans for each operating segment and for the company overall. We feel it is important to maintain a consistent spending program in this area as many of the activities within the SG&A category such as the sales force, technology development, and customer service are critical elements of our business strategy. For the current year we have planned SG&A expenses to increase relative to last year by an amount slightly less than our expected growth in net revenue. Our analysis of the impact of our SG&A spending in the quarter is generally focused on spending variances that are significantly above or below this planned level.

Special charges, net:

($ in millions)	13 Weeks Ended June 1, 2013	13 Weeks Ended June 2, 2012	13 Weeks Ended 2013 vs 2012	26 Weeks Ended June 1, 2013	26 Weeks Ended June 2, 2012	26 Weeks Ended 2013 vs 2012
Special charges, net	$ 10.8	$ 32.1	(66.2%)	$ 16.2	$ 38.6	(58.1%)

The following table provides detail of special charges, net:

($ in millions)	13 Weeks Ended June 1, 2013	13 Weeks Ended June 2, 2012	26 Weeks Ended June 1, 2013	26 Weeks Ended June 2, 2012
Acquisition and transformation related costs	$ 1.9	$ 11.1	$ 4.2	$ 13.0
Workforce reduction costs	3.7	19.6	4.2	23.5
Facility exit costs	3.2	1.1	5.0	1.5
Other related costs	2.0	0.3	2.8	0.6
Special charges, net	$ 10.8	$ 32.1	$ 16.2	$ 38.6

The integration of the acquired business involves a significant amount of restructuring and capital investment to optimize the new combined entity. In addition to this acquisition, we announced our intentions to take a series of actions in our existing EIMEA operating segment to improve the profitability and future growth prospects of this operating segment. We have combined these two initiatives into a single project which we refer to as the Business Integration Project . During the 13 weeks ended June 1, 2013 and June 2, 2012, we incurred special charges, net of $10.8 million and $32.1 million respectively, for costs related to the Business Integration Project. During the 26 weeks ended June 1, 2013 and June 2, 2012, we incurred special charges, net of $16.2 million and $38.6 million respectively, for costs related to the Business Integration

Project.

Acquisition and transformation related costs of $1.9 million for the second quarter of 2013 and $11.1 million for the second quarter of 2012 include costs related to organization consulting, investment advisory, financial advisory, legal and valuation services necessary to acquire and integrate the acquired business into our existing operating segments. We incurred acquisition and transformation related costs of $4.2 million for the first six months of 2013 and $13.0 million for the same period last year. For the 26 weeks ended June 2, 2012, acquisition and transformation related costs included an expense to make a bridge loan available, an expense related to the purchase of a foreign currency option to hedge a portion of the acquisition purchase price and the net gain on the forward currency contracts used to economically hedge the purchase price for the pending acquisition of the global industrial adhesives business of Forbo Group after the price was established.

The Business Integration Project is a broad-based transformation plan involving all major processes in three of our existing operating segments. The integration strategy and execution plan is unique for each operating segment reflecting the differences within operating segments as well as differences within the acquired business in each geographic region. In the North America Adhesives operating segment, the integration work is essentially a consolidation of two similar businesses. The production capacity of the two organizations is being optimized mostly by transferring volume from the acquired business to existing facilities within the North America Adhesives operating segment. In the EIMEA operating segment, the Business Integration Project impacts more aspects of the business and is more complex. The two businesses being combined have similar inefficiencies and opportunities for improved productivity, generally due to excess complexity within the core processes of each of the businesses. This portion of the project will require more capital investment, higher restructuring and severance costs and a longer time frame when compared to the North America Adhesives portion of the project. In the Asia Pacific operating segment, the Business Integration Project is less complex because the acquired business in that region was relatively small. The focus of the integration work in this region is to build a solid foundation for growth in the commercial and technical areas and create a more efficient production network in China.

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

The total costs, excluding capital expenditures, to achieve these benefits are expected to be approximately $121.0 million of which $76.2 million have been expensed since inception of the Business Integration Project in 2011. The remaining expected costs of approximately $44.8 million will occur over the next several quarters through the end of 2014. The following table provides detail of costs incurred and future expected costs of the Business Integration Project:

	As of June 1, 2013		
($ in millions)	**Costs Incurred Inception-to-Date**	**Expected Costs Remaining**	**Total Expected Costs**
Acquisition and transformation related costs	$ 29.9	$ 5.1	$ 35.0
Work force reduction costs	32.3	20.7	53.0
Cash facility exit costs	4.7	12.3	17.0
Non-cash facility exit costs	4.5	1.5	6.0
Other related costs	4.8	5.2	10.0
Business Integration Project	$ 76.2	$ 44.8	$ 121.0

The remaining expected Business Integration Project costs of $44.8 million will be incurred as the measures are implemented, and will total approximately $27.8 million in fiscal year 2013 and approximately $17.0 million in fiscal year 2014. The costs associated with the acquisition integration and the cash costs of the restructuring are incremental cash outlays that will be funded with existing cash and cash generated from operations. Non-cash costs are primarily related to accelerated depreciation of long-lived assets.

The capital expenditures related to the Business Integration Project will be significant. In 2012 we spent approximately $36.0 million in capital expenditures. As the project has progressed and the scope of the various projects are more fully defined, we expect capital expenditures to reach $110.0 million in 2013 and the aggregate of spending in the years 2014 and 2015 is expected to be $100.0 million. This capital spending forecast for all projects including the Business Integration Project is consistent with our original forecast. This capital spending program will be funded from the operating cash flows of the business and if necessary, from available cash and short-term borrowing.

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

For the quarter ended June 1, 2013, we achieved cost savings of $3.6 million related to workforce reductions and $3.1 million related to facility closures and consolidations. The above cost savings represent benefits from selected activities included in the Business Integration Project. EBITDA margin for the second quarter of 12.9 percent is consistent with our plan.

Other income (expense), net:

	13 Weeks Ended			26 Weeks Ended		
($ in millions)	**June 1, 2013**	**June 2, 2012**	**2013 vs 2012**	**June 1, 2013**	**June 2, 2012**	**2013 vs 2012**
Other income (expense), net	$ (1.8)	$ 0.2	NMP	$ (1.4)	$ 0.6	NMP

NMP = Non-meaningful percentage

Other income (expense), net in the second quarter of 2013 included $1.7 million of currency translation and re-measurement losses and $0.3 million of net financing costs offset by $0.2 million of interest income. Other income (expense), net in the second quarter of 2012 included $0.6 million of currency translation and re-measurement gains and $0.4 million of interest income offset by net financing costs of $0.8 million.

For the first six months of 2013, other income (expense), net included $1.5 million of currency translation and re-measurement losses and $0.3 million of net financing costs offset by $0.4 million of interest income. For the first six months of 2012, other income (expense), net included $0.9 million of interest income and $0.1 million of currency translation and re-measurement gains offset by net financing costs of $0.4 million.

Interest expense:

	13 Weeks Ended			26 Weeks Ended		
($ in millions)	**June 1, 2013**	**June 2, 2012**	**2013 vs 2012**	**June 1, 2013**	**June 2, 2012**	**2013 vs 2012**
Interest expense	$ 4.9	$ 5.7	(15.0%)	$ 10.2	$ 8.4	22.0%

Interest expense in the second quarter of 2013 as compared to same period last year was lower due to a prepayment of long-term debt with proceeds from the sale of our Central America Paints business in the third quarter of 2012.

Interest expense for first six months of 2013 as compared to same period last year was higher due to increased debt obtained to purchase the acquired business.

Income taxes:

($ in millions)	13 Weeks Ended June 1, 2013	13 Weeks Ended June 2, 2012	13 Weeks Ended 2013 vs 2012	26 Weeks Ended June 1, 2013	26 Weeks Ended June 2, 2012	26 Weeks Ended 2013 vs 2012
Income taxes	$ 10.9	$ 2.4	359.0%	$ 18.0	$ 9.9	81.1%
Effective tax rate	30.8%	44.8%		29.6%	40.9%	

Income tax expense of $10.9 million in the second quarter of 2013 includes $0.7 million of discrete tax benefits and $2.5 million of tax benefits relating to the special charges for costs related to the Business Integration Project. Excluding the discrete benefits and the effects of items included in special charges, the overall effective tax rate was 30.4 percent. Without discrete tax benefits of $0.7 million and the impact of costs related to the Business Integration Project in the second quarter of 2012, the overall effective tax rate was 29.5 percent.

Income tax expense of $18.0 million year to date in 2013 includes $1.5 million of discrete tax benefits and $3.6 million of tax benefits relating to the special charges for costs related to the Business Integration Project. Excluding the discrete benefits and the effects of items included in special charges, the overall effective tax rate was 30.0 percent. Without discrete tax benefits of $0.8 million and the impact of costs related to the Business Integration Project, the overall effective tax rate was 29.1 percent year to date in 2012.

Income from equity method investments:

($ in millions)	13 Weeks Ended June 1, 2013	13 Weeks Ended June 2, 2012	13 Weeks Ended 2013 vs 2012	26 Weeks Ended June 1, 2013	26 Weeks Ended June 2, 2012	26 Weeks Ended 2013 vs 2012
Income from equity method investments	$ 1.6	$ 2.1	(23.5%)	$ 4.1	$ 4.3	(6.0%)

The income from equity method investments relates to our 50 percent ownership of the Sekisui-Fuller joint venture in Japan.

Income (loss) from discontinued operations, net of tax:

($ in millions)	13 Weeks Ended June 1, 2013	13 Weeks Ended June 2, 2012	13 Weeks Ended 2013 vs 2012	26 Weeks Ended June 1, 2013	26 Weeks Ended June 2, 2012	26 Weeks Ended 2013 vs 2012
Income (loss) from discontinued operations, net of tax	$	$ (3.1)	NMP	$	$ (1.3)	NMP

NMP = Non-meaningful percentage

The income (loss) from discontinued operations, net of tax, relates to the results of operations of the Central America Paints business, which we sold August 6, 2012. See Note 2 to the Condensed Consolidated Financial Statements.

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

($ in millions)	13 Weeks Ended June 1, 2013	13 Weeks Ended June 2, 2012	13 Weeks Ended 2013 vs 2012	26 Weeks Ended June 1, 2013	26 Weeks Ended June 2, 2012	26 Weeks Ended 2013 vs 2012
Net (income) loss attributable to non-controlling interests	$ (0.1)	$ (0.1)	NMP	$ (0.2)	$ (0.1)	NMP

NMP = Non-meaningful percentage

Net (income) loss attributable to non-controlling interests relate to a 10 percent redeemable non-controlling interest in HBF Turkey.

Net income attributable to H.B. Fuller:

	13 Weeks Ended			26 Weeks Ended		
($ in millions)	June 1, 2013	June 2, 2012	2013 vs 2012	June 1, 2013	June 2, 2012	2013 vs 2012
Net income attributable to H.B. Fuller	$ 25.9	$ 1.9	1239.3%	$ 46.6	$ 17.2	170.3%
Percent of net revenue	5.0%	0.4%		4.7%	2.0%	

The net income attributable to H.B. Fuller for the second quarter of 2013 was $25.9 million compared to $1.9 million for the second quarter of 2012. The second quarter of 2013 included $10.8 million of special charges, net ($8.4 million after tax) for costs related to the Business Integration Project. The second quarter of 2012 included $32.1 million of special charges, net ($24.2 million after tax) for costs related to the Business Integration Project. The diluted earnings per share for the second quarter of 2013 was $0.51 per share as compared to $0.04 per share for the second quarter of 2012.

The net income attributable to H.B. Fuller for the first six months of 2013 was $46.6 million compared to $17.2 million for the first six months of 2012. The first six months of 2013 included $16.2 million of special charges, net ($12.6 million after tax) for costs related to the Business Integration Project. The first six months of 2012 included $38.6 million of special charges, net ($31.0 million after tax) for costs related to the Business Integration Project. The diluted earnings per share for the first six months of 2013 was $0.91 per share as compared to $0.34 per share for the first six months of 2012.

Operating Segment Results

Our operations are managed through five reportable segments: North America Adhesives, Construction Products, EIMEA, Latin America 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.

The tables below provide certain information regarding the net revenue and segment operating income of each of our operating segments. The pricing/sales volume variance is viewed as organic growth. For segment evaluation by the chief operating decision maker, segment operating income is defined as gross profit less SG&A expenses and excludes special charges, net.

Net Revenue by Segment:

	13 Weeks Ended				26 Weeks Ended			
	June 1, 2013		June 2, 2012		June 1, 2013		June 2, 2012	
($ in millions)	Net Revenue	% of Total	Net Revenue	% of Total	Net Revenue	% of Total	Net Revenue	% of Total
North America Adhesives	**$ 190.7**	**37%**	$ 193.4	37%	**$ 362.9**	**36%**	$ 311.5	36%
Construction Products	**42.9**	**8%**	39.7	7%	**77.0**	**8%**	72.2	8%
EIMEA	**185.2**	**36%**	193.9	37%	**362.7**	**36%**	304.6	35%
Latin America	**38.1**	**7%**	38.6	7%	**73.6**	**8%**	74.1	8%
Asia Pacific	**62.1**	**12%**	61.4	12%	**122.7**	**12%**	110.0	13%
Total	**$ 519.0**	**100%**	$ 527.0	100%	**$ 998.9**	**100%**	$ 872.4	100%

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Segment Operating Income:

	13 Weeks Ended				26 Weeks Ended			
	June 1, 2013		June 2, 2012		June 1, 2013		June 2, 2012	
($ in millions)	Segment Operating Income	% of Total	Segment Operating Income	% of Total	Segment Operating Income	% of Total	Segment Operating Income	% of Total
North America Adhesives	**$ 28.5**	**54%**	$ 25.1	58%	**$ 51.9**	**59%**	$ 42.6	60%
Construction Products	**4.0**	**8%**	3.2	7%	**5.4**	**6%**	3.7	5%
EIMEA	**14.1**	**27%**	9.5	22%	**20.6**	**23%**	16.0	22%
Latin America	**3.4**	**6%**	3.7	8%	**5.8**	**7%**	6.1	9%
Asia Pacific	**2.8**	**5%**	2.1	5%	**4.8**	**5%**	2.9	4%
Total	**$ 52.8**	**100%**	$ 43.6	100%	**$ 88.5**	**100%**	$ 71.3	100%

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

	13 Weeks Ended		26 Weeks Ended	
($ in millions)	June 1, 2013	June 2, 2012	June 1, 2013	June 2, 2012
Segment operating income	**$ 52.8**	$ 43.6	**$ 88.5**	$ 71.3
Special charges, net	**(10.8)**	(32.1)	**(16.2)**	(38.6)
Asset impairment charges		(0.7)		(0.7)
Other income (expense), net	**(1.8)**	0.2	**(1.4)**	0.6
Interest expense	**(4.9)**	(5.7)	**(10.2)**	(8.4)
Income from continuing operations before income taxes and income from equity method investments	**$ 35.3**	$ 5.3	**$ 60.7**	$ 24.2

North America Adhesives

	13 Weeks Ended			26 Weeks Ended		
($ in millions)	June 1, 2013	June 2, 2012	2013 vs 2012	June 1, 2013	June 2, 2012	2013 vs 2012
Net revenue	$ 190.7	$ 193.4	(1.4%)	$ 362.9	$ 311.5	16.5%
Segment operating income	$ 28.5	$ 25.1	13.3%	$ 51.9	$ 42.6	21.9%
Segment profit margin %	14.9%	13.0%		14.3%	13.7%	

The following tables provide details of the North America Adhesives net revenue variances:

	13 Weeks Ended June 1, 2013 vs June 2, 2012	26 Weeks Ended June 1, 2013 vs June 2, 2012
Organic growth	(1.3%)	0.1%
Currency	(0.1%)	0.0%
Acquisition	0.0%	16.4%
Total	(1.4%)	16.5%

Net revenue decreased 1.4 percent in the second quarter of 2013 compared to the second quarter of 2012. Pricing increased 0.1 percent offset by a 1.4 percent decrease in sales volume and negative currency effects of 0.1 percent compared to last year. The sales volume decline was driven by changes in product mix combined with a generally sluggish end market demand environment. Segment operating income increased 13.3 percent and segment profit margin increased 190 basis points in the quarter. Raw material cost as a percentage of net revenue was 260 basis points lower driven by synergies from integrating the acquired business and other profit margin improvement initiatives over the past year. The second quarter of 2012 included the recognition of the non-cash charge for the sale of inventories revalued at the date of acquisition which increased cost of sales by 30 basis points. The higher gross margin was offset by higher SG&A expenses as a percentage of net revenue compared to the second quarter of 2012.

Net revenue increased 16.5 percent in the first six months of 2013 compared to the first six months of 2012. Pricing increased 0.5 percent offset by a 0.4 percent decrease in sales volume compared to last year. The acquired business added approximately $51.0 million to net revenue. The increase in pricing reflected the cumulative impact of price increases implemented over the past year to offset raw material cost inflation. The sales volume decline was the result of changes in product mix combined with a generally sluggish end market demand environment. Segment operating income increased 21.9 percent for the first six months and segment profit margin increased 60 basis points. Raw material cost as a percentage of net revenue decreased 170 basis points as a result of synergies from integrating the acquired business and other profit margin improvement initiatives over the past year. The higher gross margin was offset by slightly higher manufacturing costs and SG&A expenses as a percent of revenue compared to the prior year.

Construction Products

	13 Weeks Ended			26 Weeks Ended		
($ in millions)	June 1, 2013	June 2, 2012	2013 vs 2012	June 1, 2013	June 2, 2012	2013 vs 2012
Net revenue	$ 42.9	$ 39.7	8.2%	$ 77.0	$ 72.2	6.6%
Segment operating income	$ 4.0	$ 3.2	28.6%	$ 5.4	$ 3.7	49.5%
Segment profit margin %	9.4%	7.9%		7.0%	5.0%	

The following tables provide details of the Construction Products net revenue variances:

	13 Weeks Ended June 1, 2013 vs June 2, 2012	26 Weeks Ended June 1, 2013 vs June 2, 2012
Organic growth	8.2%	6.6%

Net revenue was up 8.2 percent in the second quarter of 2013 driven by an 8.5 percent increase in volume combined with a 0.3 percent decrease in pricing compared to the second quarter last year. The increase in sales volume was primarily attributed to continued market share gains with several key retail partners. The volume increase this year is an encouraging sign that the overall market is continuing to slowly improve. Segment operating income increased by 28.6 percent and segment profit margin increased by 150 basis points in the second quarter compared to the same period last year. Raw material costs as a percentage of net revenue was approximately 120 basis points lower in 2013 relative to the prior year primarily due to changes in the mix of products sold and reformulations. The improvement in segment profit margin was driven by improved gross margins offset by slightly higher manufacturing costs and administrative costs as a percentage of net revenue.

Net revenue was up 6.6 percent in the first six months of 2013 driven by a 6.6 percent increase in volume with no percentage change in pricing compared to last year. The increase in sales volume was primarily attributed to continued market share gains with several key retail partners. Segment operating income increased 49.5 percent and segment profit margin increased 200 basis points in the first six months compared to the same period last year. Raw material costs as a percentage of net revenue was approximately 40 basis points lower in 2013 relative to the prior year primarily due to changes in the mix of products sold. The improvement in segment profit margin was driven by improved gross margins and lower administrative costs as a percentage of net revenue.

EIMEA

	13 Weeks Ended			26 Weeks Ended		
($ in millions)	June 1, 2013	June 2, 2012	2013 vs 2012	June 1, 2013	June 2, 2012	2013 vs 2012
Net revenue	$ 185.2	$ 193.9	(4.5%)	$ 362.7	$ 304.6	19.1%
Segment operating income	$ 14.1	$ 9.5	49.1%	$ 20.6	$ 16.0	28.6%
Segment profit margin %	7.6%	4.9%		5.7%	5.3%	

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The following table provides details of the EIMEA net revenue variances:

	13 Weeks Ended June 1, 2013 vs June 2, 2012	26 Weeks Ended June 1, 2013 vs June 2, 2012
Organic growth	(3.5%)	(0.3%)
Currency	(1.0%)	(0.4%)
Acquisitions	0.0%	19.8%
Total	(4.5%)	19.1%

Net revenue decreased 4.5 percent in the second quarter of 2013 compared to the second quarter of 2012. Pricing increased 1.8 percent offset by a 5.3 percent decrease in sales volume. The weaker Euro compared to the U.S. dollar resulted in a 1.0 percent decrease in net revenue. Sales volume was down slightly in core Europe reflecting the generally soft end market conditions across most of the region, especially in the southern region and for durable assembly type products which are associated with more cyclical end markets. Significant volume growth was generated in the emerging markets of the region, especially Turkey and India. Segment operating income increased 49.1 percent and segment profit margin increased 270 basis points compared to the second quarter last year. Raw material cost as a percentage of net revenue decreased 160 basis points in the second quarter. The second quarter of 2012 included the recognition of the non-cash charge for the sale of inventories revalued at the date of acquisition which increased cost of sales by 120 basis points. SG&A expenses as a percentage of net revenue, which declined 70 basis points relative to the prior year, also contributed to the significant increase in segment profit margin.

Net revenue increased 19.1 percent in the first six months of 2013 compared to the first six months of 2012. Pricing increased 2.0 percent offset by a 2.3 percent decrease in sales volume. The weaker Euro compared to the U.S. dollar resulted in a 0.4 percent decrease in net revenue. The acquired business contributed $60.3 million of net revenue. Sales volume was down slightly in core Europe reflecting the generally soft end market conditions across most of the region, especially in the southern region and for durable assembly type products which are associated with more cyclical end markets. Significant volume growth was generated in the emerging markets of the region, especially Turkey and India. Segment operating income increased 28.6 percent and segment profit margin increased 40 basis points compared to the first six months last year. Raw material cost as a percentage of net revenue decreased 50 basis points in the first six months. SG&A expenses as a percentage of net revenue, which declined 30 basis points relative to the prior year, also contributed to the increase in segment profit margin.

Latin America

	13 Weeks Ended			26 Weeks Ended		
($ in millions)	June 1, 2013	June 2, 2012	2013 vs 2012	June 1, 2013	June 2, 2012	2013 vs 2012
Net revenue	$ 38.1	$ 38.6	(1.1%)	$ 73.6	$ 74.1	(0.7%)
Segment operating income	$ 3.4	$ 3.7	(9.4%)	$ 5.8	$ 6.1	(4.7%)
Segment profit margin %	8.9%	9.7%		7.9%	8.2%	

The following tables provide details of the Latin America net revenue variances:

	13 Weeks Ended June 1, 2013 vs June 2, 2012	26 Weeks Ended June 1, 2013 vs June 2, 2012
Organic growth	(1.1%)	(1.7%)
Acquisition	0.0%	1.0%
Total	(1.1%)	(0.7%)

Net revenue decreased 1.1 percent in the second quarter of 2013 compared to the second quarter of 2012. Sales volume increased 0.1 percent and product pricing decreased 1.2 percent compared to the same quarter last year. Price levels have declined as raw material costs have declined across the region. Raw material costs as a percentage of net revenue were essentially unchanged relative to the prior quarter and last year. Lower net revenue and a 60 basis points increase in SG&A expenses as a percentage of net revenue caused operating income margin to decrease relative to the prior year.

Net revenue decreased 0.7 percent in the first six months of 2013 compared to the first six months of 2012. Sales volume decreased 0.8 percent and product pricing decreased 0.9 percent compared to the same period last year. Net revenue increased $0.7 million from the acquired business. Volume declined in certain market segments and geographies, primarily due to erosion of share with certain customers. Raw material costs as a percentage of net revenue increased by 40 basis points relative to last year. SG&A expenses as a percentage of net revenue were flat compared to the first six months of 2012 which caused operating income margin to decrease slightly relative to the prior year.

Asia Pacific

	13 Weeks Ended			26 Weeks Ended		
($ in millions)	June 1, 2013	June 2, 2012	2013 vs 2012	June 1, 2013	June 2, 2012	2013 vs 2012
Net revenue	$ 62.1	$ 61.4	1.1%	$ 122.7	$ 110.0	11.5%
Segment operating income	$ 2.8	$ 2.1	31.9%	$ 4.8	$ 2.9	65.9%
Segment profit margin %	4.5%	3.4%		3.9%	2.6%	

The following table provides details of Asia Pacific net revenue variances:

	13 Weeks Ended June 1, 2013 vs June 2, 2012	26 Weeks Ended June 1, 2013 vs June 2, 2012
Organic growth	0.3%	1.6%
Currency	0.8%	1.0%
Acquisition	0.0%	8.9%
Total	1.1%	11.5%

Net revenue in the second quarter of 2013 increased 1.1 percent compared to the second quarter last year. Organic growth was 0.3 percent in the quarter reflecting a 3.2 percent increase in sales volume offset by a 2.9 percent decrease in pricing. Price levels have declined as raw material costs have declined across the region. Volume growth patterns remain consistent with recent quarters with China and Southeast Asia showing growth while Australia markets are relatively flat. In terms of market segments, volume growth continues in consumer goods markets such as packaging while other more cyclical markets are down year over year. Segment operating income increased $0.7 million in the quarter and segment profit margin increased 110 basis points. Raw material costs as a percentage of net revenue were flat compared to both the second quarter of last year and the first quarter of 2013. The second quarter of 2012 included the recognition of the non-cash charge for the sale of inventories revalued at the date of acquisition which increased cost of sales by 30 basis points. Both manufacturing costs and SG&A expenses as a percentage of net revenue decreased compared to the second quarter of last year and the prior quarter.

Net revenue for the first six months of 2013 increased 11.5 percent compared to the first six months of last year. Organic growth was 1.6 percent in the first six months reflecting a 3.7 percent increase in sales volume offset by a 2.1 percent decrease in pricing. Price levels have declined as raw material costs have declined across the region. Volume growth patterns remain consistent with recent quarters with China and Southeast Asia showing growth while Australia markets are relatively flat. In terms of market segments, volume growth continues in consumer goods markets such as hygiene and packaging while other more cyclical markets are down year over year. Net revenue increased $9.8 million from the acquired business. Segment operating income increased $1.9 million and segment profit margin increased 130 basis points in the first six months of 2013 compared to the first six months of 2012. Raw material costs as a percentage of net revenue increased 40 basis points in the first six months relative to the prior year. The year over year change was primarily due to the dilutive effect of the lower margin acquired business. Both manufacturing costs as a percentage of net revenue and SG&A expenses as a percentage of net revenue declined compared to the first six months of last year.

Financial Condition, Liquidity and Capital Resources

Total cash and cash equivalents as of June 1, 2013 were $161.2 million as compared to $200.4 million as of December 1, 2012 and $154.3 million as of June 2, 2012. Of the $161.2 million in cash and cash equivalents as of June 1, 2013, $152.9 million was held outside the United States. Total long and short-term debt was $496.4 million as of June 1, 2013, $520.2 million as of December 1, 2012 and $616.8 million as of June 2, 2012. The total debt to total capital ratio as measured by Total Debt divided by (Total Debt plus Total Equity) was 37.8 percent as of June 1, 2013 as compared to 40.1 percent as of December 1, 2012 and 46.8 percent as of June 2, 2012. The lower ratio as of June 1, 2013 compared to December 1, 2012 and June 2, 2012 was due to lower quarter-end debt levels.

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. Cash available in the United States has historically been sufficient and we expect it will continue to be sufficient to fund U.S. operations and U.S. capital spending and U.S. pension and other post retirement benefit contributions in addition to funding U.S. acquisitions, dividend payments, debt service and share repurchases as needed. For those international earnings considered to be reinvested indefinitely, we currently have no intention to, and plans do not indicate a need to, repatriate these funds for U.S. operations.

Our credit agreements and note purchase 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 June 1, 2013, we were in compliance with all covenants of our contractual obligations as shown in the following table:

Covenant	Debt Instrument	Measurement	Result as of June 1, 2013
TTM EBITDA / TTM Interest Expense	All Debt Instruments	Not less than 2.5	11.4
Total Indebtedness / TTM EBITDA	All Debt Instruments	Not greater than 3.5	2.0

TTM = Trailing 12 months

EBITDA for covenant purposes is defined as consolidated net income, plus (i) interest expense, (ii) taxes, (iii) depreciation and amortization, (iv) non-cash impairment losses, (v) extraordinary non-cash losses incurred other than in the ordinary course of business, (vi) nonrecurring extraordinary non-cash restructuring charges, (vii) cash expenses for advisory services and for arranging financing for the Forbo Acquisition (including the non-cash write-off of deferred financing costs and any loss or expense on foreign exchange transactions intended to hedge the purchase price for the Forbo acquisition) with cash expenses not to exceed $25.0 million, and (viii) cash expenses incurred during fiscal years 2011 through 2014 in connection with facilities consolidation, restructuring and integration, discontinuance of operations, work force reduction, sale or abandonment of assets other than inventory, and professional and other fees incurred in connection with the Forbo acquisition or the restructuring of our EIMEA operations, not to exceed $85.0 million in the aggregate, and (x) not to exceed $65.0 million during fiscal year 2012 and (y) not to exceed $65.0 million during fiscal years 2013 and 2014 combined, minus extraordinary non-cash gains incurred other than in the ordinary course of business. For the Total Indebtedness / TTM EBITDA ratio, TTM EBITDA is adjusted for the pro forma results from Material Acquisitions and Material Divestitures as if the acquisition or divestiture occurred at the beginning of the calculation period. Additional detail is provided in the Current Report on Form 8-K dated March 5, 2012.

We believe we have the ability to meet all of our contractual obligations and commitments in fiscal 2013. Included in these obligations is the following scheduled debt payment:

$7.5 million payment on term loans, due June 19, 2013, was paid using existing cash.

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.

	June 1, 2013	June 2, 2012
Net working capital as a percentage of annualized net revenue[1]	18.0%	16.8%
Accounts receivable DSO[2]	55 Days	52 Days
Inventory days on hand[3]	57 Days	51 Days
Free cash flow[4]	$(16.6) million	$14.3 million
Total debt to total capital ratio[5]	37.8%	46.8%

[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 net of 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] Year-to-date net cash provided by (used in) 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 invested capital, or ROIC. The calculation is represented by total return divided by total invested capital.

Total return is defined as: gross profit less SG&A expenses, less taxes at the effective tax rate plus income from equity method investments. Total return is calculated using trailing 12 month information.

Total invested capital is defined as the sum of notes payable, current maturities of long-term debt, long-term debt, redeemable non-controlling interest and total equity.

We believe ROIC provides a true measure of return on capital invested and is focused on the long term. The following table shows the ROIC calculations based on the definition above:

($ in millions)	Trailing 12 months as of June 1, 2013	Trailing 12 months as of June 2, 2012
Gross profit	$ 558.0	$ 457.8
Selling, general and administrative expenses	(378.2)	(316.7)
Income taxes at effective rate	(53.2)	(40.6)
Income from equity method investments	9.0	9.0
Total return	$ 135.6	$ 109.5
Total invested capital	1,317.0	1,322.0
Return on invested capital	10.3%	8.3%

Summary of Cash Flows

Cash Flows from Operating Activities from Continuing Operations:

($ in millions)	26 Weeks Ended June 1, 2013	26 Weeks Ended June 2, 2012
Net cash provided by operating activities	$ 40.7	$ 34.8

Net income including non-controlling interests was $46.8 million in the first six months of 2013 compared to $17.3 million in the first six months of 2012. Depreciation and amortization expense totaled $30.0 million in the first six months of 2013 compared to $26.0 million in the first six months of 2012. The higher depreciation and amortization in 2013 is related to depreciation and amortization of assets related to the acquired business. Accrued compensation was a use of cash of $12.0 million in 2013 compared to a source of cash of $7.5 million last year. The use of cash in 2013 is related to the timing of payments of severance related costs for the Business Integration Project. The source of cash in 2012 is related to the accrual of severance related costs as part of our Business Integration Project that had not been paid at the end of the second quarter. Other assets was a use of cash in 2013 of $9.0 million compared to a source of cash of $15.9 million last year. The use of cash in 2013 was primarily related to the increase in prepaid taxes and expenses. The 2012 source of cash was primarily related to the decrease in prepaid taxes. Income taxes payable was a use of cash of $8.2 million in the first six months of 2013 related to income tax payments.

Changes in net working capital (trade receivables, inventory and trade payables) accounted for a use of cash of $14.8 million compared to a use of cash of $34.7 million last year. The table below provides the cash flow impact due to changes in the components of net working capital:

	26 Weeks Ended	
($ in millions)	June 1, 2013	June 2, 2012
Trade receivables, net	$ 1.2	$ (19.7)
Inventory	(17.0)	(26.8)
Trade payables	1.0	11.8
Total cash flow impact	$ (14.8)	$ (34.7)

Trade Receivables, net Trade Receivables, net was a source of cash of $1.2 million in 2013 compared to a use of cash of $19.7 million in 2012. The source of cash in 2013 compared to the use of cash in 2012 is related to lower sales activity in the second quarter of 2013 compared to 2012. The DSO was 55 days at June 1, 2013 and 52 days at June 2, 2012.

Inventory Inventory was a use of cash of $17.0 million in 2013 and $26.8 million in 2012. The 2013 use of cash is related to the normal seasonal building of inventory and increased inventory to support the manufacturing transitions as part of the Business Integration Project. The 2012 increase is related to the seasonal building of inventory in the first two quarters after the downward management of our inventory in the fourth quarter of 2011. Inventory days on hand were 57 days as of June 1, 2013 and 51 days as of June 2, 2012.

Trade Payables For the first six months of 2013 and 2012 trade payables was a source of cash of $1.0 million and $11.8 million, respectively. The lower source of cash in 2013 reflects lower inventory purchases compared to 2012. The source of cash in 2012 was due to the increase in inventory purchases in the first half of 2012.

Cash Flows from Investing Activities from Continuing Operations:

	26 Weeks Ended	
($ in millions)	June 1, 2013	June 2, 2012
Net cash used in investing activities	$ (48.4)	$ (416.9)

Purchases of property, plant and equipment were $48.0 million in the first six months of 2013 as compared to $12.5 million for the same period of 2012. The increase in 2013 compared to 2012 was primarily related to capital expenditures for the Business Integration Project. In the second quarter of 2013 we purchased technology for the use in electronics markets for $2.4 million. We acquired the global industrial adhesives business of Forbo Holding AG in 2012 for $404.7 million. In the first quarter of 2013, an adjustment of the purchase price for the Forbo industrial adhesives business acquisition reduced cash used in investing activities by $1.6 million. See Note 2 to Condensed Consolidated Financial Statements.

Cash Flows from Financing Activities from Continuing Operations:

	26 Weeks Ended	
($ in millions)	June 1, 2013	June 2, 2012
Net cash used in financing activities	$ (31.0)	$ 380.9

Proceeds from long-term debt in the first six months of 2013 were $95.0 million. In the first six months of 2012 proceeds from long-term debt were $490.0 million of which $400.0 million was used for financing the acquisition. Repayments of long-term debt were $110.0 million in the first six months of 2013 compared to $103.1 million for the same period of 2012. Cash generated from the exercise of stock options was $4.4 million and $6.0 million for the first six months of 2013 and 2012, respectively. Repurchases of common stock were $7.1 million in the first six months of 2013 compared to $1.3 million in the same period of 2012. The higher 2013 repurchases of common stock were due to $4.8 million of repurchases from our 2010 share repurchase program and higher repurchases related to statutory minimum tax withholding in conjunction with the vesting of restricted stock.

Cash Flows from Discontinued Operations:

	26 Weeks Ended	
($ in millions)	**June 1 2013**	**June 2 2012**
Cash provided by (used in) operating activities of discontinued operations	$ (0.1)	$ 6.0
Cash provided by investing activities of discontinued operations	$	$ 0.8
Net cash provided by (used in) discontinued operations	$ (0.1)	$ 6.8

Cash flows from discontinued operations includes cash generated from operations and investing activities of the Central America Paints business.

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 nega thereof) and other expressions that indicate 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 for the fiscal year ended December 1, 2012, 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, foreign currency exchange rates and cost of raw materials.

Our financial performance may be negatively affected by the unfavorable economic conditions. 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 June 1, 2013 would be approximately $1.2 million or $0.02 per diluted share.

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 2013. Principal foreign currency exposures relate to the Euro, British pound sterling, Canadian dollar, Chinese renminbi, Japanese yen, Australian dollar, Swiss franc, Argentine peso, Brazilian real, Columbian peso, Mexican peso, Turkish lira, Egyptian pound, Indian rupee and Malaysian ringgit.

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 2013, and foreign currency balance sheet positions as of June 1, 2013, 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 $3.0 million or $0.06 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 single 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 tackifyers and base polymers. There is also tightness in feed stream chemicals such as ethylene and propylene.

For the six months ended June 1, 2013, 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 (Exchange Act)). Based on this evaluation, the president and chief executive officer and the senior vice president, chief financial officer concluded that, as of June 1, 2013, our disclosure controls and procedures were effective (1) to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms and (2) to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act 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 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. Also, 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. To the extent we can reasonably estimate the amount of our probable liabilities for environmental matters, we establish a financial provision.

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

Other Legal Proceedings. From time to time and in the ordinary course of business, we are a party to, or a target of, lawsuits, claims, investigations and proceedings, including product liability, personal injury, contract, patent and intellectual property, environmental, health and safety, tax and employment matters. While we are unable to predict the outcome of these matters, we have concluded, based upon currently available information, that the ultimate resolution of any pending matter, individually or in the aggregate, including the asbestos litigation described in the following paragraphs, will not have a material adverse effect on our results of operations, financial condition or cash flow.

We have been named as a defendant in lawsuits in which plaintiffs have alleged injury due to products containing asbestos manufactured more than 30 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 is paid by third parties, including indemnification pursuant to the provisions of a 1976 agreement under which we acquired a business from a third party. Currently, 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.

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.

A summary of the number of and settlement amounts for asbestos-related lawsuits and claims is as follows:

($ in millions)	26 Weeks Ended June 1, 2013	26 Weeks Ended June 2, 2012	3 Years Ended December 1, 2012
Lawsuits and claims settled		8	20
Settlement amounts	$	$ 0.5	$ 1.5
Insurance payments received or expected to be received	$	$ 0.4	$ 1.2

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.

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

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 for the fiscal year ended December 1, 2012. 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 for the fiscal year ended December 1, 2012.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
Issuer Purchases of Equity Securities

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

Period	(a) Total Number of Shares Purchased[1]	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of a Publicly Announced Plan or Program	(d) Maximum Approximate Dollar Value of Shares that may yet be Purchased Under the Plan or Program (millions)
March 3, 2013 April 6, 2013	52,346	$ 38.69	52,346	$ 87.5
April 7, 2013 May 4, 2013	74,626	$ 37.85	72,654	$ 84.7
May 5, 2013 June 1, 2013		$		$ 84.7

1 The total number of shares purchased includes: (i) shares purchased under the board s authorization described below and (ii) shares withheld to satisfy the employees withholding taxes upon vesting of restricted stock.

Repurchases of common stock are made to support our stock-based employee compensation plans and for other corporate purposes. Upon vesting of restricted stock awarded to employees, shares are withheld to cover the employees minimum withholding taxes.

On September 30, 2010, the Board of Directors authorized a new share repurchase program of up to $100.0 million 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.

Item 6. Exhibits

31.1	Form of 302 Certification	James J. Owens
31.2	Form of 302 Certification	James R. Giertz
32.1	Form of 906 Certification	James J. Owens
32.2	Form of 906 Certification	James R. Giertz

101 The following materials from the H.B. Fuller Company Quarterly Report on Form 10-Q for the quarter ended June 1, 2013 formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Statements of Income, (ii) the Condensed Consolidated Statements of Comprehensive Income, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Total Equity, (v) the Condensed Consolidated Statement of Cash Flows and (vi) the Notes to Condensed Consolidated Financial Statements.

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 28, 2013	/s/ James R. Giertz James R. Giertz Senior Vice President, Chief Financial Officer

Exhibit Index

Exhibits

31.1	Form of 302 Certification	James J. Owens
31.2	Form of 302 Certification	James R. Giertz
32.1	Form of 906 Certification	James J. Owens
32.2	Form of 906 Certification	James R. Giertz
101	The following materials from the H.B. Fuller Company Quarterly Report on Form 10-Q for the quarter ended June 1, 2013 formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Statements of Income, (ii) the Condensed Consolidated Statements of Comprehensive Income, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Total Equity, (v) the Condensed Consolidated Statement of Cash Flows and (vi) the Notes to Condensed Consolidated Financial Statements.	