2000 ANNUAL REPORT

BUILDING ON OUR STRENGTHS

H.B. Fuller Company

MISSION STATEMENT:

The H.B. Fuller Corporate Mission is to serve its customers as a leading worldwide formulator, manufacturer and marketer of technology-driven specialty chemicals and other products related to its area of expertise. H.B. Fuller is committed to the balanced interests of its customers, employees, shareholders and communities; and accordingly, H.B. Fuller will conduct business ethically and profitably, support the activities of its employees in their communities, and exercise leadership as a responsible corporate citizen.

TABLE OF CONTENTS:

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H.B. FULLER COMPANY AND SUBSIDIARIES

(Dollars in thousands, except per share amounts)

YEARS ENDED	December 2, 2000	November 27, 1999	Annual Growth Rate: Current Year	Annual Growth Rate: 5 Years
NET SALES	$1,352,562	$1,364,458	(0.9)%	1.7%
NET INCOME *before one-time charges/(credits)*	$48,974	$56,820	(13.8)%	9.4%
Per common share – Basic	$3.52	$4.10	(14.2)%	9.5%
Per common share – Diluted	$3.47	$4.06	(14.5)%	9.2%
Percent of net sales	3.6%	4.2%		
NET INCOME *after one-time charges/(credits)*	$49,163*	$43,370*	13.4%	11.4%
Per common share – Basic	$3.53*	$3.14*	12.4%	11.4%
Per common share – Diluted	$3.48*	$3.10*	12.3%	11.2%
Percent of net sales	3.6%	3.2%		
TOTAL ASSETS	$1,010,361	$1,025,615	(1.5)%	4.0%
TOTAL DEBT	$290,725	$315,195	(7.8)%	5.2%
STOCKHOLDERS' EQUITY	$404,710	$376,380	7.5%	6.2%
COMMON SHARE INFORMATION				
Dividends paid per share	$0.835	$0.815	2.5%	6.0%
Book value per share	$28.65	$26.79	6.9%	6.1%
Weighted-average shares outstanding				
(in thousands) –Basic	13,914	13,808	0.8%	0.0%
–Diluted	14,103	13,978	0.9%	0.2%
NUMBER OF EMPLOYEES	5,200	5,400	(3.7)%	(4.1)%

* Includes for 1999 an accounting change charge of $1,204 pretax ($741 after tax), or $.05 per share (basic and diluted) and nonrecurring charges of $17,204 pretax ($12,709 after tax), or $.92 per share (basic)/$.91 per share (diluted). Includes for 2000 nonrecurring credits of $300 pretax ($189 after tax), or $.01 per share (basic and diluted).

LETTER TO STAKEHOLDERS

BUILDING ON OUR STRENGTHS:

During the course of the past three years, H.B. Fuller Company has experienced one of the most intense periods of change in its 114-year history. With a clear understanding that we needed to redefine both our business and the way we do business to thrive in today's - and tomorrow's - marketplace, we embarked upon a three-phase strategy in mid-1998: "Enhance. Expand. Extend." Our objectives were straightforward: to bring our costs in line with industry standards, enabling us to compete much more effectively; to grow our existing businesses; and to extend our reach into new areas, identifying and capitalizing on new opportunities.

During the latter half of 1998 and throughout 1999, as previously reported, we focused on enhancement and expansion, successfully reducing our operating costs and taking a number of steps to help us grow our business in a more focused - and profitable - manner. In 2000, we turned our attention to extension, and broadening our scope.

We made good progress with our activities directed toward this goal, although they have not yet impacted financial results. Rather, our financial results for the year fell short of our aggressive expectations and masked some of the headway we have made.

Nonetheless, today's H.B. Fuller is a different company than we were three years ago. We remain a leader in the adhesives industry. But we have a new purpose, one that builds on our strengths with an eye to the future. Transitioning to a new organization has not been easy. But we are convinced that we've set the correct course, and are committed to achieving results.

In the next few pages, you'll find a progress report for the year 2000. You will also find a definition of our new purpose, and examples that illustrate how we are building on our strengths to fulfill that purpose. To all our stakeholders, thank you for your continued support of H.B. Fuller Company. We value our relationship.

OUR SUCCESSES

H.B. Fuller employees worked determinedly in 2000 to push and pull our organization in the right direction. A number of accomplishments were made. First and foremost, we transitioned our organization into a structure that will enable us to take full advantage of our intrinsic knowledge and resources, our current market penetration, and our global power to ensure a greater level of success in the future. Our structure is identified by five marketing groups that support the company’s exisiting global adhesives and specialty products business segments. The five marketing groups are identified on page 7 of this report and in the companion piece, “Fuller at a Glance.”

We also broadened our foray into e-Commerce by creating a separate entity, called Stratyc, to capitalize on the many diverse opportunities presented by electronic business. Last year in our report to you, we announced the formation of a strategic business unit focused on electronic commerce. This year, while finding a pathway to do business via the Internet using our existing systems, we identified an unmet market need, and

BUILDING ON OUR STRENGTHS:

OUR PURPOSE

"We make consumers' lives better by working together to provide value-creating solutions." It doesn't say anything about adhesives - and that's the point. To successfully extend its reach, the company is looking beyond offering simply products to selling total solutions. By exploiting its resources, which include a world-class research and development facility, a knowledgeable and experienced workforce, proven products and a global infrastructure, and by working in concert with suppliers, consumers, service providers, universities and others, H.B. Fuller can create a unique offering that delivers value to the customer, the end-user of a product or service, and ultimately to the company.

determined that by establishing a separate subsidiary for our e-business unit, we could serve other companies, and generate revenue in the process. Stratyc was the result, and it illustrates one way we are extending our definition of H.B. Fuller's business. You can read more about Stratyc on page 8.

In addition, many significant achievements were realized throughout our organization. Following is a sampling: ■ In the area of product development, we continued to realize exciting success with the *Open-Sesame®* easy-open, hot melt-coated tape system. We doubled sales of *Advantra™* packaging adhesives globally over 1999, and significantly increased sales of *Clarity™* transparent hot melt adhesives used for bottle labeling. We launched a warm melt matrix, *Insul-Dri®*, for the window market. It employs a new technology that meets the need for sealants applied at cooler temperatures. In addition, we introduced another window offering, *True Dual Seal Edge™*, a system incorporating two sealants applied simultaneously to maximize strength and resistance to moisture vapor transmission. We expanded our use of hot melt moisture cure technology, a process where the hot melt product reacts with moisture in the atmosphere after application to form a strong, heat-resistant bond, penetrating Automotive, Footwear, Window and select Assembly markets, such as office furniture, building components and household goods. Thanks to our new water-based technology, we boosted sales with top suppliers of athletic shoes. Foster significantly increased sales of antimicrobial products, including the only EPA-registered protective fungicidal coatings for the indoor air quality market. And

Global Coatings initiated sales of powdered coatings designed specifically for engineered wood surfaces, such as particleboard used for kitchen cabinets and office furniture. ■ We broadened our presence in China, a key growth market within our Asia Pacific region, increasing sales nearly 40 percent. To accommodate the growth, we doubled the footprint of our manufacturing facility in Guangzhou. ■ Global Coatings and Liquid Paints, part of our Specialty Group, secured ISO registration at all major sites, and reduced their chemical waste-to-production ratio by 23 and 34 percent, respectively. TEC Specialty Products, another Specialty business, increased customer satisfaction, as fill rates improved to more than 99 percent and lead times improved 30 percent. ■ In Europe, we began the process of concentrating our activities into a trading company based in Zurich. This will enable us to better capitalize on growth opportunities in emerging markets, such as the Middle East and Africa, while simplifying many of the legal complexities we encountered in our former structure. ■ Within North America, we continued rationalization of our product line, achieving a 15 percent decrease, with an additional 25 percent reduction anticipated early this year. ■ We combined administrative aspects of our adhesives and paints businesses in Latin America, to lower overhead costs and promote a more focused marketing approach to our local consumer business. ■ Globally, we realized a dramatic improvement in injury and illness cases. For the year, we experienced a 27 percent decline, coming on the heels of a 27 percent decrease in 1999.

■ Through nine employee strategic sourcing teams, we began reviewing approximately $400 million in expenditures for materials and services; we believe we can achieve substantial savings in the purchasing of these items, and are working diligently to significantly reduce costs where possible. ■ We reduced our tax rate from 39.6 to 37 percent.

I am proud of the results our employees achieved in this difficult year. While not everything went as planned, we stayed the course and continued to drive our organization in the right direction.

OUR **CHALLENGES**

Without question, the biggest challenge faced in 2000 by H.B. Fuller - and other specialty chemical manufacturers - was skyrocketing raw material prices. Ethylene derivatives are the feedstocks for many of the raw materials used in the formulation of our products. Tighter supply and increased demand produced a chain reaction resulting in price increases that ranged from 8 to more than 50 percent in many of our key raw materials. For instance, vinyl acetate monomer, an essential component in water-based adhesives, reached its highest price level ever, jumping more than 50 percent since December 1999.

We responded to the raw material escalation with a series of price increases of our own, in April, July and September, with a cumulative goal of 8 to 10 percent. Unfortunately, we were unable to offset the impact, as our progress was impeded by several factors, including competitive pressures and a tendency within our industry

BUILDING ON OUR STRENGTHS:

OUR ORGANIZATION

To become a more capabilities-focused company, one that creates value and generates income from a combination of goods, services and knowledge provided to its customers, H.B. Fuller enhanced its organization in 2000. The result is an organization that has five marketing groups that support the company's existing global adhesives and specialty products business segments. This structure leverages the company's existing strengths in adhesives while positioning it for more diversified growth in the future. Each marketing group shares common core characteristics that allow the company to apply its resources to maximum advantage.

- **INDUSTRIAL PRODUCTS serves large global and regional accounts in the Converting, Graphic Arts and Nonwoven markets that seek a quality product at a reasonable cost, consistently delivered on time, with few or no extra services.**

- **EFTEC serves the automotive industry through a joint venture with EMS-Chemie. Customers require innovation and service, and cost is critical.**

- **PERFORMANCE PRODUCTS has a similar commodity orientation, but customers are typically smaller and more local in nature, and are concerned with the performance of the products over extended periods of time. It encompasses Assembly, Footwear and Packaging markets.**

- **FULL-VALU offers customers an integrated package of products, services, knowledge and capabilities. Businesses in this group include Linear Products, Inc. and Window.**

- **SPECIALTY includes four self-contained businesses presenting a unique product and service offering. They are valued for strong brand identity in their respective markets. Specialty businesses include Consumer Products, Foster Products Corporation, Global Coatings Division, and TEC Specialty Products, Inc.**

STRATYC

Can an adhesives company create competitive Internet capabilities? Yes. Stratyc, an H.B. Fuller subsidiary, is a case in point. With the business world migrating to on-line transactions, H.B. Fuller identified an unmet market need, which surfaced as the company sought to link its existing systems to the Internet. Like nearly 1,000 manufacturers - many in the chemical, food processing and pharmaceutical industries - H.B. Fuller relied on PRISM™, a software system developed by Wonderware, for resource and production planning and management. PRISM™, however, was not yet Internet-ready. Faced with the costly choice of replacing PRISM™, or building a pathway to the Internet, H.B. Fuller opted for the latter, and in the process realized the value of spinning off this capability via a separate company. Formalized in October, Stratyc enables manufacturers to integrate their traditional operating systems with online links with customers, distributors and vendors.

to wait for raw material prices to come back down, rather than pass the increases on. All told, higher raw material prices and delivery costs, coupled with competitive pricing pressures, had approximately a $20 million negative impact on our pretax operating results in 2000. In recent months we have seen competitive dynamics shift, with each major adhesive company announcing price increases, helping move prices up in the marketplace.

We anticipate that energy costs will remain high and raw material prices will continue to be volatile in the coming year; however, we will endeavor to stay ahead of the curve, working diligently to minimize the impact and to pass costs on as necessary.

Weak currencies posed another significant challenge in 2000, costing us $32 million in sales and approximately $3 million in operating income. Because we are not able to impact currency rates, our objective is to maintain our competitive position. I am pleased that we did that in both Europe and Australia, which mirrored the euro's fluctuations to a large extent.

OUR **RESULTS**

The lag in transferring raw material costs coupled with currency issues impacted H.B. Fuller's bottom line. Our net earnings and earnings per share, excluding one-time charges/(credits), decreased from 1999, to $49.0 million and $3.47 (diluted), respectively. Our return on sales declined to 3.6 percent, compared to 4.2 percent last year. Although the decrease is disappointing, we are encouraged that at 3.6, our return on sales is still

CHANGES IN **MANAGEMENT**

H.B. Fuller experienced several changes among its top management in 2000. David Maki, vice president and corporate controller, left this position in October to lead several mission critical projects, including financial aspects related to our e-business venture, Stratyc, and a worldwide tax initiative. Succeeding Dave as vice president and corporate controller is James McCreary, who joined us in November. Jim brings with him broad experience in all aspects of finance, including expertise in cost accounting, and we are delighted to have him with us.

Also in November, Antonio Lobo, group president and general manager of Latin America, and a member of our Leadership Council, retired after 20 years of service. With his departure, José Miguel Fuster, who previously oversaw our Latin American Consumer business, assumed responsibility for our Latin American adhesives business in addition to his current duties. While sales structures for the two will remain separate, we are seeking administrative efficiencies where feasible.

Rolf Schubert, former chief technology officer for H.B. Fuller Company, did not stand for election to the board of directors and completed 28 years of service in April. Lorne Webster, chairman and chief executive officer of the Prenor Group, and an H.B. Fuller director for 30 years, retired from the board in September. We are grateful to Rolf and Lorne for their loyalty and many contributions to the company, and wish them well.

Joining us as a director in 2001 is R. William Van Sant. Bill is currently chairman, director and chief executive officer of Nortrax, Inc., the largest distributor of John Deere construction equipment in North America, and has previously held executive positions with Lukens Inc.; Blount, Inc.; Cessna Aircraft Company; and Deere & Company. With his extensive experience, Bill will be a strong asset to our board, and we are pleased to welcome him.

Last, but certainly not least, 2001 will mark the completion of Tony Andersen's service to H.B. Fuller Company, with the expiration of his term as a director in April. Tony devoted his entire career to H.B. Fuller. He joined the company in 1957 and the board in 1966, was named president in 1971 and chief executive officer in 1974, and chaired the board from 1992 through 1999. His imprint is indelible: international growth, emphasis on employee values, and leadership in the areas of corporate responsibility and community giving. We thank Tony for his great dedication, and wish him the best in his future endeavors.

greater than it has been for most of the past decade, a result of the steps taken in the past two and a half years to reduce our cost structures. Furthermore, it is important to note that despite the decline, 2000 ranks second only to 1999 in terms of net income.

Top line growth was also down slightly, with sales decreasing 0.9 percent to $1.353 billion. In brief, foreign currency negatively impacted sales 2.3 percent; without the currency decline, sales increased 1.4 percent. We also lost some business as a result of increasing prices; we anticipate this to be a short-term concern as competitive prices are rising. In addition, we exited businesses that were not a good fit for us, including the solvent-based adhesives market in Latin America. As we look to the future, our focus is on growing our business strategically, in ways that add overall value to the company.

Although our cash flow was impacted by the raw material and currency situations, we were able to reduce capital expenditures and generate $17 million in free cash flow, and still make important investments for our future, particularly in the area of information technology.

OUR **FUTURE**

Looking ahead, we know that 2001 will bring its own challenges: a slowing economy in the United States and possibly other regions, continued weak currencies, and persistent higher energy costs that put pressure on our raw material prices. We will vigilantly manage these issues, and are committed to reacting with speed to keep challenges in check.

We are confident these potential barriers can be overcome. To that point, we have set ambitious goals focused on three areas, and are determined to achieve them:

- **GROWTH.** We will seek to increase net sales above market growth rates, before acquisitions.
- **PROFITS.** The growth we produce must be profitable; accordingly, we will improve gross margins, decrease operating expenses as a percent of sales, and ultimately improve our return on sales and our value creation.
- **PEOPLE.** To realize our growth and profit objectives, we recognize that we must operate differently. During the past several months, we redefined our corporate culture, identifying the types of behaviors we must demonstrate if we are to truly become a high-performance company. These are outlined in a written culture statement, which will become a standard reference point for our employees.

2000 was a challenging year for H.B. Fuller. But thanks to the tenacity and dedication of our employees, we continued the process of redefining our organization to fit the future, better positioning H.B. Fuller for success for years to come. We will build on our progress - and on our strengths - in 2001, thereby enhancing your investment.

Albert P.L. Stroucken
Chairman of the Board,
President and Chief Executive Officer

OFFICERS

Albert P.L. Stroucken
Chairman of the Board,
President and
Chief Executive Officer

Lars T. Carlson
Senior Vice President
Manufacturing Integration

Alan R. Longstreet
Senior Vice President
Performance Products

Raymond A. Tucker
Senior Vice President
Chief Financial Officer

Richard C. Baker
Vice President,
General Counsel
and Secretary

James R. Conaty
President and
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EFTEC North America,
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Matthew Critchley
Group President
General Manager
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José Miguel Fuster
Group President
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William L. Gacki
Vice President
Treasurer

Peter Koxholt
Group President
General Manager
Europe

Stephen J. Large
Group President
General Manager
North America

James C. McCreary, Jr.
Vice President
Corporate Controller

James A. Metts
Vice President
Human Resources

Michael D. Modak
Vice President
Industrial Products

Walter Nussbaumer
Vice President
Full-Valu
Chief Technology Officer

Dan Piteleski
Vice President
Chief Information Officer

Linda J. Welty
Group President
General Manager
Specialty

as of January 31, 2001

BOARD OF DIRECTORS

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President and
Chief Executive Officer
H.B. Fuller Company
St. Paul, Minnesota (c,d)

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Retired Chair – Board of
Directors
H.B. Fuller Company
St. Paul, Minnesota (d)

Norbert R. Berg
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Control Data Corporation
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General Mills Foundation
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H.B. Fuller Company
St. Paul, Minnesota (c)

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Minneapolis, Minnesota (A,d)

Lee R. Mitau
Executive Vice President
U.S. Bancorp
Minneapolis, Minnesota (b,c)

R. William Van Sant
Chairman, Director and
Chief Executive Officer
Nortrax, Inc.
Eden Prairie, Minnesota
(elected January 2001)

Committees of the Board –
Upper-case letter indicates
committee chair

A = Audit
B = Compensation
C = Corporate Governance
& Responsibility
D = Finance

as of January 31, 2001

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following discussion includes comments and data relating to the Company's financial condition and results of operations for the three fiscal years ended December 2, 2000, November 27, 1999, and November 28, 1998, respectively. This section should be read in conjunction with the Consolidated Financial Statements and related Notes as they contain important information for evaluation of the Company's comparative financial condition and operating results.

Results of Operations: 2000 Compared to 1999

Net Sales: Net sales in 2000 of $1,352.6 million were $11.9 million or 0.9 percent below 1999. Weakness in foreign currencies, primarily the euro, versus the U.S. dollar had a negative impact of $31.9 million or 2.3 percent. The negative currency impact offset the benefit of having 53 weeks in fiscal 2000 compared to 52 weeks in fiscal 1999. Volume increased 1.5 percent while selling prices decreased 0.3 percent. Acquisitions, net of divestitures, contributed 0.2 percent.

Net sales changes from 1999 to 2000 by business segment ($ in millions):

	Increase / (Decrease)	
North America Adhesives	$ 7.8	1.3%
Europe Adhesives	(24.4)	(9.5%)
Latin America Adhesives	(4.0)	(5.0%)
Asia/Pacific Adhesives	3.4	3.5%
Specialty Group	5.3	1.5%
Total	$(11.9)	(0.9%)

Gross Margin: Throughout 2000 the Company faced rapidly rising raw material costs. The major contributors were petroleum-based materials such as vinyl acetate monomers and vinyl acetate emulsions. Although selling price increases were implemented during the year, the benefits were not realized until late in the year. Therefore, the gross margin in 2000 decreased 1.9 percentage points to 30.6%.

Selling, Administrative and Other Expenses: Selling, administrative and other expenses improved as a percent of sales in 2000 to 23.0 percent from 23.6 percent in 1999. The expense dollars decreased $11.2 million or 3.5 percent. Census control and savings related to the Company's restructuring plan, which was announced in 1998, were the primary factors in the expense reduction. Total census decreased 226 employees during 2000 with 154 of the decrease related to selling, administrative and other expenses. The reduced census combined with good asset investment performance and changes to postretirement benefit plans allowed U.S. pension and other postretirement benefit costs to decrease $7.3 million in 2000 as compared to 1999. Other factors that contributed to the reduced expenses in 2000, were lower management bonuses due to the lower earnings in 2000 as compared to 1999 and the settlement of a claim with a raw material supplier in Latin America. Two initiatives, which increased expenses in 2000 included $3.3 million for the Company's e-commerce efforts and $2.0 million related to tax planning. Both projects are expected to provide significant long-term benefits. Another area of expense increase in 2000 was bad debt expense, primarily relating to bankruptcies of customers in North America.

Nonrecurring Charges/Restructuring: In the third quarter of 1998 the Company's Board of Directors approved, and the Company announced, a restructuring plan to streamline the organizational structure worldwide. Over the last two quarters of 1998 and throughout 1999, two businesses were sold, several manufacturing facilities were closed or considerably scaled back, sales offices and warehouses were consolidated and layers of management were reduced. Since the plan was announced, the Company has incurred $43.7 million (before tax) of net charges to the income statement with a credit of $0.3 million recorded in 2000 and charges of $17.2 million and $26.7 million in 1999 and 1998, respectively.

The following tables show details of the nonrecurring charges/(credits) for each year by geographic area ($ in thousands):

Year 2000:	North America	Europe	Latin America	Asia/ Pacific	Total
Adjustment for change in estimate	$(300)	–	–	–	$(300)
Total	$(300)	–	–	–	$(300)

Year 1999:	North America	Europe	Latin America	Asia/ Pacific	Total
Severance (net of pension curtailment)	$1,943	$8,372	$1,114	$676	$12,105
Contracts/leases	–	1,660	16	618	2,294
Total restructuring	1,943	10,032	1,130	1,294	14,399
Impairment of property, plant and equipment	66	2,228	188	32	2,514
Consulting	243	685	192	15	1,135
Integration and relocation costs[1]	2,052	1,104	1,465	292	4,913
Less: Gain on the sale of assets	(1,811)	(1,497)	–	(2,449)	(5,757)
Total	$2,493	$12,552	$2,975	$(816)	$17,204

Year 1998:	North America	Europe	Latin America	Asia/ Pacific	Total
Severance (net of pension curtailment)	$3,945	$8,526	$3,704	$278	$16,453
Contracts/leases	526	266	–	53	845
Total restructuring	4,471	8,792	3,704	331	17,298
Impairment of property, plant and equipment	9,481	4,063	3,564	–	17,108
Consulting	121	764	12	2	899
Integration and relocation costs[1]	193	–	126	104	423
Less: Gain on the sale of businesses	(1,387)	(7,594)	–	–	(8,981)
Total	$12,879	$6,025	$7,406	$437	$26,747

1. Integration and relocation costs consisted primarily of costs related to the shutdown of facilities, relocation of employees and other related one-time costs to carry out the restructuring/reorganization activities. Such costs were expensed as incurred.

The 2000 credit of $0.3 million was due to a change in estimate of the severance payments in North America.

The 1999 charges, prior to the gain on sale of assets of $5.8 million, included $22.3 million of costs requiring cash outlays, $2.5 million of non-cash costs and a pension curtailment benefit of $1.9 million. In 1998, the charges before accounting for the gain on the sale of businesses of $9.0 million included $19.7 million of costs requiring cash outlays, $17.1 million of non-cash charges and a pension curtailment benefit of $1.1 million. Total costs requiring cash outlays since inception of the plan, were $41.7 million.

Employee census reductions resulting from the restructuring plan were 90 in 2000, 588 in 1999 and 142 in 1998 for a total of 820. Annual cost savings as a result of the plan are expected to exceed $30 million (before tax) upon full realization of the benefits of the enacted plan. No additional charges related to the original restructuring/reorganization plan were incurred in 2000.

In 1999, the North American charges related primarily to a plant shutdown, and severance associated with closing sales offices and warehouses. These costs were partially offset by the gain on the sale of assets. In 1998, the charges related to an announced manufacturing plant closing, reduced layers of management and the impairment recognized on property, plant and equipment. These costs were partially offset by a gain on the sale of the hot melt glue stick and gun business.

In Europe, the 1999 charges related primarily to severance and the impairment of assets associated with the shutdown of three manufacturing facilities, the reduction in the layers of management and the costs associated with the relocation of the European area office. The 1998 charges in Europe related to announced plant closings in two countries including the associated impairment of property, plant and equipment and severance associated with the reduction in layers of management. These costs were partially offset by the gain on the sale of the wax business in the fourth quarter of 1998.

Latin American charges in 1999 were mainly for the integration costs associated with the closing of four of the five facilities that were announced in 1998. In 1999, the Company decided to leave one of the five facilities in operation due to a change in local import restrictions and related costs. Severance costs provided in 1998 for this operation were reversed in 1999. Severance related to the closing of three sales offices is included in the 1999 charges. Latin American charges in 1998 related primarily to the severance and impairment of property, plant and equipment associated with the announced closing of the manufacturing plants mentioned above. Also included in the 1998 cost was severance related to reducing layers of management.

The Asia/Pacific charges in 1999 were mainly for severance and the buyout of leases associated with closing warehouses and sales offices, relocation costs related to moving the area office and severance due to reducing layers of management. The charges were more than offset by the gain on sale of assets of the one manufacturing facility that was closed in the region. The 1998 charges in the Asia/Pacific region related primarily to severance associated with the closing of the one manufacturing facility that was sold in 1999. Sales offices and warehouses were also closed in 1998.

The following table is a detailed reconciliation of the restructuring reserve balance from November 29, 1997 to December 2, 2000:

Nonrecurring charge reserve ($ in thousands):

	North America	Europe	Latin America	Asia/ Pacific	Total
Balance November 29, 1997	$ –	$ –	$ –	$ –	$ –
Provisions in 1998:					
Severance	4,749	8,726	3,765	278	17,518
Contracts/leases	526	266	–	53	845
	5,275	8,992	3,765	331	18,363
Payments in 1998:					
Severance	(2,757)	(998)	(624)	(190)	(4,569)
Contracts/leases	(526)	–	–	(53)	(579)
	(3,283)	(998)	(624)	(243)	(5,148)
Balance November 28, 1998	1,992	7,994	3,141	88	13,215
Provisions in 1999:					
Severance	3,057	8,952	1,022	668	13,699
Contracts/leases	–	1,660	16	618	2,294
	3,057	10,612	1,038	1,286	15,993

	North America	Europe	Latin America	Asia/ Pacific	Total
Adjustments for change in estimate	(65)	225	92	8	260
Payments in 1999:					
Severance	(3,060)	(13,482)	(3,492)	(82)	(20,116)
Contracts/leases	–	(399)	(16)	(175)	(590)
	(3,060)	(13,881)	(3,508)	(257)	(20,706)
Balance November 27, 1999	1,924	4,950	763	1,125	8,762
Adjustment for change in estimate	(300)	–	–	–	(300)
Payments in 2000:					
Severance	(1,577)	(2,651)	(763)	(682)	(5,673)
Contracts/leases	–	(1,136)	–	(443)	(1,579)
	(1,577)	(3,787)	(763)	(1,125)	(7,252)
Balance December 2, 2000	$47	$1,163	$ –	$ –	$1,210

Interest Expense: Interest expense of $23.8 million in 2000 was $3.0 million or 11.2% below 1999. Total debt at December 2, 2000 was $290.7 million as compared to $315.2 million at November 27, 1999.

Gains from Sales of Assets: The Company actively sold non-productive assets in 2000 as evidenced by the gains of $4.1 million as compared to $0.4 million in 1999. Two facilities sold in North America accounted for more than half of the gains realized in 2000.

Other Income/Expense, Net: Other income/expense, net, was an expense of $5.9 million in 2000 as compared to an expense of $2.9 million in 1999. A significant factor in the expense increase in 2000 related to the portfolio of assets held for the Supplemental Executive Retirement Plan, or SERP. Until March of 2000, this portfolio was invested in a mutual fund based on the S&P 500 index. In 1999, the gains realized on this portfolio were $3.1 million. In March of 2000 the Company converted these assets into fixed income securities to avoid the unpredictable changes in the stock market. Through the time of conversion, the Company had realized income of $1.0 million and for the remainder of the year, realized another $0.6 million of income for a total year investment income of $1.6 million. Going forward, the Company expects to realize income of approximately $1.2 million on the portfolio in 2001.

Income Taxes: The effective tax rate in 2000 was 37 percent as compared to 42.7 percent in 1999. Excluding the impact of nonrecurring charges, the 1999 rate was 39.6 percent. The reduced rate in 2000 was a direct result of the Company's tax planning initiatives. The negative impact to the 1999 rate from the nonrecurring charges was due to a portion of the charges being incurred in countries where no tax benefit was available.

Net Income: Net income of $49.2 million in 2000 compared to $43.4 million in 1999. Excluding the effects of the nonrecurring charges/(credits) and also a charge related to an accounting change in 1999, the net income in 2000 was $49.0 million as compared to $56.8 million in 1999. The income per share, excluding the nonrecurring items and the impact of the accounting change, were $3.47 per diluted share in 2000 as compared to $4.06 per diluted share in 1999.

Business Segment Results

Note: Business segment operating income is defined as income before nonrecurring (charges)/credits, interest expense, gains from sales of assets and all other non-operating type items.

North America Adhesives: Trade sales of $590.2 million were 1.3 percent above 1999. The increase was primarily due to volume as the selling price increase was only 0.1 percent. Increases in the nonwoven and graphic arts markets were offset by decreases in the window and automotive markets. Escalating raw material costs combined with the difficulty in raising selling prices resulted in a lower gross margin in 2000. Operating expenses were below the 1999 levels, however not enough to neutralize the gross margin erosion. The reduction in expenses was largely due to lower census and the decrease in U.S. pension costs in 2000 as compared to 1999. One factor that had a negative impact on operating expenses was a significant increase in bad debt expense due to bankruptcy filings by certain customers. The resulting operating income of $50.3 million was 16.5 percent below 1999.

Europe Adhesives: Trade sales decreased 9.5 percent in 2000, driven by a negative currency impact of 11.6 percent. Volume increased 1.5 percent and selling prices increased 0.6 percent. The business environment in Europe was similar to North America in terms of raw material cost increases combined with the difficulty in raising selling prices. Operating income decreased $6.5 million or 40.6 percent in 2000. The decrease in operating income attributed to the weakness of the euro was approximately $3.0 million.

Latin America Adhesives: Several factors contributed to the trade sales decrease of 5.0 percent in 2000 including, economic recession in Argentina, economic slowdowns in Central America and exiting certain product lines in 1999. The raw material increases were not as dramatic in Latin America as the gross margin percentage showed some improvement in 2000. Operating expenses were reduced by a $1.5 million settlement of a claim with a raw material supplier resulting in a lower operating loss in 2000 compared to 1999.

Asia/Pacific Adhesives: The trade sales increase of 3.5 percent in 2000 resulted from volume increases of 5.6 percent offset by decreases due to pricing and currency of 1.3 percent and 0.8 percent, respectively. Operating income improved 84 percent from $1.4 million in 1999 to $2.5 million in 2000. Reduced operating expenses were the key factor in the improved results.

Specialty Group: Trade sales of $352.3 million were 1.5 percent higher than 1999. Volume increased 1.9 percent while the effect of an acquisition, net of a divestiture, added another 0.9 percent, with pricing and negative currency effects of 0.8 percent and 0.5 percent, respectively. Linear Products, Inc. and TEC Specialty Products, Inc. had the strongest growth in 2000. The Specialty Group was not impacted as much as the adhesives businesses by fluctuations in petroleum-based raw materials. Therefore, the Specialty Group did not experience the same magnitude of raw material cost increases in 2000. The gross margin, however, was still slightly below last year and operating income decreased 9.6 percent to $41.3 million.

Results of Operations: 1999 Compared to 1998

Net Sales: Net sales in 1999 of $1,364.5 million were $17.2 million or 1.3 percent over 1998. Volume increased 2.2 percent while selling prices decreased 1.3 percent. Acquisitions, net of divestitures, yielded an additional 0.5 percent and the variance due to currency fluctuations was a negative 0.1 percent. The Asia/Pacific Adhesives business had the strongest growth in 1999 with a sales increase of 20.0 percent. The 20.0 percent included a 12.7 percent volume increase along with an increase from acquisitions of 8.0 percent. The Specialty Group grew by 4.1 percent in 1999 driven by strong growth from Linear Products, Inc. and TEC Specialty Products, Inc. The North America Adhesives segment grew by 0.5 percent, including the negative 0.6 percent impact from the divestiture of the hot melt glue stick and gun business. Europe Adhesives sales were down 0.3 percent from 1998 as a positive 2.2 percent increase from acquisitions, net of a divestiture, was offset by a negative 2.3 percent from currency fluctuations.

Gross Margin: The 1999 gross margin of 32.5 percent increased 1.2 percentage points over 1998. The improved margin was due to reduced raw material costs as well as manufacturing overhead reductions resulting from the Company's restructuring plan. An additional factor was the Company's focus on reducing sales in areas that did not meet the Company's profit objectives. The Europe Adhesives segment improved its gross margin over 2.0 percentage points from 1998 primarily due to savings related to the restructuring plan. Asia/Pacific Adhesives was able to leverage its 20 percent sales growth into a 2.5 percentage point improvement in gross margin. The North America Adhesives and Specialty Group segments improved their gross margins 1.0 and 0.8 percentage points, respectively. Only the Latin America Adhesives segment incurred erosion in their gross margin as unfavorable economic conditions, especially in Brazil and Argentina, had a negative impact on overall business.

Selling, Administrative and Other Expenses: Selling, administrative and other expenses, excluding nonrecurring restructuring charges, decreased 1.2 percentage points to 23.6 percent of sales. In dollars, the reduction was $11.7 million or 3.5 percent. Cost control measures implemented throughout the Company as well as savings from the restructuring plan were the primary reasons for the lower expenses. The Latin America Adhesives segment realized expense reductions of $5.5 million, primarily due to the restructuring savings. Europe Adhesives and North America Adhesives also contributed to the overall 1999 expense reduction.

Nonrecurring Charges/Restructuring: Nonrecurring charges associated with the Company's restructuring plan were $17.2 million ($12.7 million after tax) in 1999 and $26.7 million ($21.3 million after tax) in 1998. Census was reduced 600 employees, or 10 percent, in 1999 mainly due to the restructuring plan.

Interest Expense: Interest expense in 1999 of $26.8 million was $0.2 million or 0.6 percent lower than 1998. Total Company debt at November 27, 1999 was $315.2 million as compared to $363.8 million at November 28, 1998, a decrease of 13.4 percent.

Gains from Sales of Assets: Gains from sales of assets decreased from $3.2 million in 1998 to $0.4 million in 1999, excluding the sales of assets as part of the restructuring plan.

Other Income/Expense, Net: Other income/expense, net was expense of $2.9 million in 1999 as compared to expense of $4.7 million in 1998. The decrease of $1.8 million was primarily due to expenses of $2.5 million in 1998 related to the Company's transition to a new Chief Executive Officer. Foreign currency exchange losses were $2.9 million in 1999 as compared to $2.1 million in 1998.

Income Taxes: Excluding the impact of nonrecurring charges, the 1999 effective tax rate was 39.6 percent as compared to 40.8 percent in 1998.

Net Income: Net income for 1999 increased 171 percent to $43.4 million. Excluding the impact of nonrecurring restructuring charges and the charge associated with a 1999 accounting change, the net income for 1999 and 1998 were $56.8 million and $37.3 million, respectively. The net income per diluted share as reported was $3.10 in 1999 and $1.15 in 1998. Excluding the nonrecurring charges and the impact from the accounting change, the 1999 income per diluted share was $4.06 as compared to $2.69 in 1998. The 1999 charge related to an accounting change was $1.2 million ($0.7 million after tax). In the fourth quarter of 1999 the Company adopted early AICPA Statement of Position No. 98-5, "Reporting on the Costs of Start-up Activities," which requires the Company to expense as incurred all costs related to start-up and organizational activities.

Liquidity and Capital Resources

Net cash provided from operating activities was $78.0 million in 2000 as compared to $113.7 million in 1999 and $52.0 million in 1998. The reduced cash flow in 2000 was largely due to changes in working capital. The cash flow associated with inventory increases was a negative $11.1 million while accrued expenses decreased $18.1 million. A reduction of the accrual for nonrecurring restructuring charges accounted for $7.6 million of the $18.1 million reduction in accrued expenses. Lower accruals for management bonuses also contributed to the negative impact from accrued expenses. Total working capital was $208.3 million at December 2, 2000 as compared to $174.2 at November 27, 1999. The current ratio of 1.9 at December 2, 2000 was comparable to 1.7 at November 27, 1999. Cash used for capital expenditures in 2000 was $49.0 million as compared to $56.3 million in 1999 and $62.3 million in 1998. Cash and cash equivalents were $10.5 million at December 2, 2000 and $5.8 million at November 27, 1999. Current cash levels, combined with the Company's unused lines of credit, are considered adequate to meet Company obligations over the next year.

For management purposes, the Company measures working capital performance in terms of operating working capital, which is defined as current assets less cash, minus current liabilities less short-term debt. The operating working capital at December 2, 2000 was $238.1 million as compared to $219.9 million and $231.8 million at November 27, 1999 and November 28, 1998, respectively. The number of days sales in trade accounts receivable (net of allowance for doubtful accounts) was reduced from 62 days at November 27, 1999 to 55 days at December 2, 2000. Over the same period, the average days of inventory on hand dropped one day to 60 days.

Due to the reduced long-term debt levels, the ratio of long-term debt to total capitalization showed significant improvement in 2000. The ratio at December 2, 2000 was 38.2 percent as compared to 41.2 percent at November 27, 1999 and 46.8 percent at November 28, 1998. At December 2, 2000 the Company had short-term and long-term lines of credit of $410.2 million of which $246.1 million was committed. The unused portion of these lines of credit was $337.0 million.

The capital expenditures of $49.0 million were primarily for information systems projects and general improvements in manufacturing productivity and operating efficiency. The Company expects capital expenditures to approximate $50-$60 million in 2001.

Euro Currency Conversion

On January 1, 1999, 11 of the 15 member countries of the European Union (EU) established fixed conversion rates through the European Central Bank (ECB) between existing local currencies and the euro, the EU's new single currency. During a transition period from January 1, 1999, through June 30, 2002, the euro will replace the national currencies that exist in the participating countries.

The transition to the euro creates a number of finance, accounting and information systems issues. These issues are being evaluated and addressed by the management of the Company.

While the Company will continue to evaluate the impact of the euro introduction over time, based on currently available information and the nature of the exposures, the Company does not, at this time, believe that the transition to the euro will have a significant effect on the Company's consolidated results of operations, financial position or liquidity.

Impact of the Year 2000 Issue

The Company did not experience any material disruptions in internal manufacturing processes, information processing or interfaces with major customers, or with processing orders and billing as a result of the Year 2000 Issue. As stated in the 1999 Annual Report, the Company incurred Year 2000 compliance costs of approximately $3.5 million over the three-year period ending November 27, 1999. No additional costs related to the Year 2000 Issue were incurred.

Safe Harbor Statement Under the Private Securities Litigation Act of 1995

Certain statements in this Annual Report are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are subject to various risks and uncertainties, including but not limited to the following: political and economic conditions; product demand and industry capacity; competitive products and pricing; manufacturing efficiencies; new product development; product mix; availability and price of raw materials and critical manufacturing equipment; new plant startups; accounts receivable collection; the Company's relationships with its major customers and suppliers; changes in tax laws and tariffs; patent rights that could provide significant advantage to a competitor; devaluations and other foreign exchange rate fluctuations (particularly with respect to the euro, the Japanese yen, the Australian dollar and the Brazilian real); the regulatory and trade environment; and other risks as indicated from time to time in the Company's filings with the Securities and Exchange Commission. All forward-looking information represents management's best judgment as of this date based on information currently available that in the future may prove to have been inaccurate. Additionally, the variety of products sold by the Company and the regions where the Company does business makes it difficult to determine with certainty the increases or decreases in sales resulting from changes in the volume of products sold, currency impact, changes in product mix and selling prices. However, management's best estimates of these changes as well as changes in other factors have been included. References to volume changes includes volume and product mix changes, combined.

CONSOLIDATED STATEMENTS OF INCOME

H.B. Fuller Company and Subsidiaries

(In thousands, except per share amounts)

	Fiscal Year Ended		
	December 2, 2000	November 27, 1999	November 28, 1998
Net sales	**$1,352,562**	$1,364,458	$1,347,241
Cost of sales	**(939,351)**	(921,336)	(925,370)
Gross profit	**413,211**	443,122	421,871
Selling, administrative and other expenses	**(311,010)**	(322,171)	(333,912)
Nonrecurring (charges) credits	**300**	(17,204)	(26,747)
Interest expense	**(23,814)**	(26,823)	(26,989)
Gains from sales of assets	**4,131**	366	3,237
Other income (expense), net	**(5,913)**	(2,864)	(4,674)
Income before income taxes, minority interests and accounting change	**76,905**	74,426	32,786
Income taxes	**(28,455)**	(31,807)	(18,826)
Minority interests in consolidated income	**(1,826)**	(1,033)	(117)
Income from equity investments	**2,539**	2,525	2,147
Income before cumulative effect of accounting change	**49,163**	44,111	15,990
Cumulative effect of accounting change	**–**	(741)	–
Net income	**$49,163**	$43,370	$15,990
Basic income (loss) per common share:			
Income before accounting change	**$3.53**	$3.19	$1.16
Accounting change	**–**	(0.05)	–
Net income	**$3.53**	$3.14	$1.16
Diluted income (loss) per common share:			
Income before accounting change	**$3.48**	$3.15	$1.15
Accounting change	**–**	(0.05)	–
Net income	**$3.48**	$3.10	$1.15
Weighted-average common shares outstanding:			
Basic	**13,914**	13,808	13,721
Diluted	**14,103**	13,978	13,844

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEET

H.B. Fuller Company and Subsidiaries

(In thousands)

	December 2, 2000	November 27, 1999
Assets		
Current Assets:		
Cash and cash equivalents	$10,489	$5,821
Trade receivables, net	220,796	244,655
Inventories	153,785	148,589
Other current assets	49,994	41,078
Total current assets	435,064	440,143
Net property, plant and equipment	394,689	412,524
Deposits and miscellaneous assets	88,903	74,288
Excess of cost over net assets acquired, net	66,503	70,351
Other intangibles, net	25,202	28,309
Total assets	$1,010,361	$1,025,615
Liabilities and Stockholders' Equity		
Current Liabilities:		
Notes payable	$34,543	$40,149
Current installments of long-term debt	5,718	11,332
Trade payables	126,713	132,273
Accrued payroll and employee benefits	28,918	37,573
Other accrued expenses	24,597	31,096
Accrued nonrecurring charges	1,210	8,762
Income taxes payable	5,026	4,735
Total current liabilities	226,725	265,920
Long-term debt, excluding current installments	250,464	263,714
Accrued pensions	71,927	78,286
Other liabilities	37,452	23,801
Minority interests in consolidated subsidiaries	19,083	17,514
Commitments and contingencies		
Stockholders' Equity:		
Series A preferred stock	306	306
Common stock	14,116	14,040
Additional paid-in capital	36,707	34,071
Retained earnings	377,846	341,356
Accumulated other comprehensive income (loss)	(20,088)	(7,522)
Unearned compensation – restricted stock	(4,177)	(5,871)
Total stockholders' equity	404,710	376,380
Total liabilities and stockholders' equity	$1,010,361	$1,025,615

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

H.B. Fuller Company and Subsidiaries

(In thousands)

Fiscal Years 2000, 1999 and 1998

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Compre-hensive Income (Loss)	Unearned Compen-sation– Restricted Stock	Total Compre-hensive Income
Balance November 29, 1997	$306	$13,841	$25,035	$304,974	$341	$(5,383)	
Net income	–	–	–	15,990	–	–	$15,990
Foreign currency translation adjustment	–	–	–	–	(5,770)	–	(5,770)
Less: foreign currency translation adjustment included in net income	–	–	–	–	123	–	123
Minimum pension liability	–	–	–	–	(691)	–	(691)
Total comprehensive income							$9,652
Dividends	–	–	–	(10,947)	–	–	
Retirement of common stock	–	(1)	(3)	(51)	–	–	
Stock compensation plans, net	–	143	6,108	–	–	(2,611)	
Balance November 28, 1998	306	13,983	31,140	309,966	(5,997)	(7,994)	
Net income	–	–	–	43,370	–	–	$43,370
Foreign currency translation adjustment	–	–	–	–	(1,684)	–	(1,684)
Less: foreign currency translation adjustment included in net income	–	–	–	–	136	–	136
Minimum pension liability	–	–	–	–	23	–	23
Total comprehensive income							$41,845
Dividends	–	–	–	(11,440)	–	–	
Retirement of common stock	–	(9)	(22)	(540)	–	–	
Stock compensation plans, net	–	66	2,953	–	–	2,123	
Balance November 27, 1999	306	14,040	34,071	341,356	(7,522)	(5,871)	
Net income	–	–	–	**49,163**	–	–	**$49,163**
Foreign currency translation adjustment	–	–	–	–	**(12,034)**	–	**(12,034)**
Minimum pension liability	–	–	–	–	**(532)**	–	**(532)**
Total comprehensive income							**$36,597**
Dividends	–	–	–	**(11,786)**	–	–	
Retirement of common stock	–	**(21)**	**(53)**	**(887)**	–	–	
Stock compensation plans, net	–	**97**	**2,689**	–	–	**1,694**	
Balance December 2, 2000	**$306**	**$14,116**	**$36,707**	**$377,846**	**$(20,088)**	**$(4,177)**	

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

H.B. Fuller Company and Subsidiaries

(In thousands)

	Fiscal Year Ended		
	December 2, 2000	November 27, 1999	November 28, 1998
Cash flows from operating activities:			
Net income	**$49,163**	$43,370	$15,990
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**52,165**	50,776	49,541
Pension costs	**1,274**	5,128	6,900
Nonrecurring charges (credits)	**(300)**	660	16,043
Gain on sale of assets/businesses in the restructuring plan	**–**	(5,757)	(8,981)
Gain on sale of assets	**(4,131)**	(366)	(3,237)
Other items	**2,421**	4,972	(6,483)
Change in current assets and liabilities (net of effects of acquisitions/divestitures):			
Accounts receivable	**2,397**	(10,949)	(27,120)
Inventory	**(11,142)**	9,426	(4,473)
Other current assets	**(2,679)**	1,739	(79)
Accounts payable	**3,794**	6,145	646
Accrued nonrecurring charges	**(7,552)**	(4,453)	13,215
Accrued expenses	**(10,506)**	2,443	(2,780)
Income taxes payable	**3,070**	10,570	2,790
Net cash provided by operating activities	**77,974**	113,704	51,972
Cash flows from investing activities:			
Purchased property, plant and equipment	**(49,044)**	(56,253)	(62,327)
Proceeds from sale of assets	**15,694**	10,916	9,019
Purchased businesses, net of cash acquired	**(5,388)**	(4,483)	(92,439)
Net cash used in investing activities	**(38,738)**	(49,820)	(145,747)
Cash flows from financing activities:			
Proceeds from long-term debt	**69,690**	41,207	255,138
Repayment of long-term debt	**(84,876)**	(79,949)	(161,636)
Proceeds (payments) from/on notes payable	**3,668**	(4,477)	18,461
Dividends paid	**(11,786)**	(11,440)	(10,947)
Contributions to fund pension and other employee benefit plans	**(5,582)**	(4,411)	(3,720)
Other	**(5,318)**	(3,609)	(1,815)
Net cash (used in) provided by financing activities	**(34,204)**	(62,679)	95,481
Effect of exchange rate changes	**(364)**	11	189
Net change in cash and cash equivalents	**4,668**	1,216	1,895
Cash and cash equivalents at beginning of year	**5,821**	4,605	2,710
Cash and cash equivalents at end of year	**$10,489**	$5,821	$4,605
Supplemental disclosure of cash flow information:			
Cash paid for interest	**$28,198**	$28,962	$24,277
Cash paid for income taxes	**$16,569**	$11,194	$15,224

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

H.B. Fuller Company and Subsidiaries

(Dollars in thousands, except per share amounts)

1/Summary of Significant Accounting Policies

The following information is presented to explain the significant accounting policies used to prepare H.B. Fuller Company's Consolidated Financial Statements.

Nature of Operations: H.B. Fuller Company ("The Company") operates as one of the world's leading manufacturers and marketers of adhesives, sealants, coatings, paints and other specialty chemical products. The Company has manufacturing operations in 23 countries in North America, Europe, Latin America and the Asia/Pacific region. The Company's products, in thousands of formulations, are sold to customers in a wide range of industries, including packaging, woodworking, automotive, aerospace, graphic arts (books/magazines), appliances, filtration, windows, sporting goods, nonwovens, shoes and ceramic tile. The Company generally markets its products through a direct sales force, with independent distributors used in some markets.

Principles of Consolidation: The Consolidated Financial Statements include the accounts of the Company and all subsidiaries. The Company's fiscal year ends on the Saturday closest to November 30th. The fiscal year ended December 2, 2000 represents a 53-week year and the two fiscal years ended November 27, 1999 and November 28, 1998 represent 52-week years, respectively. All significant intercompany amounts have been eliminated in consolidation. Certain prior years' amounts have been reclassified to conform to the 2000 presentation.

Use of Estimates: Accounting principles generally accepted in the United States require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue Recognition: The Company's general practice is to recognize revenues from product sales when shipped. For certain products, the Company maintains consigned inventory at customer locations. For these products, revenue is recognized at the time the Company is notified the inventory has been used by the customer. The Company records estimated discounts and rebates in the same period revenue is recognized based on historical experience.

Sales to distributors are recognized upon shipment providing that there is evidence of the arrangement through a distribution agreement or purchase order, and the Company has no remaining performance obligations, the price and terms of the sale are fixed and collection is probable. As a normal practice, distributors do not have a right of return.

Foreign Currency Translation: The financial statements of non-U.S. operations are translated into U.S. dollars for inclusion in the Consolidated Financial Statements.

Translation gains or losses resulting from the process of translating foreign currency financial statements are recorded as a component of accumulated other comprehensive income in stockholders' equity for businesses not considered to be operating in highly inflationary economies. Translation effect of subsidiaries operating in highly inflationary economies and non-U.S. subsidiaries using the U.S. dollar as the functional currency are included in determining net income.

Cash and Cash Equivalents: The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Capitalized Interest Costs: Interest costs associated with major construction of property and equipment are capitalized. Capitalized interest costs were $482, $441, and $822 in 2000, 1999 and 1998, respectively.

Environmental Costs: Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations, and which do not contribute to current or future revenue generation, are expensed. Liabilities are recorded when environmental assessments are made or remedial efforts are probable and the costs can be reasonably estimated. The timing of these accruals is generally no later than the completion of feasibility studies. The liabilities for environmental costs at December 2, 2000 and November 27, 1999 were $1,161 and $4,004, respectively. For further information on environmental matters, see Item 3 of the Company's 2000 Annual Report on Form 10-K405.

Postemployment Benefits: The Company provides postemployment benefits to inactive and former employees, employees' beneficiaries and covered dependents after employment, but prior to retirement. The cost of providing these benefits is accrued during the years the employee renders the necessary service.

Purchase of Company Common Stock: Under the Minnesota Business Corporation Act, repurchased stock is included in the authorized shares of the Company, but is not included in shares outstanding. The excess of the repurchase cost over par value is charged to Additional Paid-In Capital to the extent recorded on the original issuance of the stock with any excess charged as a reduction of retained earnings. During 1997 the Board of Directors authorized a stock repurchase program under which up to 100,000 shares of H.B. Fuller Company common stock could be repurchased by the Company in each of the next three years. The shares of common stock repurchased would be available for compensation plans of the Company. The Company repurchased 21,229, 9,438 and 1,333 shares of common stock in 2000, 1999 and 1998, respectively.

New Accounting Standards: In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 133 "Accounting for Derivative Instruments and Hedging Activities." This statement establishes standards for recognition and measurement of derivatives and hedging activities. The Company implemented this statement in the first quarter of fiscal year 2001 as required.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 (SAB 101), which summarizes certain of the staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. The Company is in the process of analyzing the requirements of SAB 101, as amended, and is required to comply by no later than the fourth quarter of fiscal year 2001.

The impact of adopting these accounting standards is not expected to have a material effect on the Company's financial position or results of operations.

The FASB Emerging Issues Task Force (EITF) consensus No. 00-10, "Accounting for Shipping and Handling Fees and Costs", is effective for the Company beginning in fiscal year 2001. Under its provisions the EITF requires proceeds from shipping charges to customers to be included as revenue. The Company currently includes shipping charges to customers and the costs related thereto as an element of selling, administrative and other expenses. Beginning in fiscal year 2001, the Company will classify revenues from shipping charges to customers and the costs related thereto as revenue and costs of sales, respectively. Shipping revenue and costs for fiscal year 2000 approximated $10,000 and $43,900, respectively.

2/Income Per Common Share

Basic income per share includes no dilution and is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted income per share reflects the potential dilution from the Company's stock-based compensation plans. The difference between basic and diluted income per share data as presented is due to the dilutive impact from the Company's stock-based compensation plans. Net income used in the calculations of income per share is reduced by the dividends paid to the preferred stockholder.

A reconciliation of the net income and share components for the basic and diluted income per share calculations is as follows:

	2000	1999	1998
Net income	**$49,163**	$43,370	$15,990
Dividends on preferred shares	**(15)**	(15)	(15)
Income attributable to common shares	**$49,148**	$43,355	$15,975
(in thousands)			
Weighted-average common shares - basic	**13,914**	13,808	13,721
Equivalent shares from stock compensation plans	**189**	170	123
Weighted-average common shares - diluted	**14,103**	13,978	13,844

The computations of diluted income per common share do not include 43,767 and 413 stock options with exercise prices greater than the average market price of the common shares for fiscal years 2000 and 1999, respectively, as the results would have been anti-dilutive.

3/Foreign Currency Gains/(Losses)

Foreign currency gains/(losses), which were included in income before income taxes, minority interests, and cumulative effect of accounting change were as follows:

	2000	1999	1998
Currency translation gains, net	**$182**	$4,999	$837
Flow-through effect of inventory valuation, net	**(611)**	(226)	(2,370)
	(429)	4,773	(1,533)
Currency exchange losses, net	**(2,660)**	(7,855)	(2,961)
Total	**$(3,089)**	$(3,082)	$(4,494)

The net loss from the flow-through effects of inventory valuation results from differences between translation of cost of sales at historic rates versus average exchange rates. The Company's Latin American operations, whenever possible, raise local selling prices on their products to offset this loss. The result of these efforts to keep pace with inflation appears in the sales revenue of each operation.

4/Nonrecurring Charges/Restructuring

In the third quarter of 1998 the Company's Board of Directors approved, and the Company announced, a restructuring plan to streamline the organizational structure worldwide. Over the last two quarters of 1998 and throughout 1999, two businesses were sold, several manufacturing facilities were closed or considerably scaled back, sales offices and warehouses were consolidated and layers of management were reduced. Since the plan was announced, the Company has incurred $43.7 million (before tax) of net charges to the income statement with a credit of $0.3 million recorded in 2000 and charges of $17.2 million and $26.7 million in 1999 and 1998, respectively.

The following tables show details of the nonrecurring charges/(credits) for each year by geographic area:

Year 2000:	North America	Europe	Latin America	Asia/ Pacific	Total
Adjustment for change in estimate	$(300)	–	–	–	$(300)
Total	$(300)	–	–	–	$(300)

Year 1999:	North America	Europe	Latin America	Asia/ Pacific	Total
Severance (net of pension curtailment)	$1,943	$8,372	$1,114	$676	$12,105
Contracts/leases	–	1,660	16	618	2,294
Total restructuring	1,943	10,032	1,130	1,294	14,399
Impairment of property, plant and equipment	66	2,228	188	32	2,514
Consulting	243	685	192	15	1,135
Integration and relocation costs[1]	2,052	1,104	1,465	292	4,913
Less: Gain on the sale of assets	(1,811)	(1,497)	–	(2,449)	(5,757)
Total	$2,493	$12,552	$2,975	$(816)	$17,204

Year 1998:	North America	Europe	Latin America	Asia/ Pacific	Total
Severance (net of pension curtailment)	$3,945	$8,526	$3,704	$278	$16,453
Contracts/leases	526	266	–	53	845
Total restructuring	4,471	8,792	3,704	331	17,298
Impairment of property, plant and equipment	9,481	4,063	3,564	–	17,108
Consulting	121	764	12	2	899
Integration and relocation costs[1]	193	–	126	104	423
Less: Gain on the sale of businesses	(1,387)	(7,594)	–	–	(8,981)
Total	$12,879	$6,025	$7,406	$437	$26,747

1. Integration and relocation costs consisted primarily of costs related to the shutdown of facilities, relocation of employees and other related one-time costs to carry out the restructuring/reorganization activities. Such costs were expensed as incurred.

The 2000 credit of $0.3 million was due to a change in estimate of the severance payments in North America.

The 1999 charges, prior to the gain on sale of assets of $5.8 million, included $22.3 million of costs requiring cash outlays, $2.5 million of non-cash costs and a pension curtailment benefit of $1.9 million. In 1998, the charges before accounting for the gain on the sale of businesses of $9.0 million included $19.7 million of costs requiring cash outlays, $17.1 million of non-cash charges and a pension curtailment benefit of $1.1 million. Total costs requiring cash outlays since inception of the plan, were $41.7 million.

Employee census reductions resulting from the restructuring plan were 90 in 2000, 588 in 1999 and 142 in 1998 for a total of 820. Annual cost savings as a result of the plan are expected to exceed $30 million (before tax) upon full realization of the benefits of the enacted plan. No additional charges related to the original restructuring/reorganization plan were incurred in 2000.

In 1999, the North American charges related primarily to a plant shutdown, and severance associated with closing sales offices and warehouses. These costs were partially offset by the gain on the sale of assets. In 1998, the charges related to an announced manufacturing plant closing, reduced layers of management and the impairment recognized on property, plant and equipment. These costs were partially offset by a gain on the sale of the hot melt glue stick and gun business.

In Europe, the 1999 charges related primarily to severance and the impairment of assets associated with the shutdown of three manufacturing facilities, the reduction in the layers of management and the costs associated with the relocation of the European area office. The 1998 charges in Europe related to announced plant closings in two countries including the associated impairment of property, plant and equipment and severance associated with the reduction in layers of management. These costs were partially offset by the gain on the sale of the wax business in the fourth quarter of 1998.

Latin American charges in 1999 were mainly for the integration costs associated with the closing of four of the five facilities that were announced in 1998. In 1999, the Company decided to leave one of the five facilities in operation due to a change in local import restrictions and related costs. Severance costs provided in 1998 for this operation were reversed in 1999. Severance related to the closing of three sales offices is included in the 1999 charges. Latin American charges in 1998 related primarily to the severance and impairment of property, plant and equipment associated with the announced closing of the manufacturing plants mentioned above. Also included in the 1998 cost was severance related to reducing layers of management.

The Asia/Pacific charges in 1999 were mainly for severance and the buyout of leases associated with closing warehouses and sales offices, relocation costs related to moving the area office and severance due to reducing layers of management. The charges were more than offset by the gain on sale of assets of the one manufacturing facility that was closed in the region. The 1998 charges in the Asia/Pacific region related primarily to severance associated with the closing of the one manufacturing facility that was sold in 1999. Sales offices and warehouses were also closed in 1998.

The following table is a detailed reconciliation of the restructuring reserve balance from November 29, 1997 to December 2, 2000:

Nonrecurring charge reserve:

	North America	Europe	Latin America	Asia/ Pacific	Total
Balance					
November 29, 1997	$ –	$ –	$ –	$ –	$ –
Provisions in 1998:					
Severance	4,749	8,726	3,765	278	17,518
Contracts/leases	526	266	–	53	845
	5,275	8,992	3,765	331	18,363
Payments in 1998:					
Severance	(2,757)	(998)	(624)	(190)	(4,569)
Contracts/leases	(526)	–	–	(53)	(579)
	(3,283)	(998)	(624)	(243)	(5,148)
Balance					
November 28, 1998	1,992	7,994	3,141	88	13,215
Provisions in 1999:					
Severance	3,057	8,952	1,022	668	13,699
Contracts/leases	–	1,660	16	618	2,294
	3,057	10,612	1,038	1,286	15,993
Adjustments for change in estimate	(65)	225	92	8	260
Payments in 1999:					
Severance	(3,060)	(13,482)	(3,492)	(82)	(20,116)
Contracts/leases	–	(399)	(16)	(175)	(590)
	(3,060)	(13,881)	(3,508)	(257)	(20,706)
Balance					
November 27, 1999	1,924	4,950	763	1,125	8,762
Adjustment for change in estimate	(300)	–	–	–	(300)
Payments in 2000:					
Severance	(1,577)	(2,651)	(763)	(682)	(5,673)
Contracts/leases	–	(1,136)	–	(443)	(1,579)
	(1,577)	(3,787)	(763)	(1,125)	(7,252)
Balance					
December 2, 2000	$47	$1,163	$ –	$ –	$1,210

5/Acquisitions and Divestitures

In 2000 the Company purchased certain assets of a business in its Specialty Group business segment for $5,388. In 1999 the Company purchased a business for $4,483. In 1998 the Company purchased a business and certain assets of two businesses for $92,439 in Europe. The acquisitions were accounted for as purchases and the accompanying Consolidated Financial Statements include the results of these businesses since the purchase date.

The fair values of assets and liabilities acquired at the dates of their respective acquisition are shown below as supplemental disclosure for cash flow purposes.

	2000	1999	1998
Cash	**$ –**	$ –	$412
Receivables	**–**	1,329	15,848
Inventories	**1,020**	828	6,971
Other current assets	**–**	–	829
Property, plant and equipment	**34**	780	20,249
Other intangibles	**–**	–	21,728
Excess cost	**5,056**	1,629	43,754
Current liabilities	**(722)**	(83)	(17,352)
Net assets acquired	**$5,388**	$4,483	$92,439

The Company sold its liquid paint business in Ecuador for $3,465 cash in 2000. The Company sold its hot melt glue stick and gun business in North America, its wax business in Europe, and its powder coatings operations in New Zealand for $18,000 cash in 1998. The 1998 sales of the hot melt glue stick and gun business and the wax business, with gains of $8,981, are included in nonrecurring charges as an offset to these costs described in Note 4, as these divestitures related directly to the restructuring plan. The historical results of operations on a pro forma basis are not presented as the effects of the acquisitions and divestitures were not material.

In addition, gains on the sale of assets not directly related to the restructuring plan, resulted in before tax gains of $4,131, $366 and $3,237, in 2000, 1999 and 1998, respectively.

6/Research and Development Expenses

Research and development expenses charged against income were $18,386, $21,340 and $22,255 in 2000, 1999 and 1998, respectively. These costs are included as a component of selling, administrative and other expenses.

7/Accounting Change

In the fourth quarter of 1999 the Company adopted early an accounting principle which impacted income by $1.2 million pretax ($0.7 million after tax) or $0.05 per share. The AICPA Statement of Position No. 98-5, "Reporting on the Costs of Start-up Activities" issued April 3, 1998, requires the Company to expense as incurred all costs related to start-up activities and organizational costs.

8/Allowance for Doubtful Receivables

	2000	1999	1998
Balance at beginning of year	**$4,871**	$5,073	$5,879
Additions (deductions):			
Charged to expenses	**6,764**	3,034	2,232
Writeoffs	**(4,495)**	(2,984)	(2,836)
Divested businesses	**(68)**	–	(154)
Effect of currency exchange rate changes	**(159)**	(252)	(48)
Balance at end of year	**$6,913**	$4,871	$5,073

9/Inventories

Inventories in the United States, representing approximately 40% of consolidated inventories, are recorded at cost (not in excess of market value) as determined primarily by the last-in, first-out method (LIFO). Inventories of non-U.S. operations are valued at the lower of cost (mainly average cost) or market. Inventories at year-end are summarized as follows:

	2000	1999
Raw materials	**$59,986**	$63,392
Finished goods	**104,836**	94,579
LIFO reserve	**(11,037)**	(9,382)
Total	**$153,785**	$148,589

10/Property, Plant and Equipment

Major Classes	Depreciable Lives (in years)	**2000**	1999
Land		**$48,297**	$55,348
Buildings and improvements	20-40	**218,053**	227,073
Machinery and equipment	5-15	**459,142**	442,458
Construction in progress		**31,750**	42,424
Total, at cost		**757,242**	767,303
Accumulated depreciation		**(362,553)**	(354,779)
Net property, plant and equipment		**$394,689**	$412,524

Depreciation is generally computed on a straight-line basis over the useful lives of the assets, including assets acquired by capital leases. Depreciation expense on property, plant and equipment was $44,371, $43,079 and $42,317 in 2000, 1999 and 1998, respectively.

11/Intangibles

Amortization: Other intangible assets, primarily technology, are amortized over the estimated lives of 3 to 20 years. The excess of cost over net assets of businesses acquired is charged against income over periods of 15 to 25 years. The recoverability of unamortized intangible assets is assessed on an ongoing basis by comparing anticipated undiscounted future cash flows from operations to net book value.

	2000	1999
Excess Cost:		
Gross Cost	**$82,483**	83,343
Accumulated Amortization	**(15,980)**	(12,992)
Net	**66,503**	70,351
Other Intangibles:		
Gross Cost:	**44,883**	46,564
Accumulated Amortization	**(19,681)**	(18,255)
Net	**$25,202**	$28,309

12/Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

Income before income taxes, minority interests and cumulative effect of accounting change for each year was as follows:

	2000	1999	1998
United States (U.S.)	**$48,294**	$55,943	$29,549
Outside U.S.	**28,611**	18,483	3,237
Total	**$76,905**	$74,426	$32,786

The components of the provision for income taxes excluding the cumulative effect of an accounting change were:

	2000	1999	1998
Current:			
U.S. federal	**$2,524**	$12,392	$5,971
State	**1,143**	1,269	1,198
Outside U.S.	**13,514**	12,236	10,201
	17,181	25,897	17,370
Deferred:			
U.S. federal	**10,720**	5,171	1,179
State	**620**	–	(74)
Outside U.S.	**(66)**	739	351
	11,274	5,910	1,456
Total	**$28,455**	$31,807	$18,826

The difference between the statutory U.S. federal income tax rate and the Company's effective income tax rate is explained below:

	2000	1999	1998
Statutory U.S. federal income tax rate	**35.0%**	35.0%	35.0%
State income taxes	**2.3**	1.0	2.4
U.S. federal income taxes on dividends received from non-U.S. subsidiaries, before foreign tax credits	**4.3**	6.9	6.8
Foreign tax credits	**(6.6)**	(3.2)	(1.9)
Non-U.S. taxes	**3.8**	6.3	23.9
Other tax credits	**(2.1)**	(2.3)	(6.8)
Other	**0.3**	(1.0)	(2.0)
Total	**37.0%**	42.7%	57.4%

The effective tax rate in 1999 and 1998 was impacted by costs related to the Company's restructuring plan. Some of these restructuring costs did not provide a tax benefit in certain foreign countries resulting in an increase in the effective tax rate associated with non-U.S. taxes.

Deferred income tax balances at each year-end were related to:

	2000	1999
Depreciation	**$(25,646)**	$(22,717)
Pension	**12,565**	17,431
Deferred compensation	**5,568**	5,582
Postretirement medical benefits	**2,330**	5,133
Tax loss carryforwards	**17,307**	19,138
Nonrecurring charges	**194**	1,103
Inventory	**467**	750
Provisions for expenses	**(10,277)**	(10,964)
Currency gains/losses	**(320)**	1,011
Other	**5,789**	3,564
	7,977	20,031
Valuation allowance	**(12,406)**	(14,990)
Net deferred tax (liabilities) assets	**$(4,429)**	$5,041

Net deferred taxes are presented on the consolidated balance sheet as follows:

	2000	1999
Deferred tax assets:		
Current	**$15,945**	$12,698
Non-current	**2,884**	3,070
Deferred tax liabilities:		
Current	**–**	(1,118)
Non-current	**(23,258)**	(9,609)
Net deferred tax (liabilities) assets	**$(4,429)**	$5,041

Valuation allowances relate to foreign tax credit carry overs, tax loss carryforwards and other net deductible temporary differences in non-U.S. operations where the future potential benefits do not meet the more likely than not realization test.

U.S. income taxes have not been provided on approximately $68,265 of undistributed earnings of non-U.S. subsidiaries. The Company plans to reinvest these undistributed earnings. If any portion were to be distributed, the related U.S. tax liability may be reduced by foreign income taxes paid on those earnings plus any available foreign tax credit carry overs. Determination of the unrecognized deferred tax liability related to these undistributed earnings is not practicable.

While non-U.S. operations of the Company, excluding the nonrecurring charges, have been profitable overall, cumulative tax losses of $47,109 are carried as net operating losses in 17 different countries. These losses can be carried forward to offset income tax liability on future income in those countries. Cumulative losses of $35,652 can be carried forward indefinitely, while the remaining $11,457 must be used during the 2001-2006 period.

13/Notes Payable

The primary component of notes payable relates to the Company's short-term lines of credit with banks. This component totals $34,543. The amount of unused available borrowings under these lines at December 2, 2000 was $136,360.

The weighted-average interest rates on short-term borrowings were 8.8%, 8.1% and 9.0% in 2000, 1999 and 1998, respectively.

Fair values of short-term financial instruments approximate their carrying values due to their short maturity.

14/Long-Term Debt

Long-term debt, including obligations under capital leases, is summarized as follows:

	Weighted-Average Interest Rate	Maturity	**2000**	1999
U.S. dollar obligations:				
Notes (a)			**$6,365**	$2,965
Senior notes	7.27%	2001-2012	**190,000**	190,000
Industrial and commercial development bonds	5.60%	2004-2016	**7,100**	7,100
Various other obligations	7.35%	2004-2006	**4,795**	6,250
			208,260	206,315
Foreign currency obligations:				
Deutsche mark note (a)			**–**	3,115
Pound sterling notes (a)			**31,746**	45,820
Japanese yen note (a)			**7,685**	2,020
Italian lira			**–**	4,373
Japanese yen	0.52%	2001-2005	**6,536**	10,277
Various other obligations	5.12%	2000-2001	**927**	1,771
			46,894	67,376
Capital lease obligations		2001-2005	**1,028**	1,355
Total long-term debt			**256,182**	275,046
Less: current installments			**(5,718)**	(11,332)
Total			**$250,464**	$263,714

(a) The Company has revolving credit agreements with a group of major banks which provide committed long-term lines of credit of $80,000 through December 20, 2006, $45,000 through December 20, 2005, and $28,000 through December 20, 2004. At the Company's option, interest is payable at the London Interbank Offered Rate plus 0.175%-0.375%, adjusted quarterly based on the Company's capitalization ratio, or a bid rate. A facility fee of 0.075%-0.175% is payable quarterly.

The most restrictive debt agreements place limitations on secured and unsecured borrowings, operating leases, and contain minimum interest coverage, current assets and net worth requirements. In addition, the Company cannot be a member of any "consolidated group" for income tax purposes other than with its subsidiaries. At December 2, 2000 the Company exceeded minimum requirements for all financial covenants.

Aggregate maturities of long-term debt, including obligations under capital leases, amount to $5,719, $41,488, $1,198, $872 and $27,373 during the five fiscal years 2001 through 2005, respectively.

The estimated fair value of long-term debt was $249,052 and $263,900 for December 2, 2000 and November 27, 1999, respectively.

The fair value of long-term debt is based on quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of similar maturities. The estimates presented above on long-term financial instruments are not necessarily indicative of the amounts that would be realized in a current market exchange.

15/Lease Commitments

Assets under capital leases are summarized as follows:

	2000	1999
Land	$1,146	$1,324
Buildings and improvements	4,758	5,052
Machinery and equipment	632	237
	6,536	6,613
Accumulated depreciation	(3,729)	(3,881)
Net assets under capital leases	$2,807	$2,732

The following are the minimum lease payments that will have to be made in each of the years indicated based on capital and operating leases in effect as of December 2, 2000:

	Capital	Operating
Fiscal year:		
2001	$769	$10,872
2002	294	7,939
2003	87	7,148
2004	–	3,345
2005	–	2,438
Later years	–	553
Total minimum lease payments	$1,150	$32,295
Amount representing interest	(122)	
Present value of minimum lease payments	$1,028	

Rental expense for all operating leases charged against income amounted to $15,648, $13,541 and $14,818 in 2000, 1999 and 1998, respectively.

16/Contingencies

Legal: The Company and its subsidiaries are parties to various lawsuits and governmental proceedings. For further information on certain legal proceedings, see Item 3 of the Company's 2000 Annual Report on Form 10-K405. In particular, the Company is currently deemed a potentially responsible party (PRP) or defendant, generally in conjunction with numerous other parties, in a number of government enforcement and private actions associated with hazardous waste sites. As a PRP or defendant, the Company may be required to pay a share of the costs of investigation and cleanup of these sites. In some cases the Company may have rights of indemnification from other parties. The Company's liability in the future for such claims is difficult to predict because of the uncertainty as to the cost of the investigation and cleanup of the sites, the Company's responsibility for such hazardous waste and the number or financial condition of other PRPs or defendants. As is the case with other types of litigation and proceedings to which the Company is a party, based upon currently available information, it is the Company's opinion that none of these matters will result in material liability to the Company.

Other: The Company has guaranteed bank loans totalling $11,012 to certain executives for the purchase of the Company's common stock.

17/Financial Instruments

The Company uses forward contracts to manage its exposure to currency risk related to foreign currency intercompany debt. Gains and losses on the contracts qualifying as hedges are recognized as the contracts are adjusted to fair market value which offsets foreign exchange gains or losses on the hedged debt amount. Changes in the fair value of contracts not qualifying for hedge accounting are recognized in other income (expense).

Notional amounts outstanding were $7,272 and $14,947 in 2000 and 1999, respectively, however are not a measure of the Company's exposure. As of December 2, 2000, the Company had one forward contract maturing with the underlying debt on December 4, 2000. Changes in market value are not material.

Counterparties to the forward contracts are major financial institutions. Credit loss from counterparty nonperformance is not anticipated.

Concentrations of credit risk with respect to trade accounts receivable are limited due to the large number of entities comprising the Company's customer base and their dispersion across many different industries and countries. As of December 2, 2000 and November 27, 1999, the Company had no significant concentrations of credit risk.

18/Retirement and Postretirement Benefits

The Company has noncontributory defined benefit plans covering all U.S. employees. Benefits for these plans are based primarily on years of service and employees' average compensation during their five highest out of the last ten years of service. The Company's funding policy is consistent with the funding requirements of federal law and regulations. Plan assets consist principally of listed equity securities and an Immediate Participation Guarantee contract with an insurance company.

Certain non-U.S. consolidated subsidiaries provide pension benefits for their employees consistent with local practices and regulations. These plans are defined benefit plans covering substantially all employees upon completion of a specified period of service. Benefits for these plans are generally based on years of service and annual compensation.

The Company and certain of its consolidated subsidiaries provide health care and life insurance benefits for eligible retired employees and their eligible dependents. These benefits are provided through various insurance companies and health care providers. These costs are accrued during the years the employee renders the necessary service.

Sensitivity Information: The healthcare trend rate assumption has a significant effect on the amounts reported. A one percentage point change in the healthcare cost trend rate would have the following effects on the November 27, 1999 service and interest cost and the accumulated postretirement benefit obligation at December 2, 2000:

	One Percentage Point	
	Increase	**Decrease**
Effect on service and interest cost components	$408	$(340)
Effect on accumulated postretirement benefit obligation	$3,220	$(2,754)

Weighted-Average Assumptions, November	**2000**	1999	1998
Discount rate (before retirement)	7.42%	7.12%	7.36%
Expected return on plan assets – pension benefits	10.11%	10.08%	9.76%
Expected return on plan assets – other postretirement benefits	9.50%	9.50%	8.50%
Rate of compensation increase	3.78%	3.58%	3.76%
Rate of increase in healthcare cost levels:			
Employees under age 65	5.10%	5.68%	6.60%
Employees age 65 and older	5.10%	3.73%	4.56%

The rate of increase in healthcare cost levels is expected to be 5.10% in the years 2001 and later.

The Company funds U.S. postretirement benefits through a Voluntary Employees' Beneficiaries Association Trust which was established in 1991. The funds are invested primarily in common stocks with an expected long-term rate of return of 9.5 percent. Beginning in 2005, the Company's dollar contribution for retiree medical coverage will remain fixed at the 2004 level for employees who retire in the year 2005 or later.

	Pension Benefits						Other		
	U.S. Plans			Non-U.S. Plans			Postretirement Benefits		
	2000	1999	1998	**2000**	1999	1998	**2000**	1999	1998
Net periodic cost:									
Service cost	**$5,613**	$5,987	$5,629	**$2,675**	$2,547	$2,259	**$1,027**	$2,033	$1,833
Interest cost	**13,513**	12,011	11,795	**5,041**	4,237	4,001	**2,119**	2,667	2,641
Expected return on assets	**(20,582)**	(16,538)	(14,837)	**(4,490)**	(2,909)	(2,223)	**(6,387)**	(5,294)	(3,911)
Prior service cost amortization	**838**	724	640	**8**	9	39	**(2,310)**	(828)	(857)
Actuarial (gain)/loss amortization	**(2,637)**	(766)	(1,349)	**(137)**	24	25	**(942)**	(561)	(183)
Transition amount amortization	**(27)**	(27)	(27)	**62**	(281)	75	**–**	–	–
Curtailment (gain)/loss	**–**	(1,780)	–	**–**	(274)	–	**–**	(74)	–
Net periodic benefit cost	**$(3,282)**	$(389)	$1,851	**$3,159**	$3,353	$4,176	**$(6,493)**	$(2,057)	$(477)
Change in benefit obligation:									
Benefit obligation, September 1 or prior year	**$178,021**	$174,231		**$64,129**	$64,575		**$28,216**	$37,811	
Service cost	**5,613**	5,987		**2,675**	2,547		**1,027**	2,033	
Interest cost	**13,513**	12,011		**5,041**	4,237		**2,119**	2,667	
Participant contributions	**–**	–		**779**	611		**124**	114	
Plan amendments	**13**	1,451		**–**	–		**–**	(11,329)	
Actuarial (gain)/loss	**(8,850)**	(8,854)		**(3,176)**	2,490		**10,935**	(1,004)	
Benefits paid	**(7,928)**	(6,805)		**(2,689)**	(2,365)		**(2,687)**	(2,076)	
Benefit obligation, August 31	**$180,382**	$178,021		**$66,759**	$72,095		**$39,734**	$28,216	
Change in plan assets:									
Fair value of plan assets, September 1 of prior year	**$247,689**	$184,407		**$43,173**	$40,603		**$68,142**	$49,233	
Actual return on plan assets	**49,695**	69,470		**6,615**	6,253		**10,852**	19,016	
Employer contributions	**873**	617		**1,420**	1,448		**1,754**	1,855	
Participant contributions	**–**	–		**779**	678		**124**	114	
Benefits paid	**(7,928)**	(6,805)		**(1,024)**	(771)		**(2,687)**	(2,076)	
Fair value of plan assets, August 31	**$290,329**	$247,689		**$50,963**	$48,211		**$78,185**	$68,142	
Reconciliation of funded status as of November:									
Funded status	**$109,947**	$69,668		**$(16,174)**	$(24,616)		**$38,451**	$39,926	
Unrecognized actuarial loss (gain)	**(145,988)**	(110,662)		**(10,494)**	(220)		**(12,253)**	(19,636)	
Unrecognized prior service cost (benefit)	**5,535**	6,360		**(33)**	(29)		**(10,017)**	(12,326)	
Unrecognized net transition obligation	**(96)**	(124)		**580**	(5,583)		**–**	–	
Contributions between measurement date and fiscal year-end	**190**	140		**–**	–		**–**	200	
Recognized amount	**$(30,412)**	$(34,618)		**$(26,121)**	$(30,448)		**$16,181**	$8,164	
Statement of financial position as of November:									
Prepaid benefit cost	**$283**	$205		**$2,291**	$2,111				
Accrued benefit liability	**(30,694)**	(34,823)		**(28,412)**	(32,559)				
Additional minimum liability	**(5,634)**	(5,358)		**–**	–				
Intangible asset	**3,666**	4,263		**–**	–				
Accumulated other comprehensive income	**1,967**	1,095		**–**	–				
Recognized amount	**$(30,412)**	$(34,618)		**$(26,121)**	$(30,448)				

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for pension plans with accumulated benefit obligation in excess of plan assets were $57,895, $53,552, and $24,397, respectively as of December 2, 2000 and $63,908, $56,986, and $22,723 as of November 27, 1999.

19/Stockholders' Equity

Preferred Stock: The Board of Directors is authorized to issue up to 10,000,000 additional shares of preferred stock that may be issued in one or more series and with such stated value and terms as may be determined by the Board of Directors.

Series A Preferred Stock: There were 45,900 Series A preferred shares with a par value of $6.67 authorized and outstanding at December 2, 2000 and November 27, 1999. The holder of Series A preferred stock is entitled to cumulative dividends at the rate of $0.33 per share per annum. Common stock dividends may not be paid unless provision has been made for payment of Series A preferred dividends. The Series A preferred stock has multiple voting rights entitling the Series A preferred shareholder to 80 votes per share. The terms of the Series A preferred stock include the right of the Company to purchase the shares at specified times and the right of the Company to redeem all shares at par value if authorized by the shareholders.

Series B Preferred Stock: In connection with the adoption of the shareholder rights plan (see below), the Board of Directors authorized a new series of preferred stock ("Series B preferred shares") that would be exchanged for the Company's existing Series A preferred shares, if and at such time as the rights issued pursuant to the shareholder rights plan become exercisable. The Series B preferred shares have the same terms as the Series A preferred shares, except that the voting rights of the Series B preferred shares are increased proportionately according to the number of shares issued upon the exercise or exchange of rights. The Company entered into a Stock Exchange Agreement dated July 18, 1996, with the holder of the Series A preferred shares by which the Series B preferred shares would be exchanged for all Series A preferred shares on the date the rights under the shareholder rights plan become exercisable. The exchange of the Series A preferred shares for the new Series B preferred shares is intended to preserve the holder's voting power, in the event any rights are exercised. No event has occurred which would cause the exchange to be effected.

Common Stock: There were 40,000,000 shares of common stock with a par value of $1.00 authorized and 14,115,664 and 14,040,155 shares issued and outstanding at December 2, 2000 and November 27, 1999, respectively.

Shareholder Rights Plan: The Company has a shareholder rights plan under which each holder of a share of common stock also has one right to purchase one share of common stock for $180. The rights are not presently exercisable. Upon the occurrence of certain "flip-in" events, each right becomes exercisable and then entitles its holder to purchase $180 worth of common stock at one-half of its then market value. Upon certain "flip-over" events, each right entitles its holder to purchase $180 worth of stock of another party at one-half of its then market value. One flip-in event is when a person or group (an "acquiring person") acquires 15 percent or more of the Company's outstanding common stock. Rights held by an acquiring person or an adverse person are void. The Company may redeem the rights for one cent per share, but the redemption right expires upon the occurrence of a flip-in event. In addition, at any time after a person or group acquires 15 percent or more of the Company's outstanding common stock, but less than 50 percent, the Board of Directors may, at its option, exchange all or part of the rights (other than rights held by the acquiring person) for shares of the Company's common stock at a rate of one share of common stock for every right. The rights expire on July 30, 2006.

20/Stock-Based Compensation

Directors' Deferred Compensation Plan: The Directors' Deferred Compensation Plan reserves 75,000 shares of common stock for allocation as payment of retainer fees to its Board of Directors. Directors, who are not employees, can choose to receive all or a portion of the payment of their retainer and meeting fees in shares of Company common stock when they leave the Board rather than cash payments each year. At December 2, 2000, 17,302 shares remained available for future allocation.

1998 Directors' Stock Incentive Plan: The 1998 Directors' Stock Incentive Plan reserves 200,000 shares of common stock to offer nonemployee directors incentives to put forth maximum efforts for the success of the Company's business and to afford nonemployee directors an opportunity to acquire a proprietary interest in the Company. In 2000, 1999 and 1998, respectively, 7,700, 4,000 and 7,017 restricted shares were awarded. The market value of $304, $281 and $441 has been recorded as unearned compensation – restricted stock and is shown as a separate component of stockholders' equity. Unearned compensation is being amortized to expense over the vesting periods of generally four years and amounted to $207, $93 and $42 in 2000, 1999 and 1998, respectively. At December 2, 2000, 181,283 shares remained available for future award.

Year 2000 Stock Incentive Plan: Under the Year 2000 Stock Incentive Plan 1,500,000 shares of the Company's common stock are available for the granting of awards during a period of up to ten years from October 14, 1999. The Year 2000 Stock Incentive Plan permits the granting of (a) stock options; (b) stock appreciation rights; (c) restricted stock and restricted stock units; (d) performance awards; (e) dividend equivalents; and (f) other awards valued in whole or in part by reference to or otherwise based upon the Company's common stock.

A total of 28,342 non-qualified stock options were granted in 2000 to officers and key employees at prices not less than fair market value at the date of grant. These non-qualified options are generally exercisable beginning one year from the date of grant in cumulative yearly amounts of 25 percent of the shares under option and generally have a contractual term of 10 years.

At December 2, 2000, 1,471,658 shares remained available for future grants or allocations under the plan.

1992 Stock Incentive Plan: Under the 1992 Stock Incentive Plan 900,000 shares of the Company's common stock were available for the granting of awards during a period of up to ten years from April 16, 1992. The Stock Incentive Plan permits the granting of (a) stock options; (b) stock appreciation rights; (c) restricted stock and restricted stock units; (d) performance awards; (e) dividend equivalents; and (f) other awards valued in whole or in part by reference to or otherwise based upon the Company's common stock.

A total of 1,031 and 64,755 restricted shares of the Company's common stock were granted to certain employees in 1999 and 1998, respectively. The market value of shares awarded of $44 and $3,734 has been recorded as unearned compensation – restricted stock in 1999 and 1998, respectively and is shown as a separate component of stockholders' equity. Unearned compensation is being amortized to expense over the vesting periods of generally ten years and amounted to $1,768, $2,029 and $786 in 2000, 1999 and 1998, respectively.

A total of 1,000 and 19,900 restricted share units of the Company's common stock were allocated to certain employees in 1999 and 1998, respectively. The market value of units allocated of $43 and $1,104 in 1999 and 1998, respectively, is generally being charged to expense over the ten-year vesting period.

A total of 144,075 and 243,949 non-qualified stock options were granted in 2000 and 1999 to officers and key employees at prices no less than fair market value at the date of grant. These non-qualified options are generally excercisable beginning one year from the date of grant in cumulative yearly amounts of 25 percent of the shares under option and generally have a contractual term of 10 years.

At December 2, 2000, no shares remained available for future grants or allocations from the plan.

The following tables provide a summary of non-qualified stock option transactions:

	Number	Weighted-Average Exercise Price
Outstanding at November 29, 1997	182,790	$14.53
Exercised	(71,799)	14.83
Outstanding at November 28, 1998	110,991	14.33
Cancelled	(10,297)	41.96
Granted	243,949	44.16
Exercised	(37,194)	14.33
Outstanding at November 27, 1999	307,449	37.07
Cancelled	**(40,727)**	**46.13**
Granted	**172,417**	**52.28**
Exercised	**(75,124)**	**15.27**
Outstanding at December 2, 2000	**364,015**	**47.76**
Exercisable at December 2, 2000	**105,670**	**$46.66**

Range of Exercise Prices	Outstanding	Weighted-Average Remaining Years of Contractual Life	Weighted-Average Exercise Price	Exercise-able	Weighted-Average Exercise Price
$39.75-46.88	222,636	7.5	$43.13	76,270	$43.08
54.75	131,379	9.0	54.75	26,900	54.75
68.63	10,000	7.6	68.63	2,500	68.63

If compensation expense had been determined for the Company's non-qualified stock option plans based on the fair value at the grant dates consistent with the method of SFAS No. 123, the Company's net income and income per share would have been adjusted to the pro forma amounts indicated below:

	2000	1999
Net income:		
As reported	**$49,163**	$43,370
Pro forma	**$48,202**	$42,830
Basic income per share:		
As reported	**$3.53**	$3.14
Pro forma	**$3.46**	$3.10
Diluted income per share:		
As reported	**$3.48**	$3.10
Pro forma	**$3.42**	$3.06

Pro forma amounts for fiscal 1998 are not presented as options granted prior to 1996 are not considered for purposes of this table. The Company did not grant stock options during fiscal

1998 for purposes of calculating adjusted pro forma amounts required to be disclosed under SFAS No. 123. Compensation expense for pro forma purposes is reflected over the options' vesting period.

The weighted-average fair value per option at the grant date for options granted in fiscal 2000 and 1999 was $20.30 and $15.37, respectively. The fair value was estimated using the Black-Scholes option pricing model with the following weighted-average assumptions:

	2000	1999
Risk-free interest rate	**6.31%**	4.57%
Expected dividend yield	**1.50%**	1.50%
Expected volatility factor	**30.60%**	30.24%
Expected option term	**7 years**	7 years

21/Supplemental Comprehensive Income Information

In 1999, the Company adopted SFAS No. 130 "Reporting Comprehensive Income" as required. This statement establishes standards for reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. The Company is required to report total comprehensive income, an amount that will include net income as well as other comprehensive income. Other comprehensive income refers to revenues, expenses, gains and losses that under U.S. generally accepted accounting principles have previously been reported as separate components of equity in the Company's consolidated financial statements.

The following table shows ending balances of the components of accumulated other comprehensive income:

Accumulated Other Comprehensive Income:	**2000**	1999	1998
Foreign currency translation, net	**$(19,147)**	$(7,113)	$(5,429)
Foreign currency adjustment included in net income	**259**	259	123
Minimum pension liability adjustment net of taxes of $340, $(15) and $442 in 2000, 1999 and 1998	**(1,200)**	(668)	(691)
Total accumulated other comprehensive income	**$(20,088)**	$(7,522)	$(5,997)

22/Business Segment Information

For 2000, the Company revised its segment reporting to reflect business segments consistent with its current method of internal reporting, which results in a separate presentation of its Specialty Group. The Specialty Group was previously included as a component of the North America and Latin America geographic segments. The Company organizes its business in five reportable operating segments. The adhesives, sealants and coatings (adhesives) business is broken down into four geographic segments: North America Adhesives, Europe Adhesives, Latin America Adhesives and Asia/Pacific Adhesives. The four geographic segments offer generally similar products and services to industries such as packaging, graphic arts, automotive, footwear, woodworking, window and nonwovens. The fifth reportable segment is the Specialty Group, which consists of five separate operating entities, namely, TEC Specialty Products, Inc.; Foster Products Corporation, Inc.; Linear Products, Inc.; Paints Division and the Global Coatings Division. The Specialty Group provides specialty products for a variety of applications such as, ceramic tile installation (TEC), HVAC insulation (Foster), powder coatings applied to metal surfaces such as office furniture, appliances and lawn and garden equipment (Global Coatings), specialty hot melt adhesives for packaging applications (Linear), and liquid paint sold through retail outlets (Paints). The Paints Division operates solely in Latin America while the other four entities in the Specialty Group operate primarily in North America.

The Company evaluates the performance of its segments and allocates resources to them based on operating income which is defined as income before nonrecurring (charges)/credits, interest expense, gains/(losses) from the sale of assets and all other non-operating type items. Corporate expenses are fully allocated to the business segments. Corporate assets are not allocated to the segments. Inter-segment sales are recorded at cost plus a minor markup for administrative costs.

The following tables summarize the financial information about the segments for all periods presented:

Business Segments

		Trade Sales	Inter-Segment Sales	Operating Income (Loss)	Depreciation/ Amortization	Total Assets (a)	Capital Expenditures
North America Adhesives	**2000**	**$590,157**	**$16,662**	**$50,271**	**$19,492**	**$324,565**	**$9,047**
	1999	582,353	26,466	60,174	20,398	344,220	17,403
	1998	579,202	14,634	45,262	19,863	370,158	21,303
Europe Adhesives	**2000**	**232,089**	**3,637**	**9,516**	**10,101**	**209,393**	**8,946**
	1999	256,513	3,419	16,029	11,308	237,493	18,976
	1998	257,314	3,093	6,841	9,723	261,651	13,705
Latin America Adhesives	**2000**	**77,060**	**1,307**	**(1,374)**	**4,042**	**65,049**	**4,493**
	1999	81,073	2,411	(2,298)	3,391	69,923	4,321
	1998	96,037	437	(2,617)	4,211	68,158	4,248
Asia/Pacific Adhesives	**2000**	**100,992**	**16**	**2,496**	**2,315**	**73,777**	**2,109**
	1999	97,589	75	1,354	1,944	80,294	2,896
	1998	81,315	33	(3,668)	1,519	74,276	3,852
Specialty Group	**2000**	**352,264**	**1,682**	**41,292**	**7,809**	**217,239**	**5,198**
	1999	346,930	2,084	45,692	7,582	204,317	8,751
	1998	333,373	1,549	42,141	6,593	213,344	9,509
Corporate and Unallocated	**2000**		**(23,304)**	**–**	**8,406**	**120,338**	**19,251**
	1999		(34,455)	–	6,153	89,368	3,906
	1998		(19,746)	–	7,632	58,582	9,710
Total Company	**2000**	**1,352,562**	**–**	**$102,201**	**$52,165**	**$1,010,361**	**$49,044**
	1999	1,364,458	–	120,951	50,776	1,025,615	56,253
	1998	1,347,241	–	87,959	49,541	1,046,169	62,327

(a) Segment assets include primarily inventory, accounts receivables, property, plant and equipment and other miscellaneous assets. Corporate and unallocated assets include primarily corporate property, plant and equipment, deferred tax assets, certain investments and other assets.

Reconciliation of Operating Income to Pretax Income:

	2000	1999	1998
Operating income (loss)	**$102,201**	$120,951	$87,959
Nonrecurring (charges) credits	**300**	(17,204)	(26,748)
Interest expense	**(23,814)**	(26,823)	(26,989)
Gain from sale of assets	**4,131**	366	3,237
All other	**(5,913)**	(2,864)	(4,673)
Pretax income	**$76,905**	$74,426	$32,786

Geographic Areas

		Trade Sales	Property, Plant and Equipment
North America	**2000**	**$807,140**	**$258,230**
	1999	791,029	258,822
	1998	779,499	259,313
Europe	**2000**	**261,444**	**67,369**
	1999	286,921	79,732
	1998	286,374	83,395
Latin America	**2000**	**182,986**	**45,242**
	1999	188,919	46,735
	1998	197,577	47,083
Asia/Pacific	**2000**	**100,992**	**23,848**
	1999	97,589	27,235
	1998	83,791	24,676
Total Company	**2000**	**$1,352,562**	**$394,689**
	1999	1,364,458	412,524
	1998	1,347,241	414,467

23/Quarterly Data (unaudited)

Net sales:	2000	1999
First quarter	**$321,206**	$327,210
Second quarter	**347,192**	348,198
Third quarter	**323,109**	331,916
Fourth quarter	**361,055**	357,134
Total year	**$1,352,562**	$1,364,458

Gross profit:	2000	1999
First quarter	**$101,506**	$104,574
Second quarter	**108,382**	112,490
Third quarter	**94,230**	108,711
Fourth quarter	**109,093**	117,347
Total year	**$413,211**	$443,122

Operating income:	2000	1999
First quarter	**$23,805**	$20,516
Second quarter	**31,917**	24,622
Third quarter	**19,013**	27,279
Fourth quarter	**27,766**	31,330
Total year	**$102,501**	$103,747

Net income:	2000	1999
First quarter	**$9,730**	$7,599
Second quarter	**17,772**	10,026
Third quarter	**7,394**	12,068
Fourth quarter	**14,267**	13,677*
Total year	**$49,163**	$43,370*

Basic net income per share:	2000	1999
First quarter	**$0.70**	$0.55
Second quarter	**1.28**	0.73
Third quarter	**0.53**	0.87
Fourth quarter	**1.02**	0.99*
Total year	**$3.53**	$3.14*

Diluted net income per share	2000	1999
First quarter	**$0.69**	$0.55
Second quarter	**1.26**	0.72
Third quarter	**0.52**	0.86
Fourth quarter	**1.01**	0.97*
Total year	**$3.48**	$3.10*

* Fourth quarter net income was $14,418 before the cumulative effect of accounting change of $(741) or $(0.05) per share. Total year net income was $44,111 before the cumulative effect of accounting change of $(741) or $(0.05) per share.

MANAGEMENT'S REPORT

The management of H.B. Fuller Company is responsible for the integrity, objectivity and accuracy of the financial statements of the Company and its subsidiaries. The accompanying financial statements, including the notes, were prepared in conformity with accounting principles generally accepted in the United States appropriate in the circumstances and include amounts based on the best judgment of management.

Management is also responsible for maintaining a system of internal accounting control to provide reasonable assurance that established policies and procedures are followed, that the records properly reflect all transactions of the Company and that assets are safeguarded against material loss from unauthorized use or disposition. Management believes that the Company's accounting controls provide reasonable assurance that errors or irregularities that could be material to the financial statements are prevented or would be detected within a timely period by employees in the normal course of performing their assigned duties.

Raymond A. Tucker

Raymond A. Tucker
Senior Vice President and
Chief Financial Officer

Albert P.L. Stroucken
Chairman of the Board,
President and
Chief Executive Officer

REPORT OF INDEPENDENT ACCOUNTANTS

**To the Board of Directors and
Stockholders of H.B. Fuller Company**

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, of stockholders' equity and of cash flows present fairly, in all material respects, the financial position of H.B. Fuller Company and its subsidiaries at December 2, 2000 and November 27, 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 2, 2000, in conformity with generally accepted accounting principles in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 7, in 1999 the Company changed its accounting for start-up costs to conform with AICPA Statement of Position 98-5.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Minneapolis, Minnesota
January 12, 2001

1990-2000 SELECTED FINANCIAL DATA
H.B. Fuller Company and Subsidiaries

Annual Growth Rate 1-yr 1999-2000	5-yr 1995-2000	10-yr 1990-2000	(Dollars in thousands, except per share amounts)	2000*	1999	1998	1997	1996
%	%	%	**Income Statement Data:**					
(0.9)	1.7	5.5	Net sales	**$1,352,562**	1,364,458	1,347,241	1,306,789	1,275,716
11.5	9.5	8.8	Income from continuing operations	**$49,163**	44,111	15,990	40,308	45,430
			Percent of net sales	**3.6**	3.2	1.2	3.1	3.6
13.4	11.4	8.8	Net income	**$49,163**	43,370	15,990	36,940	45,430
			Percent of net sales	**3.6**	3.2	1.2	2.8	3.6
3.0	4.8	8.1	Depreciation	**$44,371**	43,079	42,317	40,412	40,878
(11.2)	5.6	5.4	Interest expense	**$23,814**	26,823	26,989	19,836	18,881
(10.5)	8.2	6.4	Income taxes	**$28,455**	31,807	18,826	26,651	31,233
			Balance Sheet Data:					
(1.5)	4.0	7.5	Total assets	**$1,010,361**	1,025,615	1,046,169	917,646	869,275
19.6	8.0	8.0	Working capital	**$208,339**	174,223	172,740	171,607	141,617
			Current ratio	**1.9**	1.7	1.6	1.7	1.6
(4.3)	2.1	6.9	Net property, plant and equipment	**$394,689**	412,524	414,467	398,561	391,201
(5.0)	8.5	11.0	Long-term debt, excluding current installments	**$250,464**	263,714	300,074	229,996	172,779
7.5	6.2	7.5	Stockholders' equity	**$404,710**	376,380	341,404	339,114	334,740
			Per Common Share:					
			Income from continuing operations:					
10.7	9.5	8.6	Basic	**$3.53**	3.19	1.16	2.91	3.26
10.5	9.3	8.6	Diluted	**$3.48**	3.15	1.15	2.88	3.24
			Net income:					
12.4	11.4	8.6	Basic	**$3.53**	3.14	1.16	2.67	3.26
12.3	11.2	8.6	Diluted	**$3.48**	3.10	1.15	2.64	3.24
2.5	6.0	7.6	Dividends paid	**$0.835**	0.815	0.785	0.72	0.655
6.9	6.1	7.0	Book value	**$28.65**	26.79	24.39	24.48	23.78
			Common stock price:					
(5.9)	11.5	13.6	High	**$68.56**	72.88	64.81	60.25	47.75
(26.7)	0.1	7.4	Low	**$27.95**	38.13	34.00	44.50	29.50
			Other:					
			Return on average stockholders' equity	**12.5**	12.1	4.7	11.0	14.3
			Weighted-average common shares outstanding (in thousands):					
0.8	0.0	0.2	Basic	**13,914**	13,808	13,721	13,843	13,910
0.9	0.2	0.2	Diluted	**14,103**	13,978	13,844	13,988	14,008
(3.7)	(4.1)	(0.7)	Number of employees	**5,200**	5,400	6,000	6,000	5,900

* 2000 is a 53-week year. All years 1999-1996 are 52-week years. All other years are twelve months ended November 30.

1995	1994	1993	1992	1991	1990
1,243,818	1,097,367	975,287	942,438	861,024	792,230
31,195	30,863	21,701	35,622	27,687	21,145
2.5	2.8	2.2	3.8	3.2	2.7
28,663	30,863	9,984	35,622	27,687	21,145
2.3	2.8	1.0	3.8	3.2	2.7
35,134	28,177	24,934	24,865	21,787	20,376
18,132	11,747	10,459	12,537	14,788	14,028
19,148	19,782	19,191	24,716	19,173	15,234
828,929	742,617	564,521	561,204	508,911	489,634
142,056	129,665	119,905	130,817	108,779	96,097
1.6	1.6	1.7	1.8	1.7	1.7
355,123	295,090	232,547	223,153	207,378	202,341
166,459	130,009	60,261	53,457	71,814	88,240
299,414	274,805	249,396	255,040	219,050	197,191
2.24	2.22	1.56	2.58	2.03	1.55
2.23	2.21	1.55	2.55	2.00	1.53
2.06	2.22	0.72	2.58	2.03	1.55
2.05	2.21	0.71	2.55	2.00	1.53
0.625	0.575	0.54	0.46	0.41	0.40
21.35	19.70	17.92	18.43	15.96	14.56
39.75	42.25	42.75	53.25	38.33	19.17
27.75	29.00	31.25	32.58	18.83	13.75
10.0	11.5	4.0	15.0	13.3	11.0
13,884	13,877	13,872	13,778	13,613	13,650
13,977	13,988	14,006	13,989	13,854	13,811
6,400	6,400	6,000	5,800	5,600	5,600

INVESTOR INFORMATION

Annual Meeting

The annual meeting of shareholders will be held on Thursday, April 19, 2001, at 2 p.m. at the Science Museum of Minnesota, 120 West Kellogg Boulevard, St. Paul, Minn. All shareholders are cordially invited to attend.

Form 10-K

H.B. Fuller Company's Form 10-K annual report for the year ended Dec. 2, 2000, filed with the Securities and Exchange Commission, Washington, D.C., is available upon request at no charge. Exhibits to the Form 10-K are available at a charge sufficient to cover postage and handling. This material may be obtained by writing to: Corporate Secretary, H.B. Fuller Company, P.O. Box 64683, St. Paul, MN 55164-0683. Or visit our Web site at www.hbfuller.com for complete 10-K reports for the past three years.

Independent Accountants

PricewaterhouseCoopers LLP, Minneapolis, Minnesota

Investor Contact

Scott Dvorak
Director of Investor Relations

To receive shareholder material through the mail, or if you'd like to be added to our mailing list, call our Shareholder Services Line at 1-800-214-2523 or visit our Web site at http://www.hbfuller.com

Number of Common Shareholders

As of Dec. 2, 2000, there were approximately 3,845 common shareholders of record.

Transfer Agent and Registrar

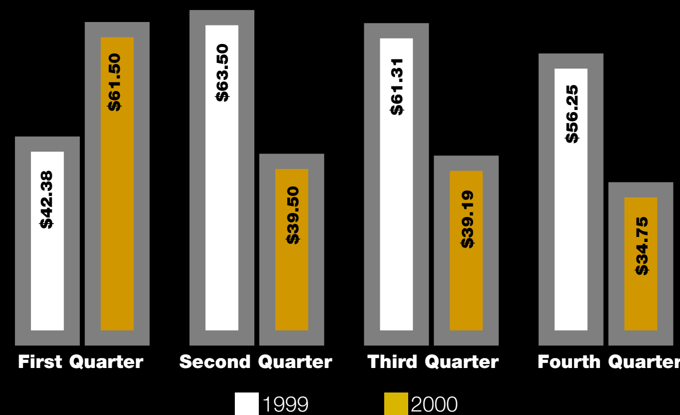
Wells Fargo Bank, Minnesota, N.A., P.O. Box 64854, St. Paul, MN 55164-0854, 1-800-468-9716 or 651-450-4064 (in Minnesota).

Web Site

http://www.hbfuller.com

STOCK PRICE

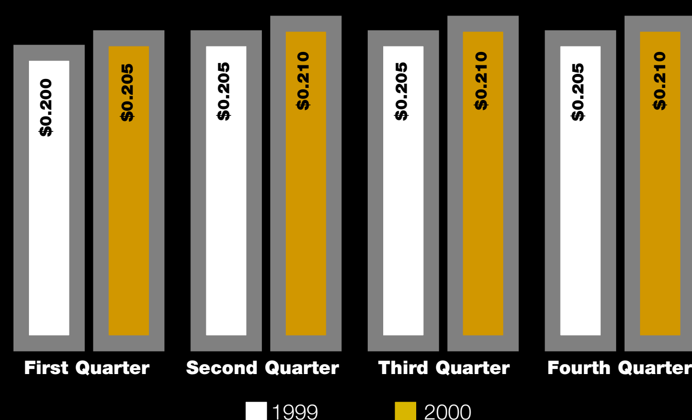
Common Stock* (Closing Price)



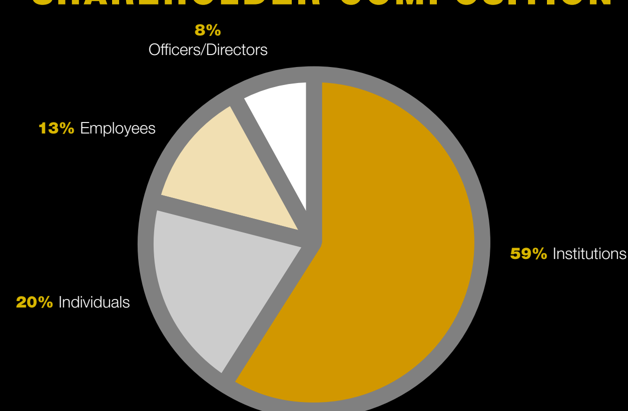
* H.B. Fuller Company common stock is traded on the NASDAQ exchange under the symbol: FULL

DIVIDENDS

(Per Share)



SHAREHOLDER COMPOSITION



H.B. Fuller Company
Corporate Headquarters

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St. Paul, MN 55164-0683