CLARCOR INC
Form 10-Q
September 18, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended August 29, 2009

OR

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

For the transition period from _______ to ________

Commission File Number 1-11024

CLARCOR Inc.
(Exact name of registrant as specified in its charter)

DELAWARE	36-0922490
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

840 Crescent Centre Drive, Suite 600, Franklin, Tennessee 37067
(Address of principal executive offices)

Registrant's telephone number, including area code	615-771-3100

No Change
(Former name, former address and former fiscal year, if changed since last report.)

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

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

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

Large accelerated filer x Accelerated filer o Non-accelerated filer o Smaller reporting company o

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of August 29, 2009, 50,337,043 common shares with a par value of $1 per share were outstanding.

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Part I - Item 1. Financial Statements

CLARCOR Inc.
CONSOLIDATED CONDENSED BALANCE SHEETS
(Dollars in thousands)

ASSETS	August 29, 2009 (Unaudited)	November 29, 2008
Current assets:		
Cash and cash equivalents	$ 56,854	$ 40,715
Restricted cash	486	473
Short-term investments	24,103	7,269
Accounts receivable, less allowance for losses of $ 16,615 for 2009 and $ 13,267 for 2008	174,307	194,864
Inventories:		
Raw materials	64,620	60,575
Work in process	26,379	27,318
Finished products	76,715	70,308
Total inventories	167,714	158,201
Deferred income taxes	22,999	23,121
Prepaid expenses and other current assets	7,136	7,928
Total current assets	453,599	432,571
Plant assets at cost,	445,167	439,423
less accumulated depreciation	(257,224)	(246,824)
	187,943	192,599
Goodwill	229,821	223,964
Acquired intangibles, less accumulated amortization	95,133	95,089
Deferred income taxes	224	224
Other noncurrent assets	11,885	13,435
Total assets	$ 978,605	$ 957,882
LIABILITIES		
Current liabilities:		
Current portion of long-term debt	$ 108	$ 128
Accounts payable	58,885	65,398
Accrued salaries, wages and commissions	10,644	14,292
Compensated absences	7,537	8,004
Accrued insurance liabilities	9,959	9,668
Customer deposits	12,299	11,777
Income taxes	10,639	5,083
Other accrued liabilities	31,831	29,153
Total current liabilities	141,902	143,503
Long-term debt, less current portion	77,084	83,822
Postretirement healthcare benefits	678	642
Long-term pension liabilities	29,989	27,307
Deferred income taxes	37,517	39,317
Other long-term liabilities	4,412	7,360

Minority interests		3,303		4,172
Total liabilities		294,885		306,123
Contingencies				
SHAREHOLDERS' EQUITY				
Capital stock		50,337		50,794
Capital in excess of par value		35,460		48,025
Accumulated other comprehensive loss		(14,770)		(26,562)
Retained earnings		612,693		579,502
Total shareholders' equity		683,720		651,759
Total liabilities and shareholders' equity	$	978,605	$	957,882

See Notes to Consolidated Condensed Financial Statements

CLARCOR Inc.
CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS
(Dollars in thousands, except per share data)
(Unaudited)

	Quarter Ended		Nine Months Ended	
	August 29, 2009	August 30, 2008	August 29, 2009	August 30, 2008
Net sales	$ 230,271	$ 276,300	$ 673,356	$ 793,618
Cost of sales	156,328	188,152	468,832	543,304
Gross profit	73,943	88,148	204,524	250,314
Selling and administrative expenses	41,863	47,328	133,527	144,297
Operating profit	32,080	40,820	70,997	106,017
Other income (expense):				
Interest expense	(316)	(1,313)	(1,848)	(4,951)
Interest income	40	311	270	1,012
Other, net	189	(347)	634	(736)
	(87)	(1,349)	(944)	(4,675)
Earnings before income taxes and minority interests	31,993	39,471	70,053	101,342
Provision for income taxes	10,669	13,578	22,886	34,422
Earnings before minority interests	21,324	25,893	47,167	66,920
Minority interests in earnings of subsidiaries	(42)	(82)	(302)	(326)
Net earnings	$ 21,282	$ 25,811	$ 46,865	$ 66,594
Net earnings per share:				
Basic	$ 0.42	$ 0.51	$ 0.92	$ 1.31
Diluted	$ 0.42	$ 0.50	$ 0.92	$ 1.30
Average number of shares outstanding:				
Basic	50,659,679	50,885,417	50,868,774	50,745,240
Diluted	50,942,825	51,455,710	51,132,860	51,252,593
Dividends paid per share	$ 0.09	$ 0.08	$ 0.27	$ 0.24

See Notes to Consolidated Condensed Financial Statements

CLARCOR Inc.
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Nine Months Ended	
	August 29, 2009	August 30, 2008
Cash flows from operating activities:		
Net earnings	$ 46,865	$ 66,594
Depreciation	20,434	19,130
Amortization	3,662	3,975
Stock-based compensation expense	3,664	4,162
Excess tax benefit from stock-based compensation	(1,513)	(2,396)
Changes in short-term investments	(16,834)	(2,547)
Changes in assets and liabilities, excluding short-term investments	19,806	(14,100)
Other, net	266	396
Net cash provided by operating activities	76,350	75,214
Cash flows from investing activities:		
Business acquisitions, net of cash acquired	(11,777)	(75,329)
Additions to plant assets	(15,019)	(24,851)
Investment in affiliate	(1,794)	(2,000)
Other, net	462	139
Net cash used in investing activities	(28,128)	(102,041)
Cash flows from financing activities:		
Net (payments) proceeds under line of credit	(15,000)	80,000
Borrowings under long-term debt	8,410	-
Payments on long-term debt	(809)	(7,366)
Sale of capital stock under stock option and employee purchase plans	2,944	8,467
Purchase of treasury stock	(19,767)	(37,260)
Excess tax benefits from stock-based compensation	1,513	2,396
Cash dividends paid	(13,754)	(12,259)
Net cash (used in) provided by financing activities	(36,463)	33,978
Net effect of exchange rate changes on cash	4,380	1,358
Net change in cash and cash equivalents	16,139	8,509
Cash and cash equivalents, beginning of period	40,715	36,059
Cash and cash equivalents, end of period	$ 56,854	$ 44,568
Cash paid during the period for:		

Interest	$	1,930	$	2,892
Income taxes	$	17,301	$	29,249

See Notes to Consolidated Condensed Financial Statements

CLARCOR Inc.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Dollars in thousands, except per share data)
(Unaudited)

1. CONSOLIDATED FINANCIAL STATEMENTS

The consolidated condensed balance sheet as of August 29, 2009, the consolidated condensed statements of earnings and the consolidated condensed statements of cash flows for the periods ended August 29, 2009 and August 30, 2008, have been prepared by the Company without audit. The financial statements have been prepared on the same basis as those in the Company's Annual Report on Form 10-K for the fiscal year ended November 29, 2008 ("2008 Form 10-K"). The November 29, 2008 consolidated balance sheet data was derived from the Company's year-end audited financial statements as presented in the 2008 Form 10-K but does not include all disclosures required by accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows have been made. The Company performed a review of subsequent events through September 18, 2009, the date the Consolidated Condensed Financial Statements were issued, and concluded no events or transactions occurred during that period requiring recognition or disclosure. The results of operations for the period ended August 29, 2009, are not necessarily indicative of the operating results for the full year.

2. BUSINESS ACQUISITIONS

During the quarter ended August 29, 2009, the Company paid an additional $160 related to its 2006 Industrial/Environmental Filtration segment acquisition, pursuant to the terms of the purchase agreement. The payment was recorded as goodwill. Additional payments, not to exceed approximately $923, may be required in future years based on the operating performance of this entity.

During the quarter ended August 29, 2009, the Company was refunded a portion of its purchase price which had been held in escrow related to its 2007 acquisition of 80% of Sinfa SA, included in the Engine/Mobile Filtration segment. This refund reduced goodwill by $234.

On April 20, 2009, the Company purchased the remaining 20% minority interest in its consolidated subsidiary based in Weifang, China for $4,593, including acquisition costs. This subsidiary is part of the Company's Engine/Mobile Filtration segment and manufactures heavy-duty engine filters, certain lines of environmental filters and filter systems and filters used in off-shore oil drilling. A preliminary allocation of the purchase price for the acquisition has been made to major categories of assets and liabilities, based on available information, and is currently subject to change. The $2,205 excess of the initial purchase price over the preliminary estimated fair value of the assets acquired and liabilities assumed was recorded as goodwill.

On April 6, 2009, the Company purchased Weifang Yuhua Filters Ltd. ("Yuhua"), based in Weifang, China for approximately $567, excluding cash acquired and including acquisition costs. Yuhua manufactures heavy-duty engine filters. The business is included in the Company's Engine/Mobile Filtration segment. The acquisition is not material to the results of the Company. A preliminary allocation of the purchase price for the acquisition has been made to major categories of assets and liabilities, based on available information, and is currently subject to change. The Company did not recognize any goodwill in connection with this acquisition.

CLARCOR Inc.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Dollars in thousands, except per share data)
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On February 1, 2009, the Company purchased 85% ownership interests in Pujiang Novaeastern International Mesh Co., Ltd. ("Pujiang") and Quzhou Chinagrace Filter Co., Ltd. ("Quzhou"). Both companies are based in China and were under common ownership. Pujiang and Quzhou are manufacturers of wire mesh filtration products sold primarily to the fibers, resin and aerospace industries. The combined purchase price for the ownership interests in both companies was approximately $618, excluding cash acquired and including acquisition costs. The Company has the right, but not the obligation, to purchase the remaining 15% ownership interests using a formula based on the combined companies' future operating results. The businesses are included in the Company's Industrial/Environmental Filtration segment. The acquisition is not material to the results of the Company. A preliminary allocation of the purchase price for the acquisition has been made to major categories of assets and liabilities, based on available information, and is currently subject to change. The $519 excess of the initial purchase price over the preliminary estimated fair value of the assets acquired and the liabilities assumed was recorded as goodwill.

On January 16, 2009, the Company purchased certain assets of Meggitt (UK) Limited ("Meggitt"), for $578. This business was acquired to expand the Company's product range of aerospace filters sold primarily to European aircraft manufacturers and aerospace parts distributors. The purchased assets were combined into an existing Company subsidiary which is part of the Company's Industrial/Environmental Filtration segment. The Company expects to make an additional payment in 2010 of approximately $146 to the former owner of the Meggitt assets contingent upon the renewal of a contract with a customer. The acquisition is not material to the results of the Company. A preliminary allocation of the purchase price for the acquisition has been made to major categories of assets based on available information, and is currently subject to change. Other acquired intangibles included customer relationships valued at $201 which will be amortized over their estimated useful life of 13 years. The $231 excess of the initial purchase price over the preliminary estimated fair value of the net assets acquired was recorded as goodwill.

On December 29, 2008, the Company purchased the Keddeg Company ("Keddeg"), a manufacturer of aerospace filtration products based in Lenexa, Kansas. The purchase price was $5,495, excluding cash acquired and including acquisition costs. Keddeg's results are included as part of the Company's Industrial/Environmental Filtration segment from the date of acquisition. The acquisition is not material to the results of the Company. A preliminary allocation of the purchase price has been made to major categories of assets and liabilities assumed, based on available information, and is subject to change. The $1,753 excess of the purchase price over the preliminary estimated fair value of the net tangible and intangible assets acquired was recorded as goodwill. Acquired intangible assets, other than trade names and goodwill, are amortized on a straight-line basis according to the useful lives of the acquired assets. The fair value of the identifiable intangible assets and their respective lives are shown in the following table:

Identifiable Intangible Asset		Value	Estimated Useful Life
Trade names	$	553	Indefinite
Non-compete agreements		86	5 years
Customer relationships		875	12 years
Developed technology		1,256	10 years
Total fair value	$	2,770	

CLARCOR Inc.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
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Effective May 1, 2008, the Company acquired a 30% share in BioProcessH2O LLC (“BPH”), a Rhode Island based manufacturer of industrial waste water and water reuse filtration systems, for $4,000, payable $2,000 in cash at the acquisition date with the remaining $2,000 to be paid by December 31, 2009. The Company paid $206 during fiscal year 2008, $1,000 on February 6, 2009 and $794 on August 27, 2009. Under the terms of the agreement with BPH, the Company has the right, but not the obligation, to acquire additional ownership shares and eventually complete ownership of the company over several years at a price based on, among other factors, BPH’s operating income. The investment, with a carrying amount of $3,680 and $4,011 at August 29, 2009 and November 29, 2008, respectively, is being accounted for under the equity method of accounting in accordance with Accounting Principles Board Opinion No. 18, “The Equity Method of Accounting for Investments in Common Stock.” The investment was initially recorded at cost. The carrying amount is adjusted each period to recognize the Company’s share of the earnings or losses of the investee based on the percentage of ownership, as well as the receipt of any dividend income. The equity investment is periodically reviewed for indicators of impairment. The Company’s share of undistributed earnings was not material at August 29, 2009.

On December 3, 2007, the Company acquired Perry Equipment Corporation (“Peco”), a privately-owned manufacturer of engineered filtration products and technologies used in a wide array of industries, including oil and natural gas, refining, power generation, petrochemical, food and beverage, electronics, polymers and pulp and paper. Peco is based in Mineral Wells, Texas with operations in Mexico, Canada, the United Kingdom, Italy, Romania, Malaysia and China. Peco was merged with the Company’s Facet operations with the combined headquarters based in Mineral Wells. Peco was acquired to expand the Company’s product offerings, technology, filtration solutions and customer base in the oil and natural gas industries. Its results are included as part of the Company’s Industrial/Environmental Filtration segment since the date of acquisition. The purchase price was $145,807 excluding cash acquired and including acquisition costs. The Company issued 2,137,797 shares of CLARCOR common stock with a value of approximately $71,954 and paid the remaining purchase price with available cash of $5,301 and $80,000 of cash borrowed under the Company’s multicurrency revolving credit agreement. An allocation of the purchase price for the acquisition has been made to major categories of assets and liabilities based on available information. The $101,987 excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired was recorded as goodwill. Other acquired intangibles are amortized over a straight-line basis according to their useful lives. During the second and third quarters of fiscal 2009, the Company resolved various tax accrual issues resulting in a decrease to goodwill of $310.

Also in December 2007, the Company purchased a distributor of engineered filtration products in Canada for approximately $1,402 including acquisition costs. Of the purchase price, $811 was paid during fiscal year 2008, $198 was paid during fiscal year 2009 and the remaining amount will be paid over the next three years. An allocation of the purchase price for the acquisition has been made to major categories of assets and liabilities. The $698 excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired was recorded as goodwill. The business was included in the Industrial/Environmental Filtration segment from the date of acquisition and was not material to the results of the Company.

CLARCOR Inc.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
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3. STOCK-BASED COMPENSATION

The Company applies the provisions of Statement of Financial Accounting Standards ("SFAS") No. 123R, "Share-Based Payment," which establishes the accounting for stock-based awards. Under this method, stock-based employee compensation cost is recognized using the fair-value based method for all awards granted on or after the date of adoption. The Company issues stock option awards and restricted share unit awards to employees and issues stock option awards and restricted stock to non-employee directors under its stock-based incentive plans. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. Compensation cost related to restricted share units is recorded based on the market price of the Company's common stock on the grant date. Options granted vest 25% per year beginning at the end of the first year; therefore, they become fully exercisable at the end of four years. Vesting may be accelerated in the event of retirement, disability or death of a participant or change in control of the Company. For those who are already retirement eligible on the date of grant, compensation expense is recognized immediately. The key provisions of the Company's stock-based incentive plans are described in Note N of the Company's consolidated financial statements included in the 2008 Form 10-K.

The Company recorded pretax compensation expense related to stock options of $411 and $2,688, respectively, and related tax benefits of $131 and $855, respectively, for the quarter and nine months ended August 29, 2009. For the quarter and nine months ended August 30, 2008, the Company recorded pretax compensation expense related to stock options of $365 and $3,140, respectively, and related tax benefits of $126 and $1,081, respectively.

Pretax compensation expense related to restricted share unit awards totaled $111 and $976, respectively, for the quarter and nine months ended August 29, 2009, and $84 and $1,022, respectively, for the quarter and nine months ended August 30, 2008.

The tax benefits associated with tax deductions that exceed the amount of compensation expense recognized in the financial statements related to stock-based compensation were $1,081 and $1,513, respectively, for the quarter and nine months ended August 29, 2009, and $107 and $2,396, respectively, for the quarter and nine months ended August 30, 2008.

Stock Options

The following table summarizes the activity for the nine months ended August 29, 2009, with respect to non-qualified stock options granted under the Company's incentive plans.

	Shares Granted under Incentive Plans		Weighted Average Exercise Price
Outstanding at beginning of year	3,132,111	$	25.75
Granted	466,025	$	31.94
Exercised	(287,822)	$	16.69
Surrendered	(44,700)	$	35.49
Outstanding at August 29, 2009	3,265,614	$	27.30
Options exercisable at August 29, 2009	2,408,384	$	24.87

CLARCOR Inc.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
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(Unaudited)

The fair value of stock options granted during the nine months ended August 29, 2009 and August 30, 2008 were based on the following weighted-average assumptions:

	Nine Months Ended	
	August 29, 2009	August 30, 2008
Risk-free interest rate	1.91%	3.76%
Expected dividend yield	0.96%	0.85%
Expected volatility factor	24.16%	20.24%
Expected option term in years	6.1	6.1

The weighted average fair value per option at the date of grant for options granted during the nine months ended August 29, 2009 and August 30, 2008, was $7.62 and $9.37, respectively. The total intrinsic value of options exercised during the nine months ended August 29, 2009 and August 30, 2008, was $4,381 and $7,379, respectively.

The following table summarizes information about the Company's outstanding and exercisable options at August 29, 2009.

	Options Outstanding				Options Exercisable			
Range of Exercise Prices	Number	Weighted Average Exercise Price	Intrinsic Value	Weighted Average Remaining Life in Years	Number	Weighted Average Exercise Price	Intrinsic Value	Weighted Average Remaining Life in Years
$ 8.97 - $ 9.75	73,698	$ 9.23	$ 1,707	0.95	73,698	$ 9.23	$ 1,707	0.95
$ 11.50 - $ 13.75	160,500	$ 13.12	3,092	2.08	160,500	$ 13.12	3,092	2.08
$ 16.01 - $ 22.80	802,345	$ 20.34	9,668	3.35	802,345	$ 20.34	9,668	3.35
$ 25.31 - $ 31.96	981,883	$ 27.66	4,644	5.52	981,383	$ 27.66	4,642	5.51
$ 32.78 - $ 38.23	1,247,188	$ 34.38	-	7.89	390,458	$ 34.93	-	6.55
	3,265,614	$ 27.30	$ 19,111	5.62	2,408,384	$ 24.87	$ 19,109	4.59

At August 29, 2009, total unrecognized compensation cost of $3,043 related to non-vested stock option awards is expected to be recognized over a weighted-average period of 2.6 years.

CLARCOR Inc.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Dollars in thousands, except per share data)
(Unaudited)

Restricted Share Unit Awards

During the nine months ended August 29, 2009 and August 30, 2008, the Company granted 36,368 and 25,989 restricted share units of Company common stock with a weighted-average fair value of $32.78 and $36.48, respectively, per unit. During the nine months ended August 29, 2009, 1,481 restricted share units of Company common stock with a weighted average grant date fair value of $34.19 were forfeited.

4. COMPREHENSIVE EARNINGS

The Company's total comprehensive earnings and its components are as follows:

	Quarter Ended		Nine Months Ended	
	August 29, 2009	August 30, 2008	August 29, 2009	August 30, 2008
Net earnings	$ 21,282	$ 25,811	$ 46,865	$ 66,594
Other comprehensive earnings, net of tax:				
Foreign currency translation adjustments	3,011	(4,157)	11,143	(305)
Pension liability adjustments	216	(6,478)	649	(6,478)
Total comprehensive earnings	$ 24,509	$ 15,176	$ 58,657	$ 59,811

The components of the ending balances of accumulated other comprehensive loss are as follows:

	August 29, 2009	November 29, 2008
Pension liability, net of tax of $10,403 and $10,790	$ (17,529)	$ (18,178)
Translation adjustments, net of tax of $155 and $155	2,759	(8,384)
Accumulated other comprehensive loss	$ (14,770)	$ (26,562)

5. GOODWILL AND ACQUIRED INTANGIBLES

The following table reconciles the activity for goodwill by reporting unit for the nine months ended August 29, 2009.