FULLER H B CO
Form 10-Q
September 23, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended August 27, 2016

OR

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

For the transition period from to

Commission file number: 001-09225

H.B. FULLER COMPANY

(Exact name of registrant as specified in its charter)

Minnesota	**41-0268370**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer

	Identification No.)
1200 Willow Lake Boulevard, St. Paul, Minnesota	**55110-5101**
(Address of principal executive offices)	(Zip Code)

(651) 236-5900

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer [X]	Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes [ ] No [X]

The number of shares outstanding of the Registrant's Common Stock, par value $1.00 per share, was 50,342,974 as of September 16, 2016.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

H.B. FULLER COMPANY AND SUBSIDIARIES

Condensed Consolidated Statements of Income

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	August 27, 2016	**August 29, 2015**	**August 27, 2016**	**August 29, 2015**
Net revenue	**$512,858**	$524,133	**$1,519,698**	$1,535,556
Cost of sales	**(366,737)**	(377,293)	**(1,077,716)**	(1,123,573)
Gross profit	**146,121**	146,840	**441,982**	411,983
Selling, general and administrative expenses	**(97,692)**	(98,297)	**(301,143)**	(293,712)
Special charges, net	**2,807**	(1,297)	**2,024**	(4,592)
Other income (expense), net	**(956)**	(1,040)	**(7,603)**	(1,246)
Interest expense	**(6,809)**	(6,448)	**(19,714)**	(18,765)
Income from continuing operations before income taxes and income from equity method investments	**43,471**	39,758	**115,546**	93,668
Income taxes	**(12,513)**	(14,372)	**(35,563)**	(34,528)
Income from equity method investments	**1,840**	1,500	**5,172**	4,157
Income from continuing operations	**32,798**	26,886	**85,155**	63,297
Loss from discontinued operations, net of tax	**-**	-	**-**	(1,300)
Net income including non-controlling interests	**32,798**	26,886	**85,155**	61,997
Net income attributable to non-controlling interests	**(53)**	(79)	**(161)**	(308)
Net income attributable to H.B. Fuller	**$32,745**	$26,807	**$84,994**	$61,689
Earnings per share attributable to H.B. Fuller common stockholders:				
Basic[1]				
Income from continuing operations	0.65	0.53	1.70	1.25
Loss from discontinued operations	-	-	-	(0.03)
Basic	$0.65	$0.53	$1.70	$1.23
Diluted[1]				

Income from continuing operations	0.64	0.52	1.66	1.22
Loss from discontinued operations	-	-	-	(0.03)
Diluted	$0.64	$0.52	$1.66	$1.20
Weighted-average common shares outstanding:				
Basic	**50,261**	50,421	**50,122**	50,318
Diluted	**51,453**	51,530	**51,234**	51,460
Dividends declared per common share	**$0.14**	$0.13	**$0.41**	$0.38

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

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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H.B. FULLER COMPANY AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income (Loss)

(In thousands)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	August 27, 2016	**August 29, 2015**	**August 27, 2016**	**August 29, 2015**
Net income including non-controlling interests	**$32,798**	$26,886	**$85,155**	$61,997
Other comprehensive income (loss)				
Foreign currency translation	**3,368**	(10,719)	**3,860**	(48,639)
Defined benefit pension plans adjustment, net of tax	**1,677**	1,527	**5,032**	4,582
Interest rate swaps, net of tax	**10**	10	**30**	30
Cash-flow hedges, net of tax	**35**	-	**(156)**	(25)
Other comprehensive income (loss)	**5,090**	(9,182)	**8,766**	(44,052)
Comprehensive income	**37,888**	17,704	**93,921**	17,945
Less: Comprehensive income (loss) attributable to non-controlling interests	**53**	(19)	**161**	294
Comprehensive income attributable to H.B. Fuller	**$37,835**	$17,723	**$93,760**	$17,651

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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H.B. FULLER COMPANY AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(In thousands, except share and per share amounts)

	(Unaudited) August 27, 2016	November 28, 2015
Assets		
Current assets:		
Cash and cash equivalents	**$ 133,102**	$ 119,168
Trade receivables (net of allowances of $12,814 and $11,893, as of August 27, 2016 and November 28, 2015, respectively)	**344,305**	364,704
Inventories	**261,363**	248,504
Other current assets	**64,992**	68,675
Total current assets	**803,762**	801,051
Property, plant and equipment	**1,156,171**	1,111,987
Accumulated depreciation	**(638,068)**	(599,127)
Property, plant and equipment, net	**518,103**	512,860
Goodwill	**393,251**	354,204
Other intangibles, net	**201,164**	212,993
Other assets	**164,113**	161,144
Total assets	**$ 2,080,393**	$ 2,042,252
Liabilities, redeemable non-controlling interest and total equity		
Current liabilities:		
Notes payable	**$ 36,818**	$ 30,757
Current maturities of long-term debt	**78,581**	22,500
Trade payables	**160,836**	177,864
Accrued compensation	**46,425**	52,079
Income taxes payable	**7,815**	8,970
Other accrued expenses	**53,250**	57,355
Total current liabilities	**383,725**	349,525
Long-term debt, excluding current maturities	**596,171**	669,606
Accrued pension liabilities	**68,067**	76,324
Other liabilities	**71,174**	69,272
Total liabilities	**1,119,137**	1,164,727
Commitments and contingencies		
Redeemable non-controlling interest	**4,412**	4,199

Equity:		
H.B. Fuller stockholders' equity:		
Preferred stock (no shares outstanding) shares authorized – 10,045,900	**-**	-
Common stock, par value $1.00 per share, shares authorized – 160,000,000, shares outstanding – 50,331,880 and 50,074,310, as of August 27, 2016 and November 28, 2015, respectively	**50,332**	50,074
Additional paid-in capital	**65,777**	55,522
Retained earnings	**1,058,847**	994,608
Accumulated other comprehensive loss	**(218,518)**	(227,284)
Total H.B. Fuller stockholders' equity	**956,438**	872,920
Non-controlling interests	**406**	406
Total equity	**956,844**	873,326
Total liabilities, redeemable non-controlling interest and total equity	**$ 2,080,393**	$2,042,252

See accompanying Notes to Unaudited 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 November 29, 2014	$50,311	$53,269	$933,819	$(147,352)	$403	$890,450
Comprehensive income (loss)	-	-	86,680	(79,932)	400	7,148
Dividends	-	-	(25,891)	-	-	(25,891)
Stock option exercises	234	4,397	-	-	-	4,631
Share-based compensation plans other, net	83	15,159	-	-	-	15,242
Tax benefit on share-based compensation plans	-	1,433	-	-	-	1,433
Repurchases of common stock	(554)	(18,736)	-	-	-	(19,290)
Non-controlling interest assumed	-	-	-	-	14,197	14,197
Recognition of non-controlling interest redemption liability	-	-	-	-	(11,773)	(11,773)
Purchase of non-controlling interest	-	-	-	-	(2,424)	(2,424)
Non-controlling interest	-	-	-	-	(76)	(76)
Redeemable non-controlling interest	-	-	-	-	(321)	(321)
Balance at November 28, 2015	50,074	55,522	994,608	(227,284)	406	873,326
Comprehensive income	-	-	84,994	8,766	161	93,921
Dividends	-	-	(20,755)	-	-	(20,755)
Stock option exercises	465	9,295	-	-	-	9,760
Share-based compensation plans other, net	111	11,081	-	-	-	11,192
Tax benefit on share-based compensation plans	-	1,462	-	-	-	1,462
Repurchases of common stock	(318)	(11,583)	-	-	-	(11,901)
Redeemable non-controlling interest	-	-	-	-	(161)	(161)
Balance at August 27, 2016	**$50,332**	**$65,777**	**$1,058,847**	**$(218,518)**	**$406**	**$956,844**

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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H.B. FULLER COMPANY AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Nine Months Ended	
	August 27, 2016	**August 29, 2015**
Cash flows from operating activities:		
Net income including non-controlling interests	**$85,155**	$61,997
Loss from discontinued operations, net of tax	**-**	1,300
Adjustments to reconcile net income including non-controlling interests to net cash provided by operating activities:		
Depreciation	**36,730**	35,696
Amortization	**20,509**	20,046
Deferred income taxes	**3,785**	4,775
Income from equity method investments	**(5,172)**	(4,157)
(Gain) loss on sale of assets	**(2,794)**	327
Share-based compensation	**9,469**	10,325
Excess tax benefit from share-based compensation	**(1,462)**	(1,321)
Non-cash charge for the sale of inventories revalued at the date of acquisition	**528**	2,416
Change in assets and liabilities, net of effects of acquisitions:		
Trade receivables, net	**25,646**	15,860
Inventories	**(6,165)**	(19,955)
Other assets	**1,790**	2,241
Trade payables	**(1,365)**	10,557
Accrued compensation	**(6,715)**	(4,617)
Other accrued expenses	**(4,858)**	4,705
Income taxes payable	**(1,415)**	1,714
Accrued / prepaid pensions	**(2,072)**	(6,565)
Other liabilities	**(9,889)**	(3,262)
Other	**4,199**	20,962
Net cash provided by operating activities	**145,904**	153,044
Cash flows from investing activities:		
Purchased property, plant and equipment	**(49,569)**	(48,638)
Purchased businesses, net of cash acquired	**(51,298)**	(217,572)
Proceeds from sale of property, plant and equipment	**4,403**	1,529
Net cash used in investing activities	**(96,464)**	(264,681)
Cash flows from financing activities:		
Proceeds from long-term debt	**-**	357,000

Repayment of long-term debt	**(16,875)**	(207,500)
Net proceeds from notes payable	**6,639**	(2,114)
Dividends paid	**(20,570)**	(19,174)
Proceeds from stock options exercised	**9,760**	4,342
Excess tax benefit from share-based compensation	**1,462**	1,321
Repurchases of common stock	**(11,901)**	(2,214)
Net cash provided by (used in) financing activities	**(31,485)**	131,661
Effect of exchange rate changes	**(4,021)**	(6,478)
Net change in cash and cash equivalents	**13,934**	13,546
Cash used in operating activities of discontinued operations	**-**	(5,294)
Net change in cash and cash equivalents	**13,934**	8,252
Cash and cash equivalents at beginning of period	**119,168**	77,569
Cash and cash equivalents at end of period	**$133,102**	$85,821
Supplemental disclosure of cash flow information:		
Dividends paid with company stock	**$185**	$153
Cash paid for interest, net of amount capitalized of $556 and $91 for the periods ended August 27, 2016 and August 29, 2015, respectively	**$20,436**	$19,735
Cash paid for income taxes, net of refunds	**$33,428**	$23,748

See accompanying Notes to Unaudited 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: Basis of Presentation

The accompanying unaudited interim Condensed Consolidated Financial Statements of H.B. Fuller Company and Subsidiaries 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, comprehensive income, 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 November 28, 2015 as filed with the Securities and Exchange Commission.

As of the beginning of the first quarter ending February 27, 2016, we created a new global operating segment named Engineering Adhesives, which includes the electronics, automotive and Tonsan and Cyberbond businesses from around the world. We also began reporting our Construction Products business on a global basis by combining our Europe, India, Middle East and Africa (EIMEA) and Asia Pacific construction businesses with our Construction Products operating segment. We now have five reportable segments: Americas Adhesives, EIMEA, Asia Pacific, Construction Products and Engineering Adhesives.

New Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force).* This ASU requires changes in the presentation of certain items including but not limited to debt prepayment or debt extinguishment costs; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies and distributions received from equity method investees. Our effective date for adoption of this guidance is our fiscal year beginning December 2, 2018. We are currently evaluating the effect that this guidance will have on our Consolidated Financial Statements.

In June 2016, the FASB issued ASU No. 2016-13*, Financial Instruments - Credit Losses (Topic 326), Measurement of Credit Losses on Financial Statements.* This ASU requires a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. Our effective date for adoption of this guidance is our fiscal year beginning November 29, 2020. We are currently evaluating the effect that this guidance will have on our Consolidated Financial Statements.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation - Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting.* This ASU provides simplification in the accounting for share-based payment transactions including the accounting for income taxes, forfeitures, statutory tax withholding requirements and classification in the statement of cash flows. Our effective date for adoption of this guidance is our fiscal year beginning December 3, 2017. We are currently evaluating the effect that this guidance will have on our Consolidated Financial Statements.

In March 2016, the FASB issued ASU No. 2016-08, *Revenue from Contracts with Customers (Topic 606), Principal versus Agent Considerations (Reporting Revenue Gross versus Net).* This ASU provides guidance on recording revenue on a gross basis versus a net basis based on the determination of whether an entity is a principal or an agent when another party is involved in providing goods or services to a customer. The amendments in this ASU affect the guidance in ASU No. 2014-09 and are effective in the same timeframe as ASU No. 2014-09 as discussed below.

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In February 2016, the FASB issued ASU No. 2016-05, *Derivatives and Hedging (Topic 815).* The amendments in this guidance clarify that a change in the counterparty to a derivative instrument that has been designated as a hedging instrument under Topic 815 does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. Our effective date for adoption of this guidance is our fiscal year beginning December 4, 2016. We have evaluated the effect that this guidance will have on our Consolidated Financial Statements and related disclosures and determined it will not have a material impact.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Subtopic 842).* This guidance changes accounting for leases and requires lessees to recognize the assets and liabilities arising from all leases, including those classified as operating leases under previous accounting guidance, on the balance sheet and requires disclosure of key information about leasing arrangements to increase transparency and comparability among organizations. Our effective date for adoption of this guidance is our fiscal year beginning December 1, 2019 with early adoption permitted. The new guidance must be adopted using a modified retrospective transition approach, and provides for certain practical expedients. We are currently evaluating the impact that the new guidance will have on our Consolidated Financial Statements.

In June 2014, the FASB issued ASU No. 2014-12, *Compensation - Stock Compensation (Topic 718), Accounting for Share-Based Payments When the Terms of an Award That a Performance Target Could Be Achieved after the Requisite Service Period,* which requires a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant-date fair value of the award and compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. Our effective date for adoption of this guidance is our fiscal year beginning December 4, 2016, however we elected to early adopt this guidance as of our first quarter ended February 27, 2016. The adoption of this guidance did not have a material impact on our Consolidated Financial Statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606),* which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This guidance will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for fiscal years and interim periods beginning after December 15, 2017 (as stated in ASU No. 2015-14 which defers the effective date and was issued in August 2015) and is now effective for our fiscal year beginning December 2, 2018. Early application as of the original effective date is permitted under ASU 2015-14. The standard permits the use of either the retrospective or cumulative effect transition method. We are evaluating the effect that this guidance will have on our Consolidated Financial Statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

Note 2: Acquisitions

Cyberbond

On June 8, 2016, we acquired Cyberbond, L.L.C., heaquartered in Batavia, Illinois, which is a provider of industrial adhesives for the electronics, medical, audio equipment, automotive and structural markets. The acquisition will help us to broaden our global position and accelerate our growth in the high margin, high growth Engineering Adhesives segment. The purchase price of $42,516 was funded through existing cash and was recorded in our Engineering Adhesives operating segment. We incurred acquisition related costs of approximately $558, which were recorded as selling, general and administrative expenses in the Condensed Consolidated Statements of Income.

The acquisition fair value measurement was preliminary as of August 27, 2016, subject to the completion of the valuation of Cyberbond and further management reviews and assessment of the preliminary fair values of the assets acquired and liabilities assumed. We expect the fair value measurement process to be completed in the fourth quarter of 2016.

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

	August 27, 2016
Current assets	$4,410
Property, plant and equipment	1,460
Goodwill	38,152
Other assets	673
Current liabilities	(1,526)
Long-term liabilities	(653)
Total purchase price	$42,516

We have preliminarily allocated the entire excess purchase price to goodwill in the amount of $38,152 pending completion of the valuation of other identified intangible assets. Such goodwill is not deductible for tax purposes. The goodwill was assigned to our Engineering Adhesives operating segment. The Cyberbond acquisition does not represent a material business combination, therefore pro forma financial information is not provided.

Advanced Adhesives

On April 29, 2016, we acquired Advanced Adhesives Pty Limited and the business assets of Advanced Adhesives (New Zealand) Limited (Advanced Adhesives), providers of industrial adhesives in Australia and New Zealand. The acquisition will help us to strengthen our industrial adhesives market position and leverage a broader technology portfolio in both Australia and New Zealand. The combined purchase price of $10,365 was funded through existing cash and was recorded in our Asia Pacific operating segment. We incurred acquisition related costs of approximately $670, which were recorded as selling, general and administrative expenses in the Condensed Consolidated Statements of Income.

During the third quarter of 2016, the Company substantially completed its procedures related to the working capital accounts and obtained a preliminary valuation of the identified intangible assets in order to allocate the purchase price to the assets acquired and liabilities assumed. The outcome of these procedures are reflected in the adjustments in the table below. The acquisition fair value measurement as of August 27, 2016, is subject to the completion of the final assessment of the fair values of the assets acquired and liabilities assumed, specifically related to the identified intangible assets. We expect the fair value measurement process to be completed in the fourth quarter of 2016.

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

	May 28, 2016	Adjustments	August 27, 2016
Current assets	$6,197	$ (663)	$5,534
Property, plant and equipment	751	(167)	584
Customer relationships	-	7,639	7,639
Trademarks	-	146	146
Goodwill	4,546	(4,546)	-
Current liabilities	(2,371)	(288)	(2,659)
Long-term liabilities	-	(879)	(879)
Total purchase price	$9,123	$ 1,242	$10,365

The expected lives of the acquired intangible assets are 15 years for customer relationships and one year for trademarks.

Continental Products Limited

On February 3, 2015, we acquired the equity of Continental Products Limited, a provider of industrial adhesives, based in Nairobi, Kenya. The purchase price of $1,647, net of cash acquired of $371, was funded through existing cash.

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*Tonsan Adhesive, Inc***.**

On February 2, 2015, we acquired 95 percent of the equity of Tonsan Adhesive, Inc., an independent engineering adhesives provider based in Beijing, China. The purchase price was 1.4 billion Chinese renminbi, or approximately $215,925, net of cash acquired of $7,754, which was financed with the proceeds from our October 31, 2014 term loan, drawn in conjunction with the acquisition.

Concurrent with the acquisition, we entered into an agreement to acquire the remaining 5 percent of Tonsan's equity beginning February 1, 2019 for 82 million Chinese renminbi or approximately $13,038. In addition, the agreement requires us to pay up to 418 million Chinese renminbi or approximately $66,848 in contingent consideration based upon a formula related to Tonsan's gross profit in fiscal 2018. The fair values of the agreement to purchase the remaining equity and the contingent consideration based upon a discounted cash flow model as of the date of acquisition were $11,773 and $7,714, respectively. See Note 14 for further discussion of the fair value of the contingent consideration.

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

	Amount
Current assets	$49,839
Property, plant and equipment	59,142
Goodwill	125,790
Other intangibles	
Developed technology	18,600
Customer relationships	25,700
Trademarks/trade names	11,000
Current liabilities	(38,068)
Other liabilities	(24,305)
Redeemable non-controlling interests	(11,773)
Total purchase price	$215,925

Note 3: Accounting for Share-Based Compensation

Overview

We have various share-based compensation programs, which provide for equity awards including stock options, incentive stock options, restricted stock shares, restricted stock units, performance awards and deferred compensation. These equity awards fall under several plans and are described in detail in our Annual Report on Form 10-K for the year ended November 28, 2015.

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Grant-Date Fair Value

We use the Black-Scholes option pricing model to calculate the grant-date fair value of an award. There were no options granted during the third quarter of 2015. The fair value of options granted during the three months ended August 27, 2016 and nine months ended August 27, 2016 and August 29, 2015 were calculated using the following weighted average assumptions:

	Three Months Ended	**Nine Months Ended**	
	August 27, 2016	**August 27, 2016**	**August 29, 2015**
Expected life (in years)	**4.75**	**4.74**	4.61
Weighted-average expected volatility	**26.77%**	**28.96%**	30.91%
Expected volatility	**25.71% - 27.10%**	**25.71% - 29.23%**	25.50% - 31.67%
Risk-free interest rate	**0.98%**	**1.43%**	1.26%
Expected dividend yield	**1.26%**	**1.54%**	1.17%
Weighted-average fair value of grants	**$9.38**	**$7.72**	$10.21

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 historical volatility.

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, restricted stock shares and restricted stock units with graded and cliff vesting. Incentive stock options and performance awards are based on certain performance-based metrics and the expense is adjusted quarterly, based on our projections of the achievement of those metrics. 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 $2,501 and $3,006 was included in our Condensed Consolidated Statements of Income for the third quarter ended August 27, 2016 and August 29, 2015, respectively. Total share-based compensation expense of $9,469 and $10,325 was included in our Condensed Consolidated Statements of Income for the nine months ended August 27, 2016 and August 29, 2015, respectively. All share-based compensation expense was recorded as selling, general and administrative expense. For the third quarter ended August 27, 2016 and August 29, 2015 there was $870 and $411 of excess tax benefit recognized, respectively. For the nine months ended August 27, 2016 and August 29, 2015 there was $1,462 and $1,321 of excess tax benefit recognized, respectively.

As of August 27, 2016, there was $8,059 of unrecognized compensation costs related to unvested stock option awards, which is expected to be recognized over a weighted-average period of 1.2 years. Unrecognized compensation costs related to unvested restricted stock shares was $194 which is expected to be recognized over a weighted-average period of 0.4 years. Unrecognized compensation costs related to unvested restricted stock units was $9,120 which is expected to be recognized over a weighted-average period of 1.3 years.

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Share-based Activity

A summary of option activity as of August 27, 2016 and changes during the nine months then ended is presented below:

	Options	Weighted-Average Exercise Price
Outstanding at November 28, 2015	2,912,073	$ 33.37
Granted	844,033	33.86
Exercised	(539,165)	24.05
Forfeited or cancelled	(164,337)	39.37
Outstanding at August 27, 2016	3,052,604	$ 34.82

There were no options granted during the third quarter ended August 29, 2015. The total fair value of options granted during the third quarter ended August 27, 2016 was $47. Total intrinsic value of options exercised during the third quarter ended August 27, 2016 and August 29, 2015 was $3,365 and $1,565, 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 value of options granted during the nine months ended August 27, 2016 and August 29, 2015 was $6,509 and $7,189, respectively. Total intrinsic value of options exercised during the nine months ended August 27, 2016 and August 29, 2015 was $10,641 and $5,114, respectively. Proceeds received from option exercises during the third quarter ended August 27, 2016 and August 29, 2015 were $2,676 and $391, respectively, and $9,759 and $4,342 during the nine months ended August 27, 2016 and August 29, 2015, respectively.

A summary of nonvested restricted stock as of August 27, 2016 and changes during the nine months then ended is presented below:

	Units	Shares	Total	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Contractual Life (in Years)
Nonvested at November 28, 2015	237,013	110,160	347,173	$ 42.17	0.8
Granted	243,628	-	243,628	35.32	1.6
Vested	(104,051)	(70,428)	(174,479)	41.88	-

Forfeited	(31,337)	(179)	(31,516)	38.34	1.7
Nonvested at August 27, 2016	345,253	39,553	384,806	$ 38.33	1.2

Total fair value of restricted stock vested during the third quarter ended August 27, 2016 and August 29, 2015 was $25 and $57, respectively. Total fair value of restricted stock vested during the nine months ended August 27, 2016 and August 29, 2015 was $6,101 and $6,121, respectively. The total fair value of nonvested restricted stock at August 27, 2016 was $14,934.

We repurchased 189 and 193 restricted stock shares during the third quarter ended August 27, 2016 and August 29, 2015, respectively and 67,742 and 54,196 during the nine months ended August 27, 2016 and August 29, 2015, respectively. The repurchases relate to statutory minimum tax withholding.

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We have a Directors' Deferred Compensation plan that allows non-employee directors to defer all or a portion of their directors' compensation 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 August 27, 2016, and changes during the nine months then ended is presented below:

	Non-employee Directors	**Employees**	**Total**
Units outstanding November 28, 2015	380,170	45,906	426,076
Participant contributions	35,678	4,379	40,057
Company match contributions	3,568	438	4,006
Payouts	(301)	(7,834)	(8,135)
Units outstanding August 27, 2016	419,115	42,889	462,004

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 is as follows:

	Three Months Ended		**Nine Months Ended**	
(Shares in thousands)	**August 27, 2016**	**August 29, 2015**	**August 27, 2016**	**August 29, 2015**
Weighted-average common shares - basic	**50,261**	50,421	**50,122**	50,318
Equivalent shares from share-based compensations plans	**1,192**	1,109	**1,112**	1,142
Weighted-average common and common equivalent shares - diluted	**51,453**	51,530	**51,234**	51,460

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

Options to purchase 386,496 and 1,533,690 shares of common stock at a weighted-average exercise price of $48.57 and $42.88 for the quarters ended August 27, 2016 and August 29, 2015, respectively, were excluded from the diluted earnings per share calculations because they were antidilutive. Options to purchase 762,509 and 416,544 shares of common stock at a weighted-average exercise price of $44.86 and $48.89 for the nine months ended August 27, 2016 and August 29, 2015, respectively, were excluded from the diluted earnings per share calculations because they were antidilutive.

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Note 5: Accumulated Other Comprehensive Income (Loss)

The following table provides details of total comprehensive income (loss):

	Three Months Ended August 27, 2016				Three Months Ended August 29, 2015			
	H.B. Fuller Stockholders			Non-controlling Interests	H.B. Fuller Stockholders			Non-controlling Interests
	Pretax	Tax	Net	Net	Pretax	Tax	Net	Net
Net income including non-controlling interests	**-**	**-**	**$32,745**	**$ 53**	-	-	$26,807	$ 79
Foreign currency translation adjustment[1]	**$3,368**	**-**	**3,368**	**-**	$(10,621)	-	(10,621)	(98)
Reclassification to earnings:								
Defined benefit pension plans adjustment[2]	**2,585**	**$(908)**	**1,677**	**-**	2,325	$(798)	1,527	-
Interest rate swap[3]	**16**	**(6)**	**10**	**-**	15	(5)	10	-
Cash-flow hedges[3]	**56**	**(21)**	**35**	**-**	-	-	-	-
Other comprehensive income (loss)	**$6,025**	**$(935)**	**5,090**	**-**	$(8,281)	$(803)	(9,084)	(98)
Comprehensive income (loss)			**$37,835**	**$ 53**			$17,723	$ (19)

	Nine Months Ended August 27, 2016				Nine Months Ended August 29, 2015			
	H.B. Fuller Stockholders			Non-controlling Interests	H.B. Fuller Stockholders			Non-controlling Interests
	Pretax	Tax	Net	Net	Pretax	Tax	Net	Net
Net income including non-controlling interests	**-**	**-**	**$84,994**	**$ 161**	-	-	$61,689	$ 308
Foreign currency translation adjustment[1]	**$3,860**	**-**	**3,860**	**-**	$(48,625)	-	(48,625)	(14)
Reclassification to earnings:								
Defined benefit pension plans adjustment[2]	**7,755**	**$(2,723)**	**5,032**	**-**	6,976	$(2,394)	4,582	-
Interest rate swap[3]	**45**	**(15)**	**30**	**-**	37	(7)	30	-
Cash-flow hedges[3]	**(252)**	**96**	**(156)**	**-**	(31)	6	(25)	-

Other comprehensive income (loss)	**$11,408**	**$(2,642)**	**8,766**	**-**	$(41,643)	$(2,395)	(44,038)	(14)
Comprehensive income (loss)			**$93,760**	**$ 161**			$17,651	$ 294

[1] Income taxes are not provided for foreign currency translation relating to permanent investments in international subsidiaries.

[2] Loss reclassified from accumulated other comprehensive income (AOCI) into earnings as part of net periodic cost related to pension and other postretirement benefit plans is reported in cost of sales, selling, general and administrative and special charges, net.

[3] Loss reclassified from AOCI into earnings is reported in other income (expense), net.

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The components of accumulated other comprehensive loss is as follows:

	August 27, 2016		
	Total	**H.B. Fuller Stockholders**	**Non-controlling Interests**
Foreign currency translation adjustment	**$(47,732)**	**$ (47,694)**	**$ (38)**
Defined benefit pension plans adjustment, net of taxes of $90,289	**(169,368)**	**(169,368)**	**-**
Interest rate swap, net of taxes of ($10)	**17**	**17**	**-**
Cash-flow hedges, net of taxes of $907	**(1,473)**	**(1,473)**	**-**
Accumulated other comprehensive loss	**$(218,556)**	**$ (218,518)**	**$ (38)**

	November 28, 2015		
	Total	**H.B. Fuller Stockholders**	**Non-controlling Interests**
Foreign currency translation adjustment	$(51,592)	$ (51,554)	$ (38)
Defined benefit pension plans adjustment, net of taxes of $93,012	(174,400)	(174,400)	-
Interest rate swap, net of taxes of $5	(13)	(13)	-
Cash-flow hedges, net of taxes of $811	(1,317)	(1,317)	-
Accumulated other comprehensive loss	$(227,322)	$ (227,284)	$ (38)

Note 6: Special Charges, net

The integration of the industrial adhesives business we acquired in March 2012 involved a significant amount of restructuring and capital investment to optimize the new combined entity. In addition, we have taken a series of actions in our existing EIMEA operating segment to improve the profitability and future growth prospects of this operating segment. We combined these two initiatives into a single project which we refer to as the “Business Integration Project”. During the third quarter ended August 27, 2016 and August 29, 2015, we incurred special charges, net of $(2,807) and $1,297, respectively, for costs related to the Business Integration Project. During the nine months ended August 27, 2016 and August 29, 2015, we incurred special charges, net of $(2,024) and $4,592, respectively, for costs related to the Business Integration Project. Included in facility exit costs for the three and nine months ended August 27, 2016 is a $3.6 million gain on the sale of our production facility located in Wels, Austria, which closed during the third quarter of 2016.

The following table provides detail of special charges, net:

	Three Months Ended		**Nine Months Ended**	
	August 27, 2016	**August 29, 2015**	**August 27, 2016**	**August 29, 2015**
Acquisition and transformation related costs	**$55**	$48	**$242**	$595
Workforce reduction costs	**-**	216	**(1)**	2
Facility exit costs	**(2,862)**	1,043	**(2,455)**	3,683
Other related costs	**-**	(10)	**190**	312
Special charges, net	**$(2,807)**	$1,297	**$(2,024)**	$4,592

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

	Three Months Ended August 27, 2016 and August 29, 2015					
	Pension Benefits				**Other Postretirement Benefits**	
	U.S. Plans		**Non-U.S. Plans**			
Net periodic cost (benefit):	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Service cost	**$27**	$27	**$519**	$467	**$84**	$112
Interest cost	**3,768**	4,082	**1,343**	1,471	**479**	510
Expected return on assets	**(6,078)**	(6,421)	**(2,435)**	(2,590)	**(1,341)**	(1,377)
Amortization:						
Prior service cost	**7**	7	**(1)**	(1)	**(10)**	(626)
Actuarial loss	**1,292**	1,407	**788**	775	**532**	607
Net periodic (benefit) cost	**$(984)**	$(898)	**$214**	$122	**$(256)**	$(774)

	Nine Months Ended August 27, 2016 and August 29, 2015					
	Pension Benefits				**Other Postretirement Benefits**	
	U.S. Plans		**Non-U.S. Plans**			
Net periodic cost (benefit):	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Service cost	**$81**	$80	**$1,480**	$1,447	**$252**	$336
Interest cost	**11,303**	12,242	**4,076**	4,448	**1,439**	1,531
Expected return on assets	**(18,232)**	(19,262)	**(7,400)**	(7,830)	**(4,025)**	(4,132)
Amortization:						
Prior service cost	**21**	22	**(3)**	(3)	**(30)**	(1,878)
Actuarial loss	**3,878**	4,221	**2,293**	2,387	**1,596**	1,823
Net periodic (benefit) cost	**$(2,949)**	$(2,697)	**$446**	$449	**$(768)**	$(2,320)

Note 8: Inventories

The composition of inventories is as follows:

	August 27, 2016	**November 28, 2015**
Raw materials	**$125,421**	$ 121,545
Finished goods	**148,829**	142,195

LIFO reserve	**(12,887)**	(15,236)
Total inventories	**$ 261,363**	$ 248,504

Note 9: Financial Instruments

Foreign Currency Derivative 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, 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.

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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 October 7, 2015, we entered into three cross-currency swap agreements to convert a notional amount of $134,736 of foreign currency denominated intercompany loans into US dollars. The first swap matures in 2017, the second swap matures in 2018 and the third swap matures in 2019. As of August 27, 2016, the combined fair value of the swaps was a liability of $2,048 and was included in other liabilities 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 August 27, 2016 resulted in additional pre-tax gain of $40 for the nine months ended August 27, 2016 as the change in fair value of the cross-currency swaps was less 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 $1,473 as of August 27, 2016. The estimated net amount of the existing loss that is reported in accumulated other comprehensive income (loss) as of August 27, 2016 that is expected to be reclassified into earnings within the next twelve months is $827. As of August 27, 2016, we do not believe any gains or losses will be reclassified into earnings as a result of the discontinuance of these cash flow hedges because the original forecasted transaction will not occur.

The following table summarizes the cross-currency swaps outstanding as of August 27, 2016:

	Fiscal Year of Expiration	**Interest Rate**	**Notional Value**	**Fair Value**
Pay EUR	2017	3.05%	$44,912	$(342)
Receive USD		3.9145%		
Pay EUR	2018	3.45%	$44,912	$(689)
Receive USD		4.5374%		
Pay EUR	2019	3.80%	$44,912	$(1,017)
Receive USD		5.0530%		
Total			$134,736	$(2,048)

Except for the 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 Condensed Consolidated Statements of Income during the periods in which the derivative instruments are outstanding. See Note 14 for fair value amounts of these derivative instruments.

As of August 27, 2016, we had forward foreign currency contracts maturing between September 12, 2016 and February 24, 2017. The mark-to-market effect associated with these contracts, on a net basis, was a loss of $4,570 at August 27, 2016. These losses were largely offset by the underlying transaction gains and losses resulting from the foreign currency exposures for which these contracts relate.

Interest Rate Swaps

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 $2,284 at August 27, 2016 and was included in long-term debt and current maturities of long-term debt in the Condensed Consolidated Balance Sheets. The combined fair value of the swaps were an asset of $2,337 at August 27, 2016 and $3,395 at November 28, 2015 and were included in other assets in the Condensed Consolidated Balance Sheets. The swaps were designated for hedge accounting treatment as fair value hedges.

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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. For the nine months ended August 27, 2016 and August 29, 2015, a pretax gain of $14 and $62, respectively, was recorded as the fair value of the senior notes decreased by more than the change in the fair value of the interest rate swaps 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 August 27, 2016, 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 our contribution relative to the other parties, the nature and magnitude of the hazardous substances involved, the method and extent of remediation, the estimated legal and consulting expense with respect to each site and the time period over which any costs would likely be incurred. 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 landfills and/or 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.

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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 settlements and judgments in asbestos-related lawsuits. These agreements require, among other things, that we fund a share of settlements and judgments allocable to years in which the responsible insurer is insolvent

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

($ in thousands)	**Nine Months Ended August 27, 2016**	**Nine Months Ended August 29, 2015**	**3 Years Ended November 28, 2015**
Lawsuits and claims settled	**9**	6	25
Settlement amounts	**$978**	$ 463	$ 2,072
Insurance payments received or expected to be received	**$645**	$ 373	$ 1,648

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 expenses. Segment operating income excludes special charges, net. Corporate expenses are fully allocated to each operating segment. 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.

Through the fourth quarter of 2015, our business was reported in four operating segments: Americas Adhesives, EIMEA, Asia Pacific and Construction Products. Changes in our management reporting structure during the first quarter of 2016 required us to conduct an operating segment assessment in accordance with ASC Topic 280, *Segment Reporting*, to determine our reportable segments. As a result of this assessment, we now have five reportable segments: Americas Adhesives, EIMEA, Asia Pacific, Construction Products and Engineering Adhesives. Prior period segment information has been recast retrospectively to reflect our new operating segments.

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The table below provides certain information regarding net revenue and segment operating income for each of our operating segments:

	Three Months Ended August 27, 2016			August 29, 2015		
	Trade Revenue	Inter-Segment Revenue	Segment Operating Income	Trade Revenue	Inter-Segment Revenue	Segment Operating Income
Americas Adhesives	**$198,957**	**$ 4,096**	**$ 31,900**	$206,623	$ 4,725	$ 33,617
EIMEA	**130,619**	**4,056**	**8,430**	133,512	4,513	5,325
Asia Pacific	**57,488**	**1,540**	**2,510**	54,645	1,137	2,749
Construction Products	**64,402**	**185**	**2,093**	72,404	119	3,421
Engineering Adhesives	**61,392**	**-**	**3,496**	56,949	-	3,431
Total	**$512,858**		**$ 48,429**	$524,133		$ 48,543

	Nine Months Ended August 27, 2016			August 29, 2015		
	Trade Revenue	Inter-Segment Revenue	Segment Operating Income	Trade Revenue	Inter-Segment Revenue	Segment Operating Income
Americas Adhesives	**$588,422**	**$ 11,821**	**$ 94,043**	$618,172	$ 16,428	$ 91,021
EIMEA	**394,807**	**13,821**	**25,620**	405,044	12,174	8,303
Asia Pacific	**171,467**	**3,801**	**9,299**	167,541	8,570	8,838
Construction Products	**192,111**	**340**	**5,412**	206,690	541	10,790
Engineering Adhesives	**172,891**	**-**	**6,465**	138,109	-	(681)
Total	**$1,519,698**		**$ 140,839**	$1,535,556		$ 118,271

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

	Three Months Ended		Nine Months Ended	
	August 27, 2016	August 29, 2015	August 27, 2016	August 29, 2015
Segment operating income	**$48,429**	$48,543	**$140,839**	$118,271

Special charges, net	**2,807**	(1,297)	**2,024**	(4,592)
Other income (expense), net	**(956)**	(1,040)	**(7,603)**	(1,246)
Interest expense	**(6,809)**	(6,448)	**(19,714)**	(18,765)
Income before income taxes and income from equity method investments	**$43,471**	$39,758	**$115,546**	$93,668

Note 12: Income Taxes

As of August 27, 2016, we had a liability of $4,508 recorded under FASB ASC 740, *Income Taxes,* for gross unrecognized tax benefits (excluding interest), compared to $5,124 as of November 28, 2015. As of August 27, 2016, we had accrued $639 of gross interest relating to unrecognized tax benefits. For the quarter ended August 27, 2016, our recorded liability for gross unrecognized tax benefits decreased by $652.

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Note 13: Goodwill and Other Intangible Assets

A summary of goodwill activity as of August 27, 2016 and changes during the nine months then ended is presented below:

	Americas Adhesives	EIMEA	Asia Pacific	Construction Products	Engineering Adhesives		Total
Balance at November 28, 2015	$ 59,706	$100,638	$17,329	$ 22,668	$ 153,863		$354,204
Acquisitions	-	-	-	-	38,852	[1]	38,852
Currency impact	116	3,885	812	97	(4,715	)	195
Balance at August 27, 2016	$ 59,822	$104,523	$18,141	$ 22,765	$ 188,000		$393,251

[1] Preliminary goodwill balance as of August 27, 2016.

As discussed in Note 11, during the first quarter of fiscal year 2016, we changed our operating segments as a result of a change in our management reporting structure. This resulted in a change in our reporting units. We allocated goodwill to our new reporting units using the relative fair value approach.

Balances of amortizable identifiable intangible assets, excluding goodwill and other non-amortizable intangible assets are as follows:

	August 27, 2016			
Amortizable Intangible Assets	**Purchased Technology & Patents**	**Customer Relationships**	**All Other**	**Total**
Original cost	**$70,237**	**$ 243,017**	**$49,776**	**$363,030**
Accumulated amortization	**(23,727)**	**(110,258)**	**(28,343)**	**(162,328)**
Net identifiable intangibles	**$46,510**	**$ 132,759**	**$21,433**	**$200,702**

Amortizable Intangible Assets	November 28, 2015 Purchased Technology & Patents	Customer Relationships	All Other	Total
Original cost	$69,792	$ 234,995	$49,563	$354,350
Accumulated amortization	(17,613)	(99,405)	(24,801)	(141,819)
Net identifiable intangibles	$52,179	$ 135,590	$24,762	$212,531

Amortization expense with respect to amortizable intangible assets was $20,509 and $20,046 for the nine months ended August 27, 2016 and August 29, 2015, respectively.

Estimated aggregate amortization expense based on the current carrying value of amortizable intangible assets for the next five fiscal years are as follows:

Fiscal Year	Remainder 2016	2017	2018	2019	2020	Thereafter
Amortization Expense	$ 7,023	$25,901	$25,444	$23,506	$22,527	$ 96,301

Non-amortizable intangible assets as of August 27, 2016 are $462 and are related to trademarks and trade names.

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Note 14: Fair Value Measurements

Estimates of fair value for financial assets and liabilities are based on the framework established in the accounting guidance for fair value measurements. The framework defines fair value, provides guidance for measuring fair value and requires certain disclosures. The framework discusses valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flow) and the cost approach (cost to replace the service capacity of an asset or replacement cost). The framework utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
Level 3: Unobservable inputs that reflect management's assumptions, and include situations where there is little, if any, market activity for the asset or liability.

Balances Measured at Fair Value on a Recurring Basis

The following table presents information about our financial assets and liabilities that are measured at fair value on a recurring basis as of August 27, 2016 and November 28, 2015, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value.

	August 27,	**Fair Value Measurements Using:**		
Description	**2016**	**Level 1**	**Level 2**	**Level 3**
Assets:				