CLARCOR INC
Form 10-Q
June 17, 2011

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 28, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _______ to ________

Commission File Number 1-11024

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

DELAWARE (State or other jurisdiction of incorporation or organization)	36-0922490 (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 May 28, 2011, there were 50,410,377 common shares with a par value of $1 per share were outstanding.

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* Item omitted because no answer is called for or item is not applicable

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Quarter Ended		Six Months Ended	
	May 28, 2011	May 29, 2010	May 28, 2011	May 29, 2010
Net sales	$288,533	$257,869	$534,253	$473,000
Cost of sales	189,071	173,026	353,838	318,352
Gross profit	99,462	84,843	180,415	154,648
Selling and administrative expenses	50,682	48,631	100,344	95,540
Operating profit	48,780	36,212	80,071	59,108
Other income (expense):				
Interest expense	(221)	(114)	(265)	(237)
Interest income	239	95	276	116
Other, net	(228)	(205)	(428)	(597)
	(210)	(224)	(417)	(718)
Earnings before income taxes	48,570	35,988	79,654	58,390
Provision for income taxes	15,689	12,053	24,852	19,648
Net earnings	32,881	23,935	54,802	38,742
Net (earnings) loss attributable to noncontrolling interests	(73)	(50)	(113)	9
Net earnings attributable to CLARCOR Inc.	$32,808	$23,885	$54,689	$38,751
Net earnings per share attributable to CLARCOR Inc.:				
Basic	$0.65	$0.47	$1.08	$0.76
Diluted	$0.64	$0.47	$1.07	$0.76
Weighted average number of shares outstanding:				
Basic	50,594,963	50,716,443	50,581,731	50,661,061
Diluted	51,282,383	51,042,817	51,284,811	50,902,545
Dividends paid per share	$0.1050	$0.0975	$0.2100	$0.1950

See Notes to Consolidated Condensed Financial Statements

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

	May 28, 2011	November 27, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$121,943	$117,022
Restricted cash	877	708
Accounts receivable, less allowance for losses of $11,296 and $11,428, respectively	198,953	188,186
Inventories	207,341	182,384
Deferred income taxes	24,956	25,081
Income taxes receivable	—	7,324
Prepaid expenses and other current assets	6,349	5,568
Total current assets	560,419	526,273
Plant assets, at cost, less accumulated depreciation of $287,054 and $275,372, respectively	184,466	181,175
Assets held for sale	2,000	2,000
Goodwill	237,163	228,105
Acquired intangibles, less accumulated amortization	101,499	91,174
Deferred income taxes	—	1,000
Other noncurrent assets	13,457	12,684
Total assets	$1,099,004	$1,042,411
LIABILITIES		
Current liabilities:		
Current portion of long-term debt	$95	$146
Accounts payable and accrued liabilities	144,053	160,206
Income taxes	5,678	3,105
Total current liabilities	149,826	163,457
Long-term debt, less current portion	17,270	17,331
Long-term pension and postretirement healthcare benefits liabilities	66,651	66,124
Deferred income taxes	30,650	31,266
Other long-term liabilities	18,253	5,138
Total liabilities	282,650	283,316
Contingencies		
Redeemable noncontrolling interests	1,456	1,568
SHAREHOLDERS' EQUITY		
Capital stock	50,410	50,335
Capital in excess of par value	35,183	33,698
Accumulated other comprehensive loss	(23,407)	(35,041)
Retained earnings	751,550	707,478
Total CLARCOR Inc. equity	813,736	756,470

Noncontrolling interests	1,162	1,057
Total shareholders' equity	814,898	757,527
Total liabilities and shareholders' equity	$1,099,004	$1,042,411

See Notes to Consolidated Condensed Financial Statements

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

	Six Months Ended	
	May 28, 2011	May 29, 2010
Cash flows from operating activities:		
Net earnings	$54,802	$38,742
Depreciation	13,956	13,805
Amortization	2,750	2,423
Other noncash items	(175)	(102)
Net loss on disposition of plant assets	31	—
Stock-based compensation expense	3,700	3,362
Excess tax benefit from stock-based compensation	(2,041)	(1,722)
Change in short-term investments	—	32,171
Change in assets and liabilities, excluding short-term investments	(33,867)	(18,708)
Net cash provided by operating activities	39,156	69,971
Cash flows from investing activities:		
Restricted cash	172	(28)
Business acquisitions, net of cash acquired	(10,455)	—
Additions to plant assets	(9,271)	(11,257)
Proceeds from disposition of plant assets	233	—
Proceeds from insurance claims	—	557
Other, net	—	153
Net cash used in investing activities	(19,321)	(10,575)
Cash flows from financing activities:		
Net payments under multicurrency revolving credit agreement	—	(35,000)
Borrowings under long-term debt	—	354
Payments on long-term debt	(1,797)	(73)
Sale of capital stock under stock option and employee purchase plans	5,820	3,963
Purchase of treasury stock	(8,892)	—
Excess tax benefit from stock-based compensation	2,041	1,722
Cash dividends paid	(10,618)	(9,870)
Net cash used in financing activities	(13,446)	(38,904)
Net effect of exchange rate changes on cash	(1,468)	(4,108)
Net change in cash and cash equivalents	4,921	16,384
Cash and cash equivalents, beginning of period	117,022	59,277
Cash and cash equivalents, end of period	$121,943	$75,661
Cash paid during the period for:		
Interest	$70	$1,076
Income taxes, net of refunds	$13,785	$24,426

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 CONDENSED FINANCIAL STATEMENTS

Basis of Presentation

The Consolidated Condensed Statements of Earnings and the Consolidated Condensed Statements of Cash Flows for the periods ended May 28, 2011 and May 29, 2010 and the Consolidated Condensed Balance Sheet as of May 28, 2011 have been prepared by CLARCOR Inc. ("CLARCOR" or "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 27, 2010 ("2010 Form 10-K"). The November 27, 2010 Consolidated Condensed Balance Sheet data was derived from the Company's year-end audited Consolidated Financial Statements as presented in the 2010 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 28, 2011, 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 Company's 2010 Form 10-K.

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 28, 2011	November 27, 2010
Raw materials	$77,089	$67,011
Work in process	29,278	26,219
Finished products	100,974	89,154
	$207,341	$182,384

New Accounting Guidance

In October 2009, the Financial Accounting Standards Board ("FASB") issued guidance on revenue arrangements with multiple deliverables effective for the Company's 2011 fiscal year, although early adoption is permitted. The guidance revises the criteria for separating, measuring, and allocating arrangement consideration to each deliverable in a multiple element arrangement. The guidance requires companies to allocate revenue using the relative selling price of each deliverable, which must be estimated if the company does not have a history of selling the deliverable on a stand-alone basis or third-party evidence of selling price. The impact of adopting this guidance on November 28, 2010 was not material to the Consolidated Condensed Financial Statements.

In December 2010, the FASB issued guidance to modify the steps a company performs in preparing its goodwill impairment test. The guidance deals specifically with reporting units having zero or negative carrying amounts. For those reporting units, a company is required to perform the second step of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, a company should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The Company does not expect the adoption of this guidance on December 4, 2011 to have a material impact on the Consolidated Condensed Financial Statements.

In December 2010, the FASB issued guidance which amends the pro forma disclosure requirements for business combinations and specifies that if a public company presents comparative financial statements, the company should disclose revenue and earnings of the combined entity as though business combinations occurring during the year had occurred as of the beginning of the comparable prior annual reporting period only. The guidance also expands the pro forma disclosure requirements to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The Company does not expect the adoption of this guidance on December 4, 2011 to have a material impact on the Consolidated Condensed Financial Statements.

CLARCOR Inc.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
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In May 2011, the FASB issued guidance amending fair value measurement and disclosure requirements in order to align U.S. GAAP and International Financial Reporting Standards ("IFRS"). Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. Some of the amendments clarify the intent about the application of existing fair value measurement requirements, while other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The Company does not expect the adoption of this guidance on February 27, 2012 to have a material impact on the Consolidated Condensed Financial Statements.

2. BUSINESS ACQUISITIONS, INVESTMENTS AND REDEEMABLE NONCONTROLLING INTERESTS

Business Acquisitions

On December 29, 2010, the Company acquired 100% of the outstanding membership interests in TransWeb LLC (“TransWeb”), a privately-owned manufacturer of media used in a variety of end-use applications, including respirators and heating, ventilation and air conditioning ("HVAC") filters. Founded in 1996 and based in Vineland, New Jersey, TransWeb has supplied media to a subsidiary of the Company for several years. TransWeb was acquired to expand the Company’s technology capabilities in the area of media development and to enhance the product offerings of the Company's filtration operating companies. TransWeb’s results are included in the Industrial/Environmental Filtration segment from the date of acquisition. Net sales and Operating profit attributable to TransWeb for the quarter ended May 28, 2011 were $2,518 and $140, respectively. Net sales and Operating profit attributable to TransWeb for the six months ended May 28, 2011 were $4,893 and $474, respectively.

The base purchase price to acquire TransWeb was $30,017, excluding cash acquired. Of the base purchase price, the Company withheld payment of $17,000 pending resolution of 3M litigation, which funds may be used by the Company in connection with the same (see Note 11). A contingent liability for a potential earn-out payment to one of the former owners of $1,018, recorded at fair value by applying the income approach, was also recognized and is included in Other long-term liabilities in the Consolidated Condensed Balance Sheets. The Company assumed existing long term debt of $1,544, which was immediately repaid in connection with the closing. The Company paid the balance of the purchase price with available cash.

The following condensed balance sheet is based on the fair values of the assets acquired and liabilities assumed as of the acquisition date.

Cash	$14	
Accounts receivable	1,153	
Inventory	1,045	
Other current assets	93	
Plant assets	7,291	
Goodwill	7,976	
Other acquired intangibles	13,000	
Other assets	100	
Total assets acquired	30,672	
Accounts payable and accrued liabilities	(641	)

Net assets acquired	$30,031

The fair value of the assets acquired includes accounts receivable, which are trade receivables. The Company does not anticipate any amounts to be uncollectible. The goodwill of $7,976, which is deductible for income tax purposes, represents the excess of cost over the fair value of the net tangible and intangible assets acquired. Factors that contributed to a purchase price resulting in the recognition of goodwill included TransWeb's strategic fit with the Company's products and services as well as the ability to enhance the Company's product offerings.

CLARCOR Inc.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
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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
Customer relationships	$8,500	12 years
Developed technology	3,500	12 years
Trade names and trademarks	900	Indefinite
Non-compete agreements	100	2 years
Total fair value	$13,000	

The acquisition-date estimated fair value of the contingent consideration payment of $1,018 was recorded as a component of the consideration transferred in exchange for the equity interests of TransWeb in accordance with accounting guidance. The contingent liability for the earn-out payment will continue to be accounted for and measured at fair value until the contingency is settled during fiscal year 2016. The fair value measurement of the contingent liability is based on significant inputs not observed in the market and thus represents a Level 3 measurement as defined by accounting literature (see Note 6). The fair value of the contingent consideration was estimated using a probability-weighted discounted cash flow model with a discount rate of 11.9%. The contingent consideration payment is revalued to its current fair value at each reporting date. Any increase or decrease in the fair value, as a result of changes in significant inputs such as the discount rate, the discount period or other factors used in the calculation, is recognized in Selling and administrative expenses in the Consolidated Condensed Statements of Earnings in the period the estimated fair value changes.

Assuming this transaction had been made at the beginning of each of the periods presented, the consolidated pro-forma results would not be materially different from the results as reported. The Company incurred costs of $134 related to the acquisition of TransWeb which are included in Selling and administrative expenses in the Consolidated Condensed Statements of Earnings.

Investments

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. 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 $3,351 and $3,266, at May 28, 2011 and November 27, 2010, 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 six months ended ended May 28, 2011, the Company did not receive any dividends from BPH. During the six months ended May 29, 2010, the Company received dividends of $382 from BPH. The equity investment is periodically reviewed for indicators of impairment.

The Company also owns a 15% share in 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. The investment, with a carrying amount of $398 and $398, at May 28, 2011 and November 27, 2010, 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. The Company has not received any dividends from Algae.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
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Redeemable Noncontrolling Interests

In March 2007, the Company acquired an 80% ownership share in Sinfa SA ("SINFA"), a manufacturer of automotive and heavy-duty engine filters based in Casablanca, Morocco. As part of the purchase agreement, the Company and the noncontrolling owners each have an option to require the purchase of the remaining 20% ownership shares by the Company after December 31, 2012 which would result in SINFA becoming a wholly owned subsidiary. The remaining 20% of SINFA owned by the noncontrolling owners has been reported as Redeemable noncontrolling interests and classified as mezzanine equity in the Consolidated Condensed Balance Sheets. The Redeemable noncontrolling interests will be accreted to the redemption price, through equity, at the point at which the redemption becomes probable. The Company has not recorded any accretion to date.

3. INCENTIVE PLANS AND STOCK-BASED COMPENSATION

On March 23, 2009, the shareholders of CLARCOR approved the 2009 Incentive Plan, which replaced the 2004 Incentive Plan. The 2009 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 3,800,000 shares during a ten-year period that ends in December 2019. 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 N of the Company's Consolidated Financial Statements included in the 2010 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.

The following table summarizes information related to stock options during the quarter and six months ended May 28, 2011 and May 29, 2010.

	Quarter Ended		Six Months Ended	
	May 28, 2011	May 29, 2010	May 28, 2011	May 29, 2010
Pre-tax compensation expense	$977	$752	$2,850	$2,530
Deferred tax benefits	(359)	(249)	(1,047)	(851)
Excess tax benefits associated with tax deductions over the amount of compensation expense recognized in the consolidated condensed financial statements	1,384	1,631	2,041	1,783

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

The following table summarizes activity with respect to stock options granted by the Company and includes options granted under the 1994 Incentive Plan, the 2004 Incentive Plan and the 2009 Incentive Plan.

	Shares Granted Under Incentive Plans	Weighted Average Exercise Price
Outstanding at beginning of year	3,229,410	$29.07
Granted	492,250	$43.01
Exercised	(322,872)	$24.35
Surrendered	(9,475)	$36.24
Outstanding at May 28, 2011	3,389,313	$31.52
Options exercisable at May 28, 2011	2,425,351	$29.18

At May 28, 2011, there was $5,589 of unrecognized compensation cost related to option awards which the Company expects to recognize over a weighted-average period of 2.61 years.

The following table summarizes information about the Company's outstanding and exercisable options at May 28, 2011.

	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
$11.50 - $13.75	32,300	$13.05	$943	0.48	32,300	$13.05	$943	0.48
$16.01 - $22.80	465,434	$19.74	10,475	2.05	465,434	$19.74	10,475	2.05
$25.31 - $34.40	1,916,307	$30.59	22,354	5.95	1,457,200	$29.98	17,874	5.26
$35.11 - $38.23	486,322	$36.18	2,953	6.54	410,067	$36.12	2,512	6.54
$42.86 - $44.07	488,950	$43.01	—	9.58	60,350	$44.06	—	9.83
	3,389,313	$31.52	$36,725	5.97	2,425,351	$29.18	$31,804	4.91

The following table summarizes information about stock option exercises during the quarter and six months ended May 28, 2011 and May 29, 2010.

	Quarter Ended		Six Months Ended	
	May 28, 2011	May 29, 2010	May 28, 2011	May 29, 2010
Fair value at issuance of options exercised	$1,495	$1,671	$2,111	$1,742
Total intrinsic value of options exercised	4,510	4,474	6,558	4,893
Cash received upon exercise of options	3,046	3,184	5,237	3,424
Tax benefit realized from exercise of options, net	1,380	1,624	2,035	1,776
Addition to capital in excess of par value due to exercise of stock options	3,244	4,035	5,994	4,407

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

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 28, 2011		May 29, 2010	
Weighted average fair value per option at the date of grant for options granted	$11.73		$8.72	
Risk-free interest rate	2.52	%	2.76	%
Expected dividend yield	0.95	%	1.25	%
Expected volatility factor	25.53	%	26.28	%
Expected option term in years	6.4		5.7	

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 103,390 and 108,800 vested and deferred shares at May 28, 2011 and November 27, 2010, respectively.

The following table summarizes information related to restricted stock unit awards during the quarter and six months ended May 28, 2011 and May 29, 2010.

	Quarter Ended				Six Months Ended			
	May 28, 2011		May 29, 2010		May 28, 2011		May 29, 2010	
Pre-tax compensation expense	$118		$99		$850		$832	
Deferred tax benefits	(43	)	(32	)	(312	)	(280	)
Excess tax (expense) benefit associated with tax deductions under the amount of compensation expense recognized in the consolidated condensed financial statements	(44	)	(36	)	83		(61	)
Fair value of shares vested	7		—		905		742	

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

The following table summarizes the restricted stock unit awards.

	Units	Weighted Average Grant Date Fair Value
Nonvested at beginning of year	70,894	$33.23
Granted	29,467	$42.86
Vested	(26,937)	$33.60
Nonvested at May 28, 2011	73,424	$36.96

The Company has recognized $1,640 of compensation cost prior to May 28, 2011 related to nonvested restricted stock unit awards. As of May 28, 2011, there was $1,085 of total unrecognized compensation cost related to nonvested restricted stock unit awards that the Company expects to recognize during fiscal years 2011 through 2014.

4. COMPREHENSIVE EARNINGS

Total comprehensive earnings and its components are as follows:

	Other Comprehensive Earnings, Net of Tax:			
	Net Earnings	Foreign Currency and Other Adjustments	Pension Liability Adjustments	Total Comprehensive Earnings (Loss)
Quarter Ended				
May 28, 2011				
CLARCOR Inc.	$32,808	$4,605	$678	$38,091
Non-redeemable noncontrolling interests	54	1	—	55
Redeemable noncontrolling interests	19	(119)	—	(100)
	$32,881	$4,487	$678	$38,046
May 29, 2010				
CLARCOR Inc.	$23,885	$(6,558)	$656	$17,983
Non-redeemable noncontrolling interests	48	—	—	48
Redeemable noncontrolling interests	2	—	—	2
	$23,935	$(6,558)	$656	$18,033

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

	Net Earnings (Loss)	Other Comprehensive Earnings, Net of Tax: Foreign Currency and Other Adjustments	Pension Liability Adjustments	Total Comprehensive Earnings (Loss)
Six Months Ended				
May 28, 2011				
CLARCOR Inc.	$54,689	$9,428	$2,206	$66,323
Non-redeemable noncontrolling interests	106	1	—	107
Redeemable noncontrolling interests	7	(119)	—	(112)
	$54,802	$9,310	$2,206	$66,318
May 29, 2010				
CLARCOR Inc.	$38,751	$(13,927)	$1,279	$26,103
Non-redeemable noncontrolling interests	93	(3)	—	90
Redeemable noncontrolling interests	(102)	53	—	(49)
	$38,742	$(13,877)	$1,279	$26,144

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

	May 28, 2011	November 27, 2010
Pension liability, gross	$(54,644)	$(58,191)
Tax effect of pension liability	19,808	21,149
Pension liability, net of tax	(34,836)	(37,042)
Translation adjustments, gross	11,584	2,156
Tax effect of translation adjustments	(155)	(155)
Translation adjustments, net of tax	11,429	2,001
Accumulated other comprehensive loss	$(23,407)	$(35,041)

5. GOODWILL AND ACQUIRED INTANGIBLES ASSETS

The following table reconciles the activity for goodwill by segment for the six months ended May 28, 2011. All goodwill is stated on a gross basis, as the Company has not recorded any impairment charges against goodwill.

	Engine/Mobile Filtration	Industrial/ Environmental Filtration	Packaging	Total
November 27, 2010	$21,634	$206,471	$—	$228,105
Acquisition	—	7,976	—	7,976
Currency translation adjustments	766	316	—	1,082
May 28, 2011	$22,400	$214,763	$—	$237,163

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The following table summarizes acquired intangibles by segment. Other acquired intangibles include parts manufacturer regulatory approvals, developed technology, patents and non-compete agreements.

	Engine/Mobile Filtration	Industrial/ Environmental Filtration	Packaging	Total
May 28, 2011				
Trademarks, gross - indefinite lived	$603	$41,922	$—	$42,525
Trademarks, gross - finite lived	317	488	—	805
Accumulated amortization	(67)	(295)	—	(362)
Trademarks, net	$853	$42,115	$—	$42,968
Customer relationships, gross	$4,221	$42,693	$—	$46,914
Accumulated amortization	(1,452)	(12,022)	—	(13,474)
Customer relationships, net	$2,769	$30,671	$—	$33,440
Other acquired intangibles, gross	$243	$39,623	$—	$39,866
Accumulated amortization	(243)	(14,532)	—	(14,775)
Other acquired intangibles, net	$—	$25,091	$—	$25,091
Total	$3,622	$97,877	$—	$101,499

The following table summarizes estimated amortization expense for the next five fiscal years.

Fiscal year 2011	$5,653
Fiscal year 2012	5,800
Fiscal year 2013	5,729
Fiscal year 2014	5,523
Fiscal year 2015	5,290

6. FAIR VALUE MEASUREMENTS

Fair Value Measurements

The Company measures certain assets and liabilities at fair value as discussed throughout the notes to its quarterly and annual financial statements. Fair value is the exchange price that would be received for an asset or paid to transfer a liability, an exit price, in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. Fair value measurements are categorized in a hierarchy based upon the observability of inputs used in valuation techniques. Observable inputs are the highest level and reflect market data obtained from independent sources, while unobservable inputs are the lowest level and reflect internally developed market assumptions.

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The Company classifies fair value measurements by the following hierarchy:

- Level 1 – Quoted active market prices for identical assets
- Level 2 – Significant other observable inputs, such as quoted prices for similar (but not identical) instruments in active markets, quoted prices for identical or similar instruments in markets which are not active and model determined valuations in which all significant inputs or significant value-drivers are observable in active markets
- Level 3 – Significant unobservable inputs, such as model determined valuations in which one or more significant inputs or significant value-drivers are unobservable

Assets or liabilities that have recurring measurements are shown below:

	Fair Value Measurements at Reporting Date			
	Total	Level 1	Level 2	Level 3
May 28, 2011				
Restricted trust, included in Other noncurrent assets				
Mutual fund investments - equities	$959	$959	$—	$—
Mutual fund investments - bonds	364	364	—	—
Cash and equivalents	10	10	—	—
Total restricted trust	$1,333	$1,333	$—	$—
TransWeb contingent earn-out, included in Other long-term liabilities	$1,018	$—	$—	$1,018
November 27, 2010				
Restricted trust, included in Other noncurrent assets				
Mutual fund investments - equities	$879	$879	$—	$—
Mutual fund investments - bonds	357	357	—	—
Cash and equivalents	22	22	—	—
Total restricted trust	$1,258	$1,258	$—	$—

The restricted trust, which is used to fund certain payments for the Company's U.S. combined nonqualified pension plans, consists of actively traded equity and bond funds. The TransWeb contingent earn-out payment was established in connection with the acquisition of TransWeb (see Note 2). There were no changes in the fair value determination methods or significant assumptions used in those methods during the six months ended May 28, 2011. There were no transfers between Level 1 and Level 2 during the six months ended May 28, 2011. There were no material changes in the fair value of the TransWeb contingent earn-out payment during the six months ended May 28, 2011.

Fair Values of Financial Instruments

The fair values of the Company's financial instruments, which are cash and cash equivalents, restricted cash, accounts receivable and the restricted trust, approximated the carrying values of those financial instruments at both May 28, 2011 and November 27, 2010. An expected present value technique is used to estimate the fair value of long-term debt. A fair value estimate of $16,717 and $16,892 for long-term debt at May 28, 2011 and November 27, 2010, respectively, is based on the current interest rates available to the Company for debt with similar remaining maturities. The carrying value for the long-term debt at May 28, 2011 and November 27, 2010 is $17,365 and

$17,477, respectively.

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7. ACCOUNTS PAYABLE, ACCRUED LIABILITIES AND GUARANTEES

Accounts payable and accrued liabilities at May 28, 2011 and November 27, 2010 were as follows:

	May 28, 2011	November 27, 2010
Accounts payable	$66,815	$64,630
Accrued salaries, wages and commissions	13,322	31,497
Compensated absences	8,627	8,172
Accrued insurance liabilities	11,970	11,473
Customer deposits	10,058	7,732
Other accrued liabilities	33,261	36,702
	$144,053	$160,206

Warranties are recorded as a liability on the balance sheet and as charges to current expense for estimated normal warranty costs and, if applicable, for specific performance issues known to exist on products already sold. The expenses estimated to be incurred are provided at the time of sale and adjusted as needed, based primarily upon experience.

Changes in the Company’s warranty accrual, which is included in Other accrued liabilities, are as follows:

	Six Months Ended	
	May 28, 2011	May 29, 2010
Balance at beginning of period	$3,499	$3,989
Accruals for warranties issued during the period	258	242
Adjustments related to pre-existing warranties	(12)	41
Settlements made during the period	(441)	(502)
Other adjustments, including currency translation	(35)	(384)
Balance at end of period	$3,269	$3,386

The Company has letters of credit totaling $25,802 and $23,189 as of May 28, 2011 and November 27, 2010, respectively, issued to various government agencies, primarily related to industrial revenue bonds, and to insurance companies and other commercial entities in support of its obligations. The Company believes that no payments will be required resulting from these obligations.

In the ordinary course of business, the Company also provides routine indemnifications and other guarantees whose terms range in duration and are often not explicitly defined. The Company does not believe these will have a material impact on the results of operations or financial condition of the Company.

8. LONG-TERM DEBT AND INTEREST RATE AGREEMENT

On December 18, 2007, the Company entered into a five-year multicurrency revolving credit agreement (“Credit Facility”) with a group of financial institutions under which it may borrow up to $250,000 under a selection of currencies and rate formulas. The Credit Facility interest rate is based upon, at the Company's election, either a defined Base Rate or the London Interbank Offered Rate ("LIBOR") plus or minus applicable margins. Commitment fees, letter of credit fees and other fees are also payable as provided in the Credit Facility. At May 28, 2011, there were no borrowings outstanding on the Credit Facility. The Credit Facility includes a $75,000 letter of credit subline, against which $16,012 and $16,031 in letters of credit had been issued at May 28, 2011 and November 27, 2010, respectively.

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The Company's significant accounting policies for derivative instruments are described in Note A of the 2010 Form 10-K. On January 2, 2008, the Company entered into a fixed rate interest swap agreement to manage its interest rate exposure on certain amounts outstanding under the Credit Facility. The interest rate agreement expired January 1, 2010. The interest rate agreement provided for the Company to receive interest at floating rates based on LIBOR and pay a 3.93% fixed interest rate plus an applicable margin on a notional amount of $100,000. Payments pursuant to the interest rate agreement were settled on a net basis quarterly. Hedge accounting was not applied to the fixed rate interest swap agreement and therefore, unrealized gains or losses were recorded in interest expense in the Consolidated Condensed Statements of Earnings. Periodic settlement payments or receipts were recorded as a component of cash flows from operating activities in the Consolidated Condensed Statements of Cash Flows.

The following table reflects the net settlement payments on the fixed rate interest swap agreement for the quarter and six months ended May 29, 2010.

Derivatives Not Designated as Hedging Instruments	Location	Amount
		Quarter Ended May 29, 2010
Fixed rate interest swap agreement unrealized losses	Interest expense	$—
Fixed rate interest swap agreement net settlement payments	Cash flows from operating activities	—
		Six Months Ended May 29, 2010
Fixed rate interest swap agreement unrealized losses	Interest expense	$—
Fixed rate interest swap agreement net settlement payments	Cash flows from operating activities	961

9. PENSION AND OTHER POSTRETIREMENT PLANS

The Company provides various retirement benefits, including defined benefit plans and postretirement healthcare plans covering certain current and retired employees in the U.S. and abroad. Components of net periodic benefit cost and Company contributions for these plans were as follows:

	Quarter Ended		Six Months Ended	
	May 28, 2011	May 29, 2010	May 28, 2011	May 29, 2010
Pension Benefits:				
Components of net periodic benefit cost:				
Service cost	$492	$527	$984	$1,055
Interest cost	2,014	2,031	4,024	4,070
Expected return on plan assets	(1,923)	(1,777)	(3,843)	(3,562)
Amortization of unrecognized:				
Prior service cost	(99)	(99)	(198)	(198)
Net actuarial loss	1,266	1,199	2,423	2,400
Net periodic benefit cost	1,750	1,881	3,390	3,765
Settlement cost	—	—	1,368	—

Total benefit cost	$1,750	$1,881	$4,758	$3,765
Cash contributions	$204	$93	$2,242	$186

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During the first quarter of 2011, the Company recorded settlement costs in connection with the retirement of one of its former executive officers.

	Quarter Ended		Six Months Ended	
	May 28, 2011	May 29, 2010	May 28, 2011	May 29, 2010
Postretirement Healthcare Benefits:				
Components of net periodic benefit income:				
Interest cost	$6	$8	$12	$16
Amortization of unrecognized:				
Prior service cost	(31)	(31)	(62)	(62)
Net actuarial gain	(32)	(32)	(64)	(64)
Net periodic benefit income	$(57)	$(55)	$(114)	$(110)
Cash contributions	$30	$39	$60	$78

The Company's policy is to contribute to its qualified U.S. and non-U.S. pension plans at least the minimum amount required by applicable laws and regulations, to contribute to the U.S. combined nonqualified plans when required for benefit payments, and to contribute to the postretirement healthcare benefit plan an amount equal to the benefit payments. The Company, from time to time, makes voluntary contributions in excess of the minimum amount required as economic conditions warrant. The Company expects to contribute up to $15,400 to its U.S. qualified plans, $2,194 to its U.S. combined nonqualified plans, $403 to its non-U.S. plan and $121 to its postretirement healthcare benefit plan to pay benefits during 2011.

In addition to the plan assets related to its qualified plans, the Company has also funded $1,333 and $1,258 at May 28, 2011 and November 27, 2010, respectively, into a restricted trust for its U.S. combined nonqualified plans (see Note 6). This trust is included in Other noncurrent assets in the Consolidated Condensed Balance Sheets.

10. INCOME TAXES

The following is a reconciliation of the beginning and ending amount of gross unrecognized tax benefits for uncertain tax positions, including positions which impact only the timing of tax benefits.

	Six Months Ended	
	May 28, 2011	May 29, 2010
Balance at beginning of period	$1,806	$2,161
Additions (reductions) for current period tax positions	246	(39)
Additions for prior period tax positions	—	39
Changes in interest and penalties	43	(5)
Balance at end of period	$2,095	$2,156

At May 28, 2011, the amount of unrecognized tax benefit, that would impact the effective tax rate if recognized, was $1,931. The Company recognizes interest and penalties related to unrecognized benefits in income tax expense. At May 28, 2011, the Company had $514 accrued for the payment of interest and penalties.

Due to the various jurisdictions in which the Company files tax returns and the uncertainty regarding the timing of settlements it is possible that there could be other significant changes in the amount of unrecognized tax benefits in the next twelve months; however, the amount cannot be estimated.

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The Company is regularly audited by federal, state and foreign tax authorities. The Internal Revenue Service has completed its audits of the Company's U.S. income tax returns through fiscal year 2009. With few exceptions, the Company is no longer subject to income tax examinations by state or foreign tax jurisdictions for years prior to 2004.

11. CONTINGENCIES

Legal Contingencies

From time to time, the Company is subject to lawsuits, investigations and disputes (some of which involve substantial claimed amounts) arising out of the conduct of its business, including matters relating to commercial transactions, product liability, intellectual property and other matters. Items included in these other matters are discussed below. The Company believes recorded reserves in its Consolidated Condensed Financial Statements are adequate in light of the probable and reasonably estimable outcomes of the items discussed below and other lawsuits, investigations and disputes arising out of the conduct of the Company's business. Any recorded liabilities were not material to the Company's financial position, results of operation or liquidity and the Company does not currently believe that any pending claims or litigation, including those identified below, will materially affect its financial position, results of operation or liquidity.

Donaldson

On May 15, 2009, Donaldson Company, Inc. ("Donaldson") filed a lawsuit in the U.S. Federal District Court for the District of Minnesota, alleging that certain "ChannelFlow®" engine/mobile filters manufactured and sold by a subsidiary of the Company infringe one or more patents held by Donaldson. Through this lawsuit Donaldson seeks various remedies, including injunctive relief and monetary damages of an unspecified amount. Management believes that the products in question do not infringe the asserted patents and that such patents are invalid. The Company is vigorously defending the action.

Antitrust/Qui Tam

On March 31, 2008, S&E Quick Lube, a filter distributor, filed suit in U.S. District Court for the District of Connecticut alleging that virtually every major North American engine filter manufacturer, including the Company's subsidiary, Baldwin Filters, Inc. (the "Defendant Group"), engaged in a conspiracy to fix prices, rig bids and allocate U.S. customers for aftermarket filters. This suit is a purported class action on behalf of direct purchasers of filters from the Defendant Group. Parallel purported class actions, including on behalf of indirect purchasers of filters, have been filed by other plaintiffs against the Defendant Group in a variety of jurisdictions in the United States and Canada.

In addition, the Attorney General of the State of Florida and the County of Suffolk, New York have filed complaints against the Defendant Group based on these same allegations, and the Attorney General of the State of Washington requested various documents, information and cooperation, which the Company has agreed to provide.

In late 2010, William Burch, a former employee of two other defendants in the Defendant Group, brought an action under the United States False Claims Act and similar state statutes on behalf of the governments of the United States and approximately twenty individual states against the Defendant Group, based on these same allegations (the "Qui Tam Action"). On March 1, 2011, Mr. Burch voluntarily dismissed Baldwin Filters, Inc. from this action, without prejudice, based on certain representations by Baldwin. As such, Baldwin Filters, Inc. is no longer a defendant in the Qui Tam Action.

Finally, the Company understands that the Antitrust Division of the Department of Justice ("DOJ") was investigating the allegations raised in these suits and issued subpoenas in connection with that investigation. The Company was not contacted by the DOJ in connection with the DOJ investigation and was not the subject of any subpoena. Public reports indicate that the DOJ officially closed its investigation in January 2010 and took no action against any filter manufacturer.

All of the U.S cases, including the actions brought by and/or on behalf of governmental entities, have been consolidated into a single multi-district litigation in the Northern District of Illinois. The Company believes all of these lawsuits and the claims made therein to be without merit and is vigorously defending them.

In response to a request by the DOJ, the District Court issued an order on April 14, 2011, staying the proceedings for 90 days, during which time the Company understands the DOJ is investigating potential wrongdoing by persons unaffiliated with the Company or any member of the Defendant Group.

TransWeb/3M

On May 21, 2010, 3M Company and 3M Innovative Properties ("3M") brought a lawsuit against TransWeb in the United States District Court for the District of Minnesota, alleging that certain TransWeb products infringe certain 3M patents. Shortly after receiving service of process in this litigation, TransWeb filed its own complaint against 3M in the United States District Court for the District of New Jersey, seeking a declaratory judgment that the asserted patents are invalid and that the products in question do not infringe. 3M withdrew its Minnesota action, and the parties are currently litigating the matter in New Jersey. The litigation in question was filed and underway before the Company acquired TransWeb in December 2010, but the Company assumed the risk of this litigation as a result of the acquisition. The Company intends to vigorously defend the action and pursue related claims. In this regard, on June 3, 2011, TransWeb filed a Second Amended Complaint against 3M, (i) seeking declaratory judgment that the asserted 3M patents are invalid, the TransWeb products in question do not infringe, and the 3M patents are unenforceable due to inequitable conduct by 3M in obtaining the patents, (ii) alleging patent infringement by 3M of a patent held by TransWeb, and (iii) alleging antitrust violations by 3M in connection with the personal respirator market. The Company acquired TransWeb in December 2010 (see Note 2). Of the base purchase price, the Company withheld payment of $17,000 pending resolution of the 3M litigation, which funds may be used by the Company in connection with the same. Any litigation related amounts incurred in excess of the amount withheld will be expensed and paid by the Company. The Company currently does not anticipate total litigation related amounts to exceed the amount withheld. During the quarter and six months ended May 28, 2011, the Company applied legal charges of $1,165 and $1,924, respectively, against the withheld payment, leaving a remaining balance of $15,076. At May 28, 2011, $3,748 is included in Other accrued liabilities (see Note 7) and $11,328 is included in Other long-term liabilities in the accompanying Consolidated Condensed Balance Sheets.

Other

Additionally, the Company is party to various proceedings relating to environmental issues. The U.S. Environmental Protection Agency and/or other responsible state agencies have designated the Company as a potentially responsible party, along with other companies, in remedial activities for the cleanup of waste sites under the federal Superfund statute. Although it is not certain what future environmental claims, if any, may be asserted, the Company currently believes that its potential liability for known environmental matters is not material. However, environmental and related remediation costs are difficult to quantify for a number of reasons, including the number of parties involved, the difficulty in determining the nature and extent of the contamination at issue, the length of time remediation may require, the complexity of the environmental regulation and the continuing advancement of remediation technology. Applicable federal law may impose joint and several liability on each potentially responsible party for the cleanup.

In addition to the matters cited above, the Company is involved in legal actions arising in the normal course of business. The Company records provisions with respect to identified claims or lawsuits when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Claims and lawsuits are reviewed quarterly and provisions are taken or adjusted to reflect the status of a particular matter. No such provisions have been taken in respect of the Donaldson, antitrust or TransWeb legal proceedings referred to above.

Other Contingencies

In the event of a change in control of the Company, termination benefits are likely to be required for certain executive officers and other employees.

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12. EARNINGS PER SHARE AND TREASURY STOCK TRANSACTIONS

Diluted earnings per share reflect the impact of outstanding stock options as if exercised during the periods presented using the treasury stock method. The following table provides a reconciliation of the numerators and denominators utilized in the calculation of basic and diluted earnings per share.

	Quarter Ended		Six Months Ended	
	May 28, 2011	May 29, 2010	May 28, 2011	May 29, 2010
Weighted average number of shares outstanding	50,594,963	50,716,443	50,581,731	50,661,061
Dilutive effect of stock-based arrangements	687,420	326,374	703,080	241,484
Weighted average number of diluted shares outstanding	51,282,383	51,042,817	51,284,811	50,902,545
Net earnings attributable to CLARCOR Inc.	$32,808	$23,885	$54,689	$38,751
Basic earnings per share	$0.65	$0.47	$1.08	$0.76
Diluted earnings per share	$0.64	$0.47	$1.07	$0.76

The following table provides additional information regarding the calculation of earnings per share and treasury stock transactions.

	Quarter Ended		Six Months Ended	
	May 28, 2011	May 29, 2010	May 28, 2011	May 29, 2010
Per share weighted average exercise price of antidilutive options	$44.07	$36.30	$44.07	$36.16
Number of antidilutive options with exercises prices greater than the average market price excluded from the computation of dilutive earnings per share	60,000	455,987	60,000	512,287
Common stock repurchased and retired pursuant to the Company's $250,000 stock repurchase program	$6,945	$—	$8,892	$—
Number of shares repurchased and retired pursuant to the Company's $250,000 stock repurchase program	160,000	—	205,000	—

As of May 28, 2011, there was approximately $224,830 available under the Company’s $250,000 stock repurchase program for future purchases.

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13. SEGMENT INFORMATION

The Company operates in three principal product segments: Engine/Mobile Filtration, Industrial/Environmental Filtration and Packaging. Net sales represent sales to unaffiliated customers as reported in the Consolidated Condensed Statements of Earnings. Intersegment sales were not material. Unallocated amounts consist of interest expense, interest income and other non-operating income and expense items. Assets are those assets used in each business segment. Corporate assets consist of cash, deferred income taxes, corporate facility and equipment and various other assets that are not specific to an operating segment. The Company operates as a consolidated entity, including cooperation between segments, cost allocating and sharing of certain assets. As such, the Company makes no representation, that if operated on a standalone basis, these segments would report net sales, operating profit and other financial data reflected below.

	Quarter Ended		Six Months Ended	
	May 28, 2011	May 29, 2010	May 28, 2011	May 29, 2010
Net sales:				
Engine/Mobile Filtration	$131,276	$113,434	$242,604	$209,862
Industrial/Environmental Filtration	133,499	117,566	245,618	219,593
Packaging	23,758	26,869	46,031	43,545
	$288,533	$257,869	$534,253	$473,000
Operating profit:				
Engine/Mobile Filtration	$29,592	$23,643	$50,794	$41,505
Industrial/Environmental Filtration	16,179	10,371	23,427	14,654
Packaging	3,009	2,198	5,850	2,949
	48,780	36,212	80,071	59,108
Other expense, net	(210)	(224)	(417)	(718)
Earnings before income taxes	$48,570	$35,988	$79,654	$58,390

	May 28, 2011	November 27, 2010
Identifiable assets:		
Engine/Mobile Filtration	$329,444	$292,196
Industrial/Environmental Filtration	692,682	650,530
Packaging	42,199	40,450
Corporate	34,679	59,235
	$1,099,004	$1,042,411

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information presented in this discussion should be read in conjunction with other financial information provided in the Consolidated Condensed Financial Statements and Notes thereto. Except as otherwise set forth herein, references to particular years refer to our applicable fiscal year. The analysis of operating results focuses on our three reportable business segments: Engine/Mobile Filtration, Industrial/Environmental Filtration and Packaging.

EXECUTIVE SUMMARY

Management Discussion Snapshot
(In millions except per share data)

	Second Quarter								First Six Months							
					Change								Change			
	2011		2010		$	%			2011		2010		$	%		
Net sales	$288.5		$257.9		$30.6	12	%		$534.3		$473.0		$61.3	13	%	
Cost of sales	189.1		173.0		16.1	9	%		353.8		318.4		35.4	11	%	
Gross profit	99.5		84.8		14.7	17	%		180.4		154.6		25.8	17	%	
Selling and administrative expenses	50.7		48.6		2.1	4	%		100.3		95.5		4.8	5	%	
Operating profit	48.8		36.2		12.6	35	%		80.1		59.1		21.0	35	%	
Other (expense)	(0.2	)	(0.2	)	—				(0.4	)	(0.7	)	0.3			
Provision for income taxes	15.7		12.1		3.6	30	%		24.9		19.6		5.3	26	%	
Net earnings attributable to CLARCOR	32.8		23.9		8.9	37	%		54.7		38.8		15.9	41	%	
Weighted average diluted shares	51.3		51.0		0.3	—	%		51.3		50.9		0.4	1	%	
Diluted earnings per share attributable to CLARCOR	$0.64		$0.47		$0.17	36	%		$1.07		$0.76		$0.31	41	%	
Percentages:																
Gross margin	34.5	%	32.9	%		1.6		pt	33.8	%	32.7	%		1.1		pt
Selling and administrative percentage	17.6	%	18.9	%		-1.3		pt	18.8	%	20.2	%		-1.4		pt
Operating margin	16.9	%	14.0	%		2.9		pt	15.0	%	12.5	%		2.5		pt
Effective tax rate	32.3	%	33.5	%		-1.2		pt	31.2	%	33.6	%		-2.4		pt
Net earnings margin	11.4	%	9.3	%		2.1		pt	10.2	%	8.2	%		2.0		pt

Second Quarter

Our strong financial performance in the second quarter of 2011 compared with the second quarter of 2010 was primarily the result of the $30.6 million, or 12%, increase in net sales. Net sales were higher in each of our reporting segments with the exception of our Packaging segment, where the year-over-year comparison was negatively impacted by a no margin $4.6 million tooling and equipment sale to one of our customers in the second quarter of

2010. Excluding this tooling and equipment sale, net sales at our Packaging segment increased $1.4 million, or 6%, as a result of continued strength in the smokeless tobacco, confection, spice and decorated flat sheet metal markets. The $17.9 million, or 16%, increase in our Engine/Mobile Filtration segment was driven by strong heavy-duty engine filter sales in most of our end-markets both domestically and internationally. The $15.9 million, or 14%, increase in net sales in our Industrial/Environmental Filtration segment was the result of a 16% increase in our international markets and a 12% increase in our domestic market.

Our 34.5% gross margin percentage in the second quarter of 2011 was 1.6 percentage points higher than the second quarter of 2010 and was our highest second quarter gross margin percentage in almost twenty years. Approximately 0.7 percentage points of the overall increase was the result of our 12% increase in net sales and our ability to leverage fixed manufacturing costs. In addition, the second quarter gross margin percentage comparison from this year to last year was influenced by the no margin $4.6 million tooling and equipment sale in the second quarter of 2010, which reduced gross margin percentage by 0.6 percentage points in last year's second quarter.

Selling and administrative expenses as a percentage of net sales declined 1.3 percentage points as we were able to leverage the 12% increase in net sales while increasing selling and administrative expenses only 4%. The $2.1 million increase in selling and administrative expenses was primarily driven by incremental costs necessary to support our growth both in the U.S. and overseas.

First Six Months

Similar to the second quarter comparison, our strong financial performance in the first six months of 2011 compared with the first six months of 2010 was primarily the result of the $61.3 million, or 13%, increase in net sales. Net sales were higher in each of our reporting segments even with the impact of the no margin $4.6 million tooling and equipment sale to one of our customers in the Packaging segment in the second quarter of 2010.

Our 33.8% gross margin percentage in the first six months of 2011 was 1.1 percentage points higher than the first six months of 2010. Approximately 0.8 percentage points of the overall increase in gross margin percentage was the result of our 13% increase in net sales and our ability to leverage fixed manufacturing costs. In addition, our first six months 2010 gross margin percentage was negatively impacted by 0.3 percentage points due to the no margin $4.6 million tooling and equipment sale at our Packaging segment.

Selling and administrative expenses as a percentage of net sales declined 1.4 percentage points as we were able to leverage the 13% increase in net sales while increasing selling and administrative expenses only 5%. The $4.8 million increase in selling and administrative expenses included a $1.3 million increase in legal costs related to on-going litigation, a $0.8 million increase in pension cost primarily due to the retirement of one of our executive officers and a $0.9 million increase due to selling and administrative expenses at TransWeb. The remaining increase is related to incremental costs necessary to support our growth both in the U.S. and overseas.

Other Items

Other significant items impacting the comparison between the quarters and the first six months presented are as follows:

- Acquisitions

The acquisition of TransWeb in the first quarter of 2011 increased our 2011 net sales and operating profit as follows:

(Dollars in Millions)	Second Quarter	First Six Months
Net sales	$2.5	$4.9
Operating profit	0.1	0.5

The TransWeb operating profit in the first six months of 2011 was negatively influenced by a $0.2 million write-up of inventory pursuant to purchase accounting. There were no acquisitions in 2010.

• Foreign Exchange

The average exchange rate for foreign currencies versus the U.S. dollar favorably impacted our translated U.S. dollar value of net sales and operating profit as follows:

(Dollars in Millions)	Second Quarter	First Six Months
Net sales	$5.1	$5.4
Operating profit	0.9	1.1

• Other income (expense)

Net interest expense

Net interest expense did not materially change from the second quarter of 2010 to the second quarter of 2011. Net interest expense increased $0.1 million in the first six months of 2011 compared with the first six months of 2010.

(Dollars in Millions)	Second Quarter		First Six Months	
	2011	2010	2011	2010
Average outstanding on line of credit				