CLARCOR INC.
Form 10-Q
June 20, 2014

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 May 31, 2014

OR

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

For the transition period from _______ to ________

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

Delaware	1-11024	36-0922490
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(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 __

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 X No __

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

Large accelerated filer X Accelerated filer Non-accelerated filer Smaller reporting company

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

As of June 16, 2014, 50,456,235 common shares with a par value of $1 per share were outstanding.

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* Item omitted because the item is not applicable

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Quarter Ended		Six Months Ended	
	May 31, 2014	June 1, 2013	May 31, 2014	June 1, 2013
Net sales	$386,642	$287,583	$699,327	$543,854
Cost of sales	261,272	189,369	477,370	364,154
Gross profit	125,370	98,214	221,957	179,700
Selling and administrative expenses	74,223	48,813	139,544	96,484
Operating profit	51,147	49,401	82,413	83,216
Other income (expense):				
Interest expense	(670)	(162)	(1,070)	(312)
Interest income	96	168	203	307
Other, net	174	(223)	4,145	(223)
	(400)	(217)	3,278	(228)
Earnings before income taxes	50,747	49,184	85,691	82,988
Provision for income taxes	16,201	16,031	26,804	26,307
Net earnings	34,546	33,153	58,887	56,681
Net loss (earnings) attributable to noncontrolling interests	6	(102)	(14)	(168)
Net earnings attributable to CLARCOR Inc.	$34,552	$33,051	$58,873	$56,513
Net earnings per share attributable to CLARCOR Inc. - Basic	$0.68	$0.66	$1.17	$1.13
Net earnings per share attributable to CLARCOR Inc. - Diluted	$0.68	$0.66	$1.16	$1.12
Weighted average number of shares outstanding - Basic	50,513,588	49,826,567	50,488,651	49,830,634
Weighted average number of shares outstanding - Diluted	50,945,090	50,428,875	50,934,768	50,419,170
Dividends paid per share	$0.1700	$0.1350	$0.3400	$0.2700

See Notes to Consolidated Condensed Financial Statements

CLARCOR Inc.
CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE EARNINGS
(Dollars in thousands)
(Unaudited)

	Quarter Ended		Six Months Ended	
	May 31, 2014	June 1, 2013	May 31, 2014	June 1, 2013
Net earnings	$34,546	$33,153	$58,887	$56,681
Other comprehensive income:				
Pension and other postretirement benefits --				
Pension and other postretirement benefits liability adjustments	619	1,321	1,283	2,642
Pension and other postretirement benefits liability adjustments tax amounts	(240)	(432)	(507)	(942)
Pension and other postretirement benefits liability adjustments, net of tax	379	889	776	1,700
Foreign currency translation --				
Translation adjustments	(1,764)	(1,710)	2,561	(3,935)
Translation adjustments tax amounts	—	—	—	—
Translation adjustments, net of tax	(1,764)	(1,710)	2,561	(3,935)
Comprehensive earnings	33,161	32,332	62,224	54,446
Comprehensive earnings attributable to non-redeemable noncontrolling interests	(82)	(79)	(133)	(141)
Comprehensive earnings attributable to redeemable noncontrolling interests	83	(11)	106	(32)
Comprehensive earnings attributable to CLARCOR Inc.	$33,162	$32,242	$62,197	$54,273

See Notes to Consolidated Condensed Financial Statements

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

	May 31, 2014	November 30, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$84,027	$411,562
Restricted cash	1,616	763
Accounts receivable, less allowance for losses of $11,266 and $9,183, respectively	311,971	224,829
Inventories	274,499	218,786
Deferred income taxes	30,519	25,313
Income taxes receivable	—	1,000
Prepaid expenses and other current assets	16,421	9,868
Total current assets	719,053	892,121
Property, plant and equipment, at cost, less accumulated depreciation of $349,868 and $332,787 respectively	263,454	208,953
Goodwill	510,485	241,299
Acquired intangible assets, less accumulated amortization	365,804	89,881
Other noncurrent assets	16,951	16,589
Total assets	$1,875,747	$1,448,843
LIABILITIES		
Current liabilities:		
Current portion of long-term debt	$250	$50,223
Accounts payable and accrued liabilities	213,460	157,538
Income taxes payable	3,120	—
Total current liabilities	216,830	207,761
Long-term debt, less current portion	439,326	116,413
Long-term pension and postretirement healthcare benefits liabilities	19,263	19,792
Deferred income taxes	107,556	64,415
Other long-term liabilities	7,203	5,753
Total liabilities	790,178	414,134
Contingencies (Note 11)		
Redeemable noncontrolling interests	1,730	1,836
SHAREHOLDERS' EQUITY		
Capital stock	50,456	50,371
Capital in excess of par value	28,161	22,278
Accumulated other comprehensive loss	(26,490)	(29,814)
Retained earnings	1,030,720	989,013
Total CLARCOR Inc. equity	1,082,847	1,031,848
Noncontrolling interests	992	1,025
Total shareholders' equity	1,083,839	1,032,873
Total liabilities and shareholders' equity	$1,875,747	$1,448,843

See Notes to Consolidated Condensed Financial Statements

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

	Six Months Ended	
	May 31, 2014	June 1, 2013
Cash flows from operating activities:		
Net earnings	$58,887	$56,681
Depreciation	14,870	13,542
Amortization	7,943	2,980
Other noncash items	933	48
Net gain on disposition of assets	73	(849)
Bargain purchase gain	(2,815)	—
Stock-based compensation expense	3,654	3,090
Excess tax benefit from stock-based compensation	(351)	(4,267)
Deferred income taxes	(658)	7,265
Change in assets and liabilities	(39,786)	(35,280)
Net cash provided by operating activities	42,750	43,210
Cash flows from investing activities:		
Restricted cash	(642)	368
Business acquisitions, net of cash acquired	(595,621)	—
Additions to plant assets	(28,275)	(17,165)
Proceeds from disposition of plant assets	148	2,952
Investment in affiliates	(473)	(459)
Net cash used in investing activities	(624,863)	(14,304)
Cash flows from financing activities:		
Net payments on multicurrency revolving credit facility	(22,000)	—
Borrowings under term loan facility	315,000	—
Payments on term loan facility	(20,000)	—
Payments on long-term debt, including business acquisition-related seller financing	(1,487)	(3,921)
Payment of financing costs	(723)	—
Sale of capital stock under stock option and employee purchase plans	2,442	7,811
Payments for repurchase of common stock	—	(17,364)
Excess tax benefit from stock-based compensation	351	4,267
Dividend paid to noncontrolling interests	(166)	—
Cash dividends paid	(17,166)	(13,461)
Net cash provided by (used in) financing activities	256,251	(22,668)
Net effect of exchange rate changes on cash	(1,673)	(1,195)
Net change in cash and cash equivalents	(327,535)	5,043
Cash and cash equivalents, beginning of period	411,562	185,496
Cash and cash equivalents, end of period	$84,027	$190,539
Cash paid during the period for:		
Interest	$598	$228
Income taxes, net of refunds	$28,812	$15,032

See Notes to Consolidated Condensed Financial Statements

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

1. CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Basis of Presentation

CLARCOR Inc. and its subsidiaries (collectively, the "Company" or "CLARCOR") is a global provider of filtration products, filtration systems and services, and consumer and industrial packaging products. As discussed further in Note 13, the Company has three reportable segments: Engine/Mobile Filtration, Industrial/Environmental Filtration and Packaging. The Consolidated Condensed Financial Statements include all domestic and foreign subsidiaries that were more than 50% owned and controlled as of each respective reporting period presented. All intercompany accounts and transactions have been eliminated.

The Consolidated Condensed Statements of Earnings, the Consolidated Condensed Statements of Comprehensive Earnings and the Consolidated Condensed Statements of Cash Flows for the periods ended May 31, 2014 and June 1, 2013 and the Consolidated Condensed Balance Sheet as of May 31, 2014 have been prepared by the Company without audit. The Consolidated Condensed 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 30, 2013 ("2013 Form 10-K"). The November 30, 2013 Consolidated Condensed Balance Sheet data was derived from the Company's year-end audited Consolidated Financial Statements as presented in the 2013 Form 10-K but does not include all disclosures required by accounting principles generally accepted in the United States of America ("U.S. GAAP"). 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 results of operations for the period ended May 31, 2014, are not necessarily indicative of the operating results for the full year. The information included in this Form 10-Q should be read in conjunction with the audited Consolidated Financial Statements and accompanying notes included in the 2013 Form 10-K.

Cash and Cash Equivalents and Restricted Cash

Highly liquid investments with an original maturity of three months or less when purchased and that are readily saleable are considered to be cash and cash equivalents. Restricted cash represents funds held in escrow and cash balances held by German banks as collateral for certain guarantees of overseas subsidiaries. Restricted cash classified as current corresponds to funds held in escrow that will be used within one year or guarantees that expire within one year. The Company also has $1,684 and $1,896 of noncurrent restricted cash recorded in Other noncurrent assets as of May 31, 2014 and November 30, 2013, respectively, corresponding to guarantees and escrow agreements that expire longer than one year from the dates of the Consolidated Condensed Balance Sheets.

Inventories

Inventories are valued at the lower of cost or market primarily determined on the first-in, first-out ("FIFO") method of inventory costing, which approximates current cost. Inventories are summarized as follows:

	May 31, 2014	November 30, 2013
Raw materials	$107,548	$80,741
Work in process	40,624	34,402
Finished products	126,327	103,643

Inventories	$274,499	$218,786

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

Accumulated Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss) by component for three and six months ended May 31, 2014 are as follows:

	Pension Benefits		Foreign Currency Translation Adjustments		Total	
Balance at March 1, 2014, net of tax	$(29,481	)	$4,381		$(25,100	)
Other comprehensive income (loss) before reclassifications and tax	(99	)	(1,769	)	(1,868	)
Tax benefit	38		—		38	
Other comprehensive income (loss) before reclassifications, net of tax	(61	)	(1,769	)	(1,830	)
Reclassifications, before tax	718	(a)	—		718	
Tax expense	(278	)	—		(278	)
Reclassifications, net of tax	440		—		440	
Other comprehensive income, net of tax	379		(1,769	)	(1,390	)
Balance at May 31, 2014, net of tax	$(29,102	)	$2,612		$(26,490	)
Balance at November 30, 2013, net of tax	$(29,878	)	$64		$(29,814	)
Other comprehensive income (loss) before reclassifications and tax	(153	)	2,548		2,395	
Tax benefit	60		—		60	
Other comprehensive income (loss) before reclassifications, net of tax	(93	)	2,548		2,455	
Reclassifications, before tax	1,436	(a)	—		1,436	
Tax expense	(567	)	—		(567	)
Reclassifications, net of tax	869		—		869	
Other comprehensive income, net of tax	776		2,548		3,324	
Balance at May 31, 2014, net of tax	$(29,102	)	$2,612		$(26,490	)

(a) Includes amortization of prior service cost and net actuarial loss included in net periodic benefit cost (see Note 9) that were reclassified from accumulated other comprehensive income (loss) to selling and administrative expenses.

Derivatives

From time-to-time, the Company may make use of derivative financial instruments to manage certain foreign currency risks, including foreign currency forward contracts. The Company recognizes all derivatives on the balance sheet at fair value. Derivatives that are not accounted for as hedges are adjusted to fair value through income, with realized and unrealized gains and losses on such instruments recorded in Other, net income in the Condensed Consolidated Statements of Earnings. Periodic settlement payments and receipts are recorded as a component of cash flows from operating activities in the Condensed Consolidated Statements of Cash Flows.

New Accounting Guidance

In February 2013, the Financial Accounting Standards Board ("FASB") updated the disclosure requirements for accumulated other comprehensive income ("AOCI"). The updated guidance requires companies to disclose amounts reclassified out of AOCI by component. The updated guidance does not affect how net income or other comprehensive income are calculated or presented. The adoption of this guidance on December 1, 2013 did not have a material impact on the Consolidated Financial Statements. For additional information, refer to "Accumulated Other Comprehensive Income (Loss)" above.

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

In April 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-08, "Presentation of Financial Statements and Property, Plant and Equipment; Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." ASU 2014-08 modifies the requirements for reporting discontinued operations. Under the amendments in ASU 2014-08, the definition of discontinued operation has been modified to only include those disposals of an entity that represent a strategic shift that has (or will have) a major effect on an entity's operations and financial results. ASU 2014-08 also expands the disclosure requirements for disposals that meet the definition of a discontinued operation and requires entities to disclose information about disposals of individually significant components that do not meet the definition of discontinued operations. ASU 2014-08 is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2014 (fiscal year 2016 for the Company). The adoption of this update is not expected to have a material impact on the Company's Consolidated Financial Statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." ASU 2014-09 is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 is effective for annual reporting periods, and interim periods within that period, beginning after December 15, 2016 (fiscal year 2018 for the Company) and early adoption is not permitted. Companies may use either a full retrospective or a modified retrospective approach to adopt ASU 2014-09. The Company has not yet determined the potential effects of the adoption of ASU 2014-09 on its Consolidated Financial Statements.

Revisions to Previously Issued Financial Statements

The Company revised its Condensed Consolidated Statement of Cash Flows for the six months ended June 1, 2013 to properly reflect payments made for business acquisition-related seller financing amounts. The revision resulted in a decrease in the previously reported caption "Business acquisitions, net of cash acquired," a cash outflow from investing activities, of approximately $3,811 and an increase in the caption "Payments on long-term debt, including business acquisition-related seller financing," a cash outflow from financing activities, of approximately $3,811. This revision is not material to the Condensed Consolidated Statement of Cash Flows for the six months ended June 1, 2013 and has no impact on the Condensed Consolidated Balance Sheet, Condensed Consolidated Statement of Earnings or Condensed Consolidated Statement of Comprehensive Earnings.

2. BUSINESS ACQUISITIONS AND INVESTMENTS

Business Acquisitions

CLARCOR Engine Mobile Solutions
On May 1, 2014, the Company acquired Stanadyne Corporation's diesel fuel filtration business (the “Stanadyne Business”) through the acquisition of the stock of Stanadyne Holdings, Inc. The business, which now operates as “CLARCOR Engine Mobile Solutions,” is a leading supplier of original equipment and replacement fuel filtration products, primarily for heavy-duty diesel engines used in off-road, agricultural and construction applications. CLARCOR Engine Mobile Solutions has approximately 200 employees and is headquartered in Windsor, Connecticut, with manufacturing operations in Washington, North Carolina. Its results are included as part of the

Company's Engine/Mobile Filtration segment from the date of acquisition. The initial purchase price paid was approximately $328,012 in cash (cash to Stanadyne Corporation of $328,012, net of $0 cash acquired), which the Company funded with cash on hand, a $315,000 term loan and $10,000 borrowed under the Company's revolving credit agreement (see Note 8). The initial purchase price is subject to a post-closing adjustment related to the amount of working capital as of the closing date, as provided in the purchase agreement, which will be determined within 60 days of the purchase date.

A preliminary allocation of the purchase price to the assets acquired and liabilities assumed was made based on available information and incorporating management's best estimates. Assets acquired and liabilities assumed in the transaction were recorded at their estimated acquisition date fair values, while transaction costs associated with the acquisition were expensed as incurred. The Company is currently in the process of finalizing the valuation of the assets acquired and liabilities assumed. The actual allocation of the final purchase price and the resulting effect on income from operations may differ from the unaudited pro forma amounts included herein. The Company expects to finalize the purchase price allocation during fiscal 2014.

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

The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed at the date of acquisition of CLARCOR Engine Mobile Solutions:

Accounts receivable	$19,548
Inventories	7,367
Deferred income taxes	4,121
Property, plant and equipment	10,176
Goodwill	193,144
Intangible assets	147,280
Total assets acquired	381,636
Current liabilities	8,476
Deferred income taxes	45,148
Net assets acquired	$328,012

The Stanadyne Business was acquired to significantly increase CLARCOR's presence in the design, manufacture and supply of original equipment diesel fuel filtration products and the related original equipment services aftermarket, while also providing enhanced scale and market presence to support growth for CLARCOR's other Engine/Mobile Filtration businesses -- including the heavy-duty fuel, oil, hydraulic and air filtration products manufactured and marketed by Baldwin Filters -- through original equipment customers and services channels. Goodwill of $193,144 recorded in connection with the acquisition, which is not deductible for tax purposes, represents the estimated value of such future opportunities. A summary of the intangible assets acquired is shown in the following table:

Identifiable intangible assets	Estimated Value	Weighted average Useful life	Amortization Method
Customer relationships	$136,100	13 years	Straight-line
Developed technology	11,000	10 years	Straight-line
Trademarks	180	Indefinite	Not amortized
	$147,280		

Net sales and operating loss for CLARCOR Engine Mobile Solutions subsequent to the date it was acquired by the Company (that is, the final month of the three months ended May 31, 2014) were $8,992 and $1,927 respectively.

CLARCOR Industrial Air

On December 16, 2013, the Company acquired the Air Filtration business of General Electric Company's ("GE") Power and Water division through the acquisition of certain assets and the assumption of certain liabilities, as well as the acquisition of the stock of a subsidiary of GE. The business, which now operates as "CLARCOR Industrial Air", was acquired to significantly increase the Company's presence in air inlet filtration products for natural gas turbines and to expand the Company's product offerings, technologies and customer base in industrial air filtration. CLARCOR Industrial Air employs approximately 700 people and is headquartered in Overland Park, Kansas, with manufacturing operations in Missouri and the U.K. Its results are included as part of the Company's Industrial/Environmental Filtration segment from the date of acquisition. The purchase price paid was approximately $260,312 in cash (cash to GE of $263,758, net of $3,446 cash acquired), which the Company funded with cash on hand, a $100,000 term loan and $50,000 of cash borrowed under the Company's revolving credit agreement.

CLARCOR Industrial Air operates primarily in three markets -- gas turbine filtration, industrial air filtration, and specialty membranes. In gas turbine filtration, CLARCOR Industrial Air designs and manufactures high performance inlet filter houses and replacement filter elements for gas turbines used in a wide range of applications, including on-shore power generation plants, on-shore and off-shore oil and gas platforms and pipelines, distributed power generation and commercial and military marine applications. In industrial air filtration, CLARCOR Industrial Air designs and manufactures high performance filter elements for use in a variety of industries, sold to a wide range of customers under various trade names. The specialty membrane business designs and manufactures high performance membranes for apparel and microfiltration.

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

A preliminary allocation of the purchase price to the assets acquired and liabilities assumed was made based on available information and incorporating management's best estimates. Assets acquired and liabilities assumed in the transaction were recorded at their estimated acquisition date fair values, while transaction costs associated with the acquisition were expensed as incurred. The Company is currently in the process of finalizing the valuations of assets acquired and liabilities assumed. The actual allocation of the final purchase price and the resulting effect on income from operations may differ from the unaudited pro forma amounts included herein. The Company expects to finalize the purchase price allocation during fiscal 2014.

The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed at the date of acquisition of CLARCOR Industrial Air:

Accounts receivable	$34,453
Inventories	41,884
Other current assets	837
Property, plant and equipment	22,903
Goodwill	74,324
Intangible assets	133,020
Total assets acquired	307,421
Total liabilities	47,109
Net assets acquired	$260,312

The Company believes the CLARCOR Industrial Air business provides it with a strong platform in the gas turbine filtration market from which to grow, both with respect to first-fit applications as well as the aftermarket, and a broad line of products, in-depth customer knowledge and service capabilities with which to grow in various industrial air filtration markets. Goodwill of $74,324 recorded in connection with the CLARCOR Industrial Air acquisition, which is deductible for tax purposes, represents the estimated value of such future opportunities. A summary of the intangible assets acquired, weighted-average useful lives and amortization methods is shown in the following table:

Identifiable intangible assets	Estimated Value	Weighted average Useful life	Amortization Method
Trade names	$35,100	Indefinite	Not amortized
Customer relationships	77,300	13 years	Straight-line
Developed technology	19,900	13 years	Straight-line
GE Transitional Trademark License	50	Less than 1 Year	Accelerated
Backlog	670	Less than 1 Year	Accelerated
	$133,020		

Net sales and operating profit for CLARCOR Industrial Air subsequent to the date it was acquired by the Company for the three and six months ended May 31, 2014 were as follows:

	Three Months Ended May 31, 2014	Six Months Ended May 31, 2014
Net sales	$66,985	$112,363
Operating profit	4,820	3,772

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

Pro Forma Results for CLARCOR giving effect to the acquisitions of CLARCOR Engine Mobile Solutions and CLARCOR Industrial Air

The following unaudited pro forma information presents the combined results of operations of CLARCOR, CLARCOR Industrial Air and CLARCOR Engine Mobile Solutions as if both acquisitions had been completed on December 2, 2012, the beginning of fiscal 2013. The pro forma information is presented for information purposes only and does not purport to be indicative of the results of operations or future results that would have been achieved if the acquisitions and related borrowings had taken place at the beginning of fiscal 2013. The pro forma information combines the historical results of CLARCOR with the historical results of CLARCOR Industrial Air and CLARCOR Engine Mobile Solutions for the periods presented.

Prior to acquisition by CLARCOR, the business now operated as CLARCOR Industrial Air was a wholly-owned business of GE's Power and Water division, and the business now operated as CLARCOR Engine Mobile Solutions was a wholly-owned business of Stanadyne Corporation. As such, neither business was a stand-alone entity for financial reporting purposes. Accordingly, the historical operating results of CLARCOR Industrial Air and CLARCOR Engine Mobile Solutions may not be indicative of the results that might have been achieved, historically or in the future, if CLARCOR Industrial Air and CLARCOR Engine Mobile Solutions had been stand-alone entities.

The unaudited pro forma results for the three-month and six-month periods ended May 31, 2014 and June 1, 2013 include amortization charges for acquired intangible assets, and adjustments to depreciation expense, interest expense, transaction costs incurred, adjustments to cost of sales to reflect the estimated fair values of inventory at the acquisition date, other income and related tax effects. These pro forma amounts are based on a preliminary allocation of the purchase price to estimates of the fair values of the assets acquired and liabilities assumed. The pro forma amounts include the Company's preliminary determination of purchase accounting adjustments based on available information and certain assumptions that the Company believes are reasonable.

	Three Months Ended May 31, 2014							Three Months Ended June 1, 2013					
	As reported	CLARCOR Engine Mobile Solutions		CLARCOR Industrial Air		Pro forma		As reported	CLARCOR Engine Mobile Solutions		CLARCOR Industrial Air		Pro forma
Net sales	$386,642	$19,781		$—		$406,423		$287,583	$26,272		$49,535		$363,390
Operating profit	51,147	10,209	(a)	1,020	(b)	62,376		49,401	7,677	(d)	4,079	(f)	61,157
Net earnings attributable to CLARCOR	34,552	6,240		746		41,538		33,051	4,381		2,840		40,272
Diluted earnings per share	$0.68	$0.12		$0.01		$0.82		$0.66	$0.09		$0.06		$0.80

	Six Months Ended May 31, 2014							Six Months Ended June 1, 2013					
	As reported	CLARCOR Engine Mobile Solutions		CLARCOR Industrial Air		Pro forma		As reported	CLARCOR Engine Mobile Solutions		CLARCOR Industrial Air		Pro forma
Net sales	$699,327	$46,837		$15,422		$761,586		$543,854	$50,459		$100,600		$694,913
	82,413	17,677	(a)	8,643	(c)	108,733		83,216	9,277	(e)	(2,898)	(g)	89,595

Operating profit (loss)								
Net earnings attributable to CLARCOR	58,873	10,485	6,426	75,784	56,513	4,801	(2,401)	58,913
Diluted earnings per share	$1.16	$0.21	$0.13	$1.49	$1.12	$0.10	$(0.05)	$1.17

(a) Includes adjustments to remove transaction costs of $3,035 and cost of sales related to the step-up of inventory to its estimated acquisition-date fair value of $1,368, which have been pushed back to the three months ended March 2, 2013 for

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pro forma presentation. Also includes adjustments to intangible asset amortization, depreciation expense and interest expense.

(b) Includes adjustments to cost of sales related to the step-up of inventory to its estimated acquisition-date fair value of $664, which have been pushed back to the six months ended June 1, 2013 for pro forma presentation.

(c) Includes adjustments to remove transaction costs of $2,089 and cost of sales related to the step-up of inventory to its estimated acquisition-date fair value of $4,216, which have been pushed back to the period ended March 2, 2013 for pro forma presentation. Also includes adjustments to intangible asset amortization, depreciation expense and interest expense.

(d) Includes adjustments to push back cost of sales related to the step-up of inventory to its estimated acquisition-date fair value of $144. Also includes adjustments to intangible asset amortization, depreciation expense and interest expense.

(e) Includes adjustments to push back transaction costs of $3,740 and cost of sales related to the step-up of inventory to its estimated acquisition-date fair value of $4,342. Also includes adjustments to intangible asset amortization, depreciation expense and interest expense.

(f) Includes adjustments to intangible asset amortization, depreciation expense and interest expense.

(g) Includes adjustments to push back transaction costs of $3,075 and cost of sales related to the step-up of inventory to its estimated acquisition-date fair value of $1,368. Also includes adjustments to intangible asset amortization, depreciation expense and interest expense.

Bekaert Business

On December 3, 2013, the Company acquired from NV Bekaert SA 100% of the outstanding shares of Bekaert Advanced Filtration SA (Belgium), 100% of the outstanding shares of PT Bekaert Advanced Filtration (Indonesia) and certain other assets in India, China and the U.S. (collectively, the “Bekaert Business”). The purchase price was approximately $7,297 in cash (net of cash acquired), which the Company paid with cash on hand.

The Bekaert Business has approximately 170 employees, and manufacturing facilities located in Belgium and Indonesia, as well as sales personnel in North and South America. The business is engaged in the manufacture and supply of engineered metal filters and systems used primarily in the polymer and plastics industry. The Bekaert Business was acquired to expand the Company’s technical capabilities, improve the Company's product offerings and help the Company continue to grow in Europe and in Asia. The business has been merged into the Company’s Purolator Advanced Filtration Group, headquartered in Greensboro, North Carolina. Its results are included as part of the Company’s Industrial/Environmental Filtration segment from the date of acquisition.

A preliminary allocation of the purchase price to the assets acquired and liabilities assumed was made based on available information and incorporating management’s best estimates. Assets acquired and liabilities assumed in the transaction were recorded at their estimated acquisition date fair values, while transaction costs associated with the acquisition were expensed as incurred. Acquired finite-lived intangible assets of $2,057 were recorded in connection with the purchase. The $2,815 excess of the fair value of the identifiable assets acquired and liabilities assumed over the purchase price was recorded as a bargain purchase gain and is included in “Other, net” income in the Consolidated Condensed Statements of Earnings. Prior to recording this gain, the Company reassessed its identification of assets acquired and liabilities assumed, including the use of independent valuation experts to assist the Company in appraising the personal property, real property and intangible assets acquired. The Company believes there were several factors that contributed to this transaction resulting in a bargain purchase gain, including the business falling outside of NV Bekaert SA’s core activities and historical losses incurred by the business.

The Company is currently in the process of finalizing the valuations of all assets acquired and liabilities assumed. The Company expects to finalize the purchase price allocation during fiscal 2014.

Net sales and operating loss for the Bekaert business subsequent to the date it was acquired by the Company for the three and six months ended May 31, 2014 were as follows:

	Three Months Ended May 31, 2014	Six Months Ended May 31, 2014
Net sales	$3,526	$6,303
Operating loss	(303)	(554)

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Modular
On May 9, 2012, the Company acquired 100% of the shares in Modular Engineering Company Pty Ltd. ("Modular") for $7,875. An initial payment of $5,237 was made at closing with the remaining purchase price to be paid in two installments on the first and second anniversaries of the original closing date. The first installment of $1,530 was made on May 8, 2013 and the second installment of $1,391 was paid on May 8, 2014.

Investments

The Company owns 30% of BioProcessH2O LLC (“BPH”), a Rhode Island-based manufacturer of industrial waste water and water reuse filtration systems. During the three and six months ended May 31, 2014 and June 1, 2013, the Company did not make any additional investments. The Company has $21 accrued which has not yet been funded and is included in Accounts payable and accrued liabilities in the accompanying Consolidated Condensed Balance Sheets at both May 31, 2014 and November 30, 2013. The investment, with a carrying amount of $3,077 and $3,097, at May 31, 2014 and November 30, 2013, respectively, included in Other noncurrent assets in the Consolidated Condensed Balance Sheets, is being accounted for under the equity method of accounting. The carrying amount is adjusted each period to recognize the Company’s share of the earnings or losses of BPH, included in Other, net in the Consolidated Condensed Statements of Earnings, based on the percentage of ownership, as well as the receipt of any dividends. During the three and six months ended May 31, 2014 and June 1, 2013, the Company did not receive any dividends from BPH.

The Company also owns 15.65% of BioProcess Algae LLC (“Algae”), a Delaware-based company developing technology to grow and harvest algae which can be used to consume carbon dioxide and also be used as a renewable energy source. During the three and six months ended May 31, 2014, the Company invested an additional $0 and $473, respectively, into Algae. The investment, with a carrying amount of $2,677 and $2,204 at May 31, 2014 and November 30, 2013, respectively, included in Other noncurrent assets, is being accounted for under the cost method of accounting. Under the cost method, the Company recognizes dividends as income when received and reviews the cost basis of the investment for impairment if factors indicate that a decrease in value of the investment has occurred. During the three and six months ended May 31, 2014 and June 1, 2013, the Company did not receive any dividends from Algae.

3. INCENTIVE PLANS AND STOCK-BASED COMPENSATION

On March 25, 2014, the shareholders of CLARCOR approved the 2014 Incentive Plan, which replaced the 2009 Incentive Plan. Previously, on March 23, 2009, the shareholders of CLARCOR approved the 2009 Incentive Plan, which replaced the 2004 Incentive Plan. The 2014 Incentive Plan allows the Company to grant stock options, restricted stock unit awards, restricted stock, performance awards and other awards to officers, directors and key employees of up to 6,600,000 shares during a ten-year period that ends in April 2024. Upon share option exercise or restricted stock unit award conversion, the Company issues new shares unless treasury shares are available. The key provisions of the Company’s stock-based incentive plans are described in Note M of the Company’s Consolidated Financial Statements included in the 2013 Form 10-K.

Stock Options

Nonqualified stock options are granted at exercise prices equal to the market price of CLARCOR common stock at the date of grant, which is the date the Company’s Board of Directors approves the grant and the participants receive it. The Company’s Board of Directors determines the vesting requirements for stock options at the time of grant and may accelerate vesting. In general, options granted to key employees 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. Options granted to non-employee directors vest immediately. All options expire ten years from the date of grant unless otherwise terminated. Beginning in 2013, stock-based compensation for the Company's Board of Directors is in the form of a grant of shares of stock, rather than stock options.

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The following table summarizes information related to stock options and stock option exercises during the three and six months ended May 31, 2014 and June 1, 2013.

	Quarter Ended		Six Months Ended	
	May 31, 2014	June 1, 2013	May 31, 2014	June 1, 2013
Pre-tax compensation expense	$921	$774	$2,032	$1,661
Deferred tax benefits	(328)	(275)	(723)	(591)
Excess tax benefits associated with tax deductions over the amount of compensation expense recognized in the consolidated condensed financial statements	88	1,168	250	2,899
Fair value of stock options on date of grant	96	—	4,650	3,836
Total intrinsic value of stock options exercised	398	3,594	1,156	8,880
Cash received upon exercise of stock options	582	3,859	1,824	7,184
Addition to capital in excess of par value due to exercise of stock options	653	4,887	2,016	8,813

The following table summarizes activity for the six months ended May 31, 2014 with respect to stock options granted by the Company and includes options granted under the 1994 Incentive Plan, the 2004 Incentive Plan, the 2009 Incentive Plan and the 2014 Incentive Plan.

	Options Granted Under Incentive Plans	Weighted Average Exercise Price
Outstanding at beginning of year	2,208,314	$40.76
Granted	450,700	$61.49
Exercised	(50,630)	$36.03
Surrendered	(2,249)	$41.51
Outstanding at end of period	2,606,135	$44.43
Exercisable at end of period	1,654,715	$39.21

At May 31, 2014, there was $8,012 of unrecognized compensation cost related to option awards which the Company expects to recognize over a weighted-average period of 2.76 years.

The following table summarizes information about the Company's outstanding and exercisable options at May 31, 2014.

	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
$25.31 - $28.79	149,900	$26.92	$4,739	2.00	149,900	$26.92	$4,739	2.00
$31.96 - $38.06	697,182	$33.85	17,209	4.03	696,932	$33.85	17,203	4.03

$40.73 - $57.74	1,318,103	$46.29	16,131	7.69	807,883	$46.11	10,030	7.36
$61.57	440,950	$61.57	—	9.54	—	$—	—	0.00
	2,606,135	$44.43	$38,079	6.70	1,654,715	$39.21	$31,972	5.47

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The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions by grant year.

	Six Months Ended	
	May 31, 2014	June 1, 2013
Weighted average fair value per option at the date of grant for options granted	$11.50	$9.96
Risk-free interest rate	1.55 %	1.19 %
Expected dividend yield	1.10 %	1.19 %
Expected volatility factor	21.38 %	25.81 %
Expected option term in years	5.0	5.4

The expected option term in years selected for options granted during each period presented represents the period of time that the options are expected to be outstanding based on historical data of option holder exercise and termination behavior. Expected volatilities are based upon historical volatility of the Company's monthly stock closing prices over a period equal to the expected life of each option grant. The risk-free interest rate is selected based on yields from U.S. Treasury zero-coupon issues with a remaining term approximately equal to the expected term of the options being valued. Expected dividend yield is based on the estimated dividend yield determined on the date of issuance.

Restricted Stock Unit Awards

The Company's restricted stock unit awards are considered nonvested share awards. The restricted stock unit awards require no payment from the employee. Compensation cost is recorded based on the market price of the stock on the grant date and is recorded equally over the vesting period of four years. During the vesting period, officers and key employees receive compensation equal to the amount of dividends declared on common shares they would have been entitled to receive had the shares been issued. Upon vesting, employees may elect to defer receipt of their shares. There were 16,986 and 14,760 vested and deferred shares at May 31, 2014 and November 30, 2013, respectively.

The following table summarizes information related to restricted stock unit awards during the three and six months ended May 31, 2014 and June 1, 2013.

	Quarter Ended		Six Months Ended	
	May 31, 2014	June 1, 2013	May 31, 2014	June 1, 2013
Pre-tax compensation expense	$338	$210	$742	$469
Deferred tax benefits	(120)	(75)	(264)	(167)
Excess tax benefits associated with tax deductions under the amount of compensation expense recognized in the consolidated condensed financial statements	—	1,258	101	