

CLARCOR INC
Form 10-Q
March 19, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended February 27, 2010

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 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 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:

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Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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

As of February 27, 2010, 50,433,773 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 – Item 1. Financial Statements

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

	February 27, 2010 (Unaudited)	November 28, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 61,107	\$ 59,277
Restricted cash	659	762
Short-term investments	20,604	32,171
Accounts receivable, less allowance for losses of \$13,071 for 2010 and \$15,150 for 2009	162,168	164,545
Inventories:		
Raw materials	58,259	57,579
Work in process	26,796	23,405
Finished products	79,718	76,432
Total inventories	164,773	157,416
Deferred income taxes	29,260	27,567
Prepaid expenses and other current assets	7,500	6,790
Total current assets	446,071	448,528
Plant assets at cost, less accumulated depreciation	449,505 (263,030)	447,241 (259,150)
	186,475	188,091
Goodwill	227,160	228,182
Acquired intangibles, less accumulated amortization	94,777	95,990
Deferred income taxes	630	630
Other noncurrent assets	12,245	12,469
Total assets	\$ 967,358	\$ 973,890
LIABILITIES		
Current liabilities:		
Current portion of long-term debt	\$ 92	\$ 99
Accounts payable	57,016	54,627
Accrued insurance liabilities	11,448	10,572
Accrued salaries, wages and commissions	10,367	8,599
Customer deposits	9,749	8,705
Compensated absences	7,197	7,903
Other accrued liabilities	34,950	36,018
Income taxes	7,738	5,419
Total current liabilities	138,557	131,942
Long-term debt, less current portion	31,993	52,096
Postretirement healthcare benefits	626	689
Long-term pension liabilities	62,344	61,746

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Deferred income taxes	33,215	32,136
Other long-term liabilities	4,653	5,394
Total liabilities	271,388	284,003
Contingencies		
Redeemable noncontrolling interest	1,361	1,412
SHAREHOLDERS' EQUITY		
Capital stock	50,434	50,393
Capital in excess of par value	39,663	36,814
Accumulated other comprehensive loss	(39,625)	(32,879)
Retained earnings	642,239	632,291
Total CLARCOR Inc. equity	692,711	686,619
Noncontrolling interests	1,898	1,856
Total shareholders' equity	694,609	688,475
Total liabilities and shareholders' equity	\$ 967,358	\$ 973,890

See Notes to Consolidated Condensed Financial Statements

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

	Three Months Ended	
	February 27, 2010	February 28, 2009
Net sales	\$ 215,131	\$ 213,690
Cost of sales	145,326	152,707
Gross profit	69,805	60,983
Selling and administrative expenses	46,909	47,296
Operating profit	22,896	13,687
Other income (expense):		
Interest expense	(123)	(928)
Interest income	21	142
Other, net	(392)	(20)
	(494)	(806)
Earnings before income taxes	22,402	12,881
Provision for income taxes	7,595	4,096
Net earnings	14,807	8,785
Less: Net losses attributable to noncontrolling interests	(59)	(6)
Net earnings attributable to CLARCOR Inc.	\$ 14,866	\$ 8,791
Net earnings per share attributable to CLARCOR Inc:		
Basic	\$ 0.29	\$ 0.17
Diluted	\$ 0.29	\$ 0.17
Average number of shares outstanding:		
Basic	50,594,234	51,059,182
Diluted	50,934,913	51,541,458
Dividends paid per share	\$ 0.0975	\$ 0.0900

See Notes to Consolidated Condensed Financial Statements

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

	Three Months Ended	
	February 27, 2010	February 28, 2009
Cash flows from operating activities:		
Net earnings	\$ 14,807	\$ 8,785
Depreciation	6,989	6,921
Amortization	1,164	1,215
Stock-based compensation expense	2,511	2,415
Excess tax benefit from stock-based compensation	(127)	(422)
Changes in short-term investments	11,567	(6,229)
Changes in assets and liabilities, excluding short-term investments	(1,647)	6,350
Other, net	1	(82)
Net cash provided by operating activities	35,265	18,953
Cash flows from investing activities:		
Additions to plant assets	(5,996)	(6,955)
Proceeds from disposition of plant assets	74	224
Business acquisitions, net of cash acquired	-	(6,075)
Proceeds from insurance claim	557	-
Investment in affiliate	-	(1,000)
Net cash used in investing activities	(5,365)	(13,806)
Cash flows from financing activities:		
Net payments under line of credit	(20,000)	-
Payments on long-term debt	(29)	(45)
Sale of capital stock under stock option and employee purchase plans	525	1,805
Excess tax benefits from stock-based compensation	127	422
Cash dividends paid	(4,933)	(4,596)
Net cash used in financing activities	(24,310)	(2,414)
Net effect of exchange rate changes on cash	(3,760)	(167)
Net change in cash and cash equivalents	1,830	2,566
Cash and cash equivalents, beginning of period	59,277	40,715
Cash and cash equivalents, end of period	\$ 61,107	\$ 43,281
Cash paid during the period for:		
Interest	\$ 1,037	\$ 340
Income taxes	\$ 6,328	\$ 3,708

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 Balance Sheet as of February 27, 2010, the Consolidated Condensed Statements of Earnings and the Consolidated Condensed Statements of Cash Flows for the periods ended February 27, 2010 and February 28, 2009, 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 28, 2009 ("2009 Form 10-K"). The November 28, 2009 Consolidated Balance Sheet data was derived from the Company's year-end audited Consolidated Financial Statements as presented in the 2009 Form 10-K but does not include all disclosures required by accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows have been made. The Company performed a review of subsequent events through the date the Consolidated Condensed Financial Statements were issued, and concluded no events or transactions occurred during that period requiring recognition or disclosure. The results of operations for the period ended February 27, 2010, are not necessarily indicative of the operating results for the full year.

New Accounting Guidance

In December 2008, the Financial Accounting Standards Board ("FASB") expanded the required disclosures for pension and other postretirement plans by requiring disclosures about how investment allocation decisions are made by management, major categories of plan assets and significant concentration of risk. Additionally, an employer is required to disclose information about the valuation of plan assets. This accounting guidance is effective for the Company's fiscal year 2010 year-end and will affect the disclosures in the annual Consolidated Financial Statements.

In June 2008, the FASB issued guidance that requires that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) be considered participating securities and be included in the computation of earnings per share pursuant to the two-class method. The Company's unvested restricted stock unit awards discussed in Note 3 qualify as participating securities under this guidance. The impact of adopting this guidance on November 29, 2009 was not material to the Consolidated Condensed Financial Statements.

In December 2007, the FASB issued guidance affecting the accounting for businesses acquired, the presentation of noncontrolling interests, previously called minority interests, and requiring that assets acquired or liabilities assumed in a business combination and arising from a contingency be recognized at fair value at the acquisition date if the acquisition date fair value can be determined during the measurement period. The Company adopted this guidance on November 29, 2009. The guidance dealing with noncontrolling interests was retrospectively applied to all prior period information for presentation and disclosure requirements and resulted in the reclassification of certain prior year amounts. For all periods presented, noncontrolling interests are classified in the Consolidated Condensed Balance Sheets as either a separate component of shareholders' equity or as redeemable noncontrolling interests. Net earnings attributable to CLARCOR and the noncontrolling interests are reflected in the Consolidated Condensed Statements of Earnings. Payments for the acquisition of noncontrolling interests in entities of which the Company did not previously have control are included in investing activities in the Consolidated Condensed Statements of Cash

Flows. Payments for acquisitions of noncontrolling interest in entities of which the Company did have previous control are treated as equity transactions and are included in financing activities in the Consolidated Condensed Statements of Cash Flows. Prior to the adoption of this guidance, payments related to controlled entities were also included in investing activities.

CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

(Unaudited)

2. INVESTMENTS AND REDEEMABLE NONCONTROLLING INTERESTS

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 \$3,451 included in other noncurrent assets, 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 the investee based on the percentage of ownership, as well as the receipt of any dividends. During the three months ended February 27, 2010, the Company received dividends of \$382 from BPH. The equity investment is periodically reviewed for indicators of impairment. The Company’s share of undistributed earnings was not material at February 27, 2010 or November 28, 2009.

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.

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 2009 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 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.

CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

(Unaudited)

The following table summarizes compensation expense related to stock options during the three months ended February 27, 2010 and February 28, 2009.

	Three Months Ended	
	February 27, 2010	February 28, 2009
Pre-tax compensation expense	\$ 1,778	\$ 1,657
Tax benefits	(602)	(527)
Excess tax benefits associated with tax deductions over the amount of compensation expense recognized in the consolidated condensed financial statements	152	517

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	3,229,187	\$ 27.43
Granted	423,460	\$ 32.31
Exercised	(19,550)	\$ 12.27
Surrendered	(7,950)	\$ 33.79
Outstanding at February 27, 2010	3,625,147	\$ 28.07
Options exercisable at February 27, 2010	2,634,713	\$ 26.10

At February 27, 2010, there was \$4,309 of unrecognized compensation cost related to option awards which the Company expects to recognize over a weighted-average period of 2.9 years.

CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

(Unaudited)

The following table summarizes information about the Company's outstanding and exercisable options at February 27, 2010.

Range of Exercise Prices	Number	Options Outstanding			Options Exercisable			
		Weighted Average Exercise Price	Intrinsic Value	Weighted Average Remaining Life in Years	Weighted Average Exercise Price	Intrinsic Value	Weighted Average Remaining Life in Years	
\$9.25 - \$13.75	195,784	\$ 12.36	\$ 3,993	1.41	195,784	\$ 12.36	\$ 3,993	1.41
\$16.01 - \$22.80	792,445	\$ 20.34	9,833	2.85	792,445	\$ 20.34	9,833	2.85
\$25.31 - \$32.30	1,395,708	\$ 29.06	5,153	6.46	975,983	\$ 27.67	4,962	5.01
\$32.78 - \$38.23	1,241,210	\$ 34.38	-	7.64	670,501	\$ 34.64	-	7.27
	3,625,147	\$ 28.07	\$ 18,979	5.80	2,634,713	\$ 26.10	\$ 18,788	4.67

The following table summarizes information about stock option exercises during the three months ended February 27, 2010 and February 28, 2009.

	Three Months Ended	
	February 27, 2010	February 28, 2009
Fair value of options exercised	\$ 71	\$ 425
Total intrinsic value of options exercised	419	1,369
Cash received upon exercise of options	240	1,498
Tax benefit realized from exercise of options	152	502

The weighted average fair value per option at the date of grant for options granted during the three months ended February 27, 2010 and February 28, 2009, was \$8.38 and \$7.58, respectively. 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.

	Three Months Ended	
	February 27, 2010	February 28, 2009
Risk-free interest rate	2.76%	1.81%
Expected dividend yield	1.25%	0.96%
Expected volatility factor	26.28%	24.23%
Expected option term in years	5.7	5.6

The expected life selected for options granted during each year 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.

CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

(Unaudited)

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 101,629 and 99,265 vested and deferred shares at February 27, 2010 and November 28, 2009, respectively.

The following table summarizes compensation expense related to restricted stock unit awards during the periods presented.

	Three Months Ended	
	February 27, 2010	February 28, 2009
Pre-tax compensation expense	\$ 733	\$ 758
Tax benefits	(248)	(241)
Excess tax expense associated with tax deductions under the amount of compensation expense recognized in the consolidated condensed financial statements	(25)	(95)

The following table summarizes the restricted stock unit awards.

	Shares Granted under Incentive Plans	Weighted Average Grant Date Fair Value
Nonvested at beginning of year	67,476	\$ 34.01
Granted	34,128	\$ 32.30
Vested	(21,727)	\$ 34.15
Nonvested at February 27, 2010	79,877	\$ 33.24

The total fair value of shares vested during the three months ended February 27, 2010 and February 28, 2009 was \$742 and \$614, respectively.

The Company has recognized \$1,687 of compensation cost prior to February 27, 2010 related to nonvested restricted stock unit awards. As of February 27, 2010, there was \$968 of total unrecognized compensation cost related to nonvested restricted stock unit awards that the Company expects to recognize during fiscal years 2010 through 2013.

CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

(Unaudited)

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	Comprehensive Earnings
Three Months Ended February 27, 2010:				
CLARCOR Inc.	\$ 14,866	\$ (7,369)	\$ 623	\$ 8,120
Non-redeemable noncontrolling interests	45	(3)	-	42
Redeemable noncontrolling interests	(104)	53	-	(51)
	\$ 14,807	\$ (7,319)	\$ 623	\$ 8,111
Three Months Ended February 28, 2009:				
CLARCOR Inc.	\$ 8,791	\$ (3,314)	\$ 217	\$ 5,694
Non-redeemable noncontrolling interests	95	1	-	96
Redeemable noncontrolling interests	(101)	8	-	(93)
	\$ 8,785	\$ (3,305)	\$ 217	\$ 5,697

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

	February 27, 2010	November 28, 2009
Pension liability, net of tax of \$23,178 and \$22,796	\$ (38,589)	\$ (39,212)
Translation adjustments, net of tax of \$155 and \$155	(1,036)	6,333
Accumulated other comprehensive loss	\$ (39,625)	\$ (32,879)

5. GOODWILL AND ACQUIRED INTANGIBLES ASSETS

The following table reconciles the activity for goodwill by segment for the three months ended February 27, 2010. All goodwill is stated on a gross basis, as the Company has not recorded any impairment charges against goodwill.

	Industrial/ Engine/Mobile Environmental			Total
	Filtration	Filtration	Packaging	
Balance at November 28, 2009	\$ 22,551	\$ 205,631	\$ -	\$ 228,182
Acquisitions	-	-	-	-
Currency translation adjustments	(1,013)	(9)	-	(1,022)
Balance at February 27, 2010	\$ 21,538	\$ 205,622	\$ -	\$ 227,160

CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

(Unaudited)

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

	Engine/Mobile Filtration	Industrial/ Environmental Filtration	Packaging	Total
Balance at February 27, 2010				
Trademarks, gross - indefinite lived	\$ 603	\$ 41,022	\$ -	\$ 41,625
Trademarks, gross - finite lived	307	488	-	795
Accumulated amortization	(47)	(279)	-	(326)
Trademarks, net	863	41,231	-	42,094
Customer relationships, gross	4,122	34,194	-	38,316
Accumulated amortization	(1,252)	(8,793)	-	(10,045)
Customer relationships, net	2,870	25,401	-	28,271
Other acquired intangibles, gross	243	35,921	-	36,164
Accumulated amortization	(243)	(11,509)	-	(11,752)
Other acquired intangibles, net	-	24,412	-	24,412
	\$ 3,733	\$ 91,044	\$ -	\$ 94,777

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

Fiscal year 2010	\$ 4,669
Fiscal year 2011	4,589
Fiscal year 2012	4,574
Fiscal year 2013	4,477
Fiscal year 2014	4,340

CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

(Unaudited)

6. 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. Assets or liabilities that have recurring measurements are shown below:

	Fair Value Measurements at Reporting Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Balance at February 27, 2010				
Short-term investments	\$ 20,604	\$ 20,604	\$ -	\$ -
Restricted trust (part of noncurrent assets)	1,350	1,350	-	-
Balance at November 28, 2009				
Short-term investments	\$ 32,171	\$ 32,171	\$ -	\$ -
Restricted trust (part of noncurrent assets)	1,419	1,419	-	-
Interest rate agreement (part of current liabilities)	(961)	-	(961)	-

The Company's short-term investments primarily consist of tax-exempt municipal money market funds which are actively traded. 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 interest rate agreement's fair value was determined using the present value of expected future cash flows using forward rates as of November 28, 2009 and discount rates commensurate with the risks associated with those cash flows. The interest rate agreement expired January 1, 2010. There were no changes in fair value determination methods or significant assumptions used in those methods during the three months ended February 27, 2010.

The fair values of the Company's financial instruments, which are cash, accounts receivable, short-term investments, the restricted trust and the interest rate agreement (only at November 28, 2009), approximated the carrying values of those financial instruments at both February 27, 2010 and November 28, 2009. An expected present value technique is used to estimate the fair value of long-term debt. A fair value estimate of \$30,768 and \$49,513 for long-term debt at February 27, 2010 and November 28, 2009, 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 February 27, 2010 and November 28, 2009 is \$32,085 and \$52,195, respectively.

7. GUARANTEES AND WARRANTIES

The Company has provided letters of credit totaling approximately \$23,433 and \$23,395 as of February 27, 2010 and November 28, 2009, respectively, 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.

CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

(Unaudited)

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.

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 during the three months ended February 27, 2010 and February 28, 2009, are as follows:

Balance at November 28, 2009	\$	3,989
Accruals for warranties issued during the period		148
Accruals related to pre-existing warranties		23
Settlements made during the period		(178)
Other adjustments, including currency translation		(131)
Balance at February 27, 2010, included in other accrued liabilities	\$	3,851
Balance at November 27, 2008	\$	2,494
Accruals for warranties issued during the period		157
Accruals related to pre-existing warranties		73
Settlements made during the period		(167)
Other adjustments, including currency translation		(8)
Balance at February 28, 2009, included in other accrued liabilities	\$	2,549

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 agreement. At February 27, 2010, long-term debt included \$15,000 outstanding on the Credit Facility.

The Company's significant accounting policies for derivative instruments are described in Note A of the 2009 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.

CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

(Unaudited)

At November 28, 2009, the Company had the following derivative in a liability position.

Derivatives In Liability Position

Derivatives Not Designated as Hedging Instruments	Consolidated Balance Sheet Location	Fair Value
November 28, 2009		
Fixed rate interest swap agreement	Current liabilities	\$ 961
Total		\$ 961

The following table reflects the loss on the interest rate agreement for the three months ended February 27, 2010 and February 28, 2009, respectively.

Derivatives Not Designated as Hedging Instruments	Location of Loss on Interest Rate Agreement	Amount of Loss on Interest Rate Agreement Three Months Ended	
		February 27, 2010	February 28, 2009
Fixed rate interest swap agreement	Interest expense	\$ -	\$ (618)

The Company made net settlement payments on the fixed interest rate swap agreement of \$961 and \$13 for the three months ended February 27, 2010 and February 28, 2009, respectively.

CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

(Unaudited)

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:

	Three Months Ended	
	February 27, 2010	February 28, 2009
Pension Benefits:		
Components of net periodic benefit cost:		
Service cost	\$ 528	\$ 450
Interest cost	2,039	2,297
Expected return on plan assets	(1,785)	(1,713)
Amortization of unrecognized:		
Prior service cost	(99)	33
Net actuarial loss	1,201	389
Net periodic benefit cost	\$ 1,884	\$ 1,456
Cash contributions	\$ 93	\$ 390

	Three Months Ended	
	February 27, 2010	February 28, 2009
Postretirement Healthcare Benefits:		
Components of net periodic benefit income:		
Interest cost	\$ 8	\$ 15
Amortization of unrecognized:		
Prior service cost	(31)	(31)
Net actuarial gain	(32)	(46)
Net periodic benefit income	\$ (55)	\$ (62)
Cash contributions	\$ 39	\$ 50

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 \$6,700 to its U.S. qualified plans, \$5,719 to its U.S. combined nonqualified plans, \$407 to its non-U.S. plan and \$154 to its postretirement healthcare benefit plan to pay benefits during 2010.

CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

(Unaudited)

In addition to the plan assets related to its qualified plans, the Company has also funded \$1,350 and \$1,419 at February 27, 2010 and November 28, 2009, respectively, into a restricted trust for its U.S. combined nonqualified plans. 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, for the three months ended February 27, 2010 and February 28, 2009.

Balance at November 28, 2009	\$ 2,161
Changes for current period tax positions	(146)
Changes for prior period tax positions	39
Changes in interest and penalties	(6)
Balance at February 27, 2010	\$ 2,048
Balance at November 27, 2008	\$ 1,970
Changes for current period tax positions	68
Changes for prior period tax positions	2
Changes in interest and penalties	73
Balance at February 28, 2009	\$ 2,113

At February 27, 2010, the amount of unrecognized tax benefit, that would impact the effective tax rate if recognized, was \$1,984. The Company recognizes interest and penalties related to unrecognized benefits in income tax expense. As of February 27, 2010, the Company had \$477 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 fiscal year 2010; however, the amount cannot be estimated.

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 2005 and is currently auditing 2006 through 2008. 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. RESTRUCTURING CHARGES

As discussed more fully in the 2009 Form 10-K, in July 2006, the Company began a restructuring program focused on the heating, ventilating and air conditioning ("HVAC") filter manufacturing operations within its Industrial/Environmental Filtration segment. The HVAC restructuring program was substantially complete in fiscal year 2009. At November 28, 2009, accrued severance of \$28 related to Kentucky facilities, was included in accrued liabilities. At February 27, 2010, all restructuring expenses were paid.

The Company did not incur any restructuring expenses during the three months ended February 27, 2010.

CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

(Unaudited)

During the first quarter of fiscal 2009, the Company consolidated four Louisville, Kentucky area facilities into one location in Jeffersonville, Indiana to realize cost savings and efficiency benefits. Restructuring severance costs of \$26 were expensed and were included in cost of sales in the Consolidated Condensed Statements of Earnings for the three months ended February 28, 2009.

During the first quarter of fiscal 2009, the Company recorded restructuring expenses of \$27 related to the Henderson, North Carolina location mainly for facility consolidation and employee termination costs. These expenses were included in cost of sales in the Consolidated Condensed Statements of Earnings for the three months ended February 28, 2009. Minimal additional restructuring charges related to facility consolidation costs will be recognized when the Company exits that facility. In addition to costs classified as restructuring expenses, the Company has incurred and will continue to incur other non-restructuring costs related to this facility until it is sold.

During the second quarter of fiscal year 2008, the Company discontinued production at an HVAC filter manufacturing plant in Davenport, Iowa. The Company did not incur any restructuring expenses related to the Davenport, Iowa location during the three months ended February 28, 2009. Minimal additional restructuring charges related to contract termination costs and facility consolidation costs will be recognized when the Company exits a lease related to that facility in 2012. In addition to costs classified as restructuring expenses, the Company has incurred and will continue to incur other non-restructuring costs related to this facility until the expiration of the lease.

12. INSURANCE CLAIMS

During June 2009, an Industrial/Environmental Filtration segment warehouse that the Company leases was damaged by fire. A loss of \$250, representing the Company's deductible, was recorded in cost of sales for the quarter ended August 29, 2009. During September 2009, the Company received \$500 from the insurance company. During February 2010, the Company received insurance proceeds of \$557. The Company does not expect to collect any further amounts related to this claim.

13. 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. Included in these other matters are the following:

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.

CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

(Unaudited)

Antitrust

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 filter manufacturer, including the Company's subsidiary, Baldwin Filters, Inc., 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 defendants. Parallel purported class actions, including on behalf of indirect purchasers of filters, have been filed by other plaintiffs in a variety of jurisdictions in the United States and Canada. The U.S cases have been consolidated into a single multi-district litigation in the Northern District of Illinois. The Company intends to vigorously defend the claims raised in these actions. In this regard, the Company filed a motion to be dismissed from these cases, due to the lack of any factual allegations against the Company specifically and the fact that the allegations center predominantly on the automotive filtration market rather than on the heavy-duty filtration market. On November 9, 2009, the presiding court denied the Company's motion, a decision that the Company is seeking to overturn.

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.

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 does not exceed its present accrual of \$50. 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 or antitrust legal proceeding referred to above.

The Company believes recorded reserves in its Consolidated Condensed Financial Statements are adequate in light of the probable and estimable outcomes of the items discussed above. These recorded liabilities were not material to the Company's financial position, results of operation or liquidity and the Company does not believe that any pending claims or litigation, including those identified above, will materially affect its financial position, results of operation or liquidity.

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.

CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

(Unaudited)

14. 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.

	Three Months Ended	
	February 27, 2010	February 28, 2009
Weighted average number of shares outstanding	50,594,234	51,059,182
Dilutive effect of stock-based arrangements	340,679	482,276
Weighted average number of diluted shares outstanding	50,934,913	51,541,458
Net earnings attributable to CLARCOR	\$ 14,866	\$ 8,791
Basic earnings per share attributable to CLARCOR	\$ 0.29	\$ 0.17
Diluted earnings per share attributable to CLARCOR	\$ 0.29	\$ 0.17

Options with exercise prices greater than the average market price of the shares during the respective periods are not included in the computation of diluted earnings per share. For the three months ended February 27, 2010, 1,241,210 options with a weighted average exercise price of \$34.38 were excluded from the computation. For the three months ended February 28, 2009, 1,342,250 options with a weighted average exercise price of \$34.32 were excluded from the computation.

For the three months ended February 27, 2010, exercises of stock options added \$372 to capital in excess of par value. For the three months ended February 28, 2009, exercises of stock options added \$1,876 to capital in excess of par value.

The Company did not repurchase any shares of its common stock under its \$250,000 stock repurchase program during the three months ended February 27, 2010 or the three months ended February 28, 2009. As of February 27, 2010, there was approximately \$167,443 available for future purchases under this program.

15. SEGMENT DATA

The Company operates in three principal product segments: Engine/Mobile Filtration, Industrial/Environmental Filtration and Packaging. The segment data for the three months ended February 27, 2010 and February 28, 2009, respectively, is shown below. Net sales represent sales to unaffiliated customers as reported in the Consolidated Condensed Statements of Earnings. Intersegment sales were not material.

CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

(Unaudited)

	Three Months Ended	
	February 27, 2010	February 28, 2009
Net sales:		
Engine/Mobile Filtration	\$ 96,428	\$ 85,380
Industrial/Environmental Filtration	102,027	113,458
Packaging	16,676	14,852
	\$ 215,131	\$ 213,690
Operating profit:		
Engine/Mobile Filtration	\$ 17,862	\$ 13,301
Industrial/Environmental Filtration	4,283	663
Packaging	751	(277)
	22,896	13,687
Other expense	(494)	(806)
Earnings before income taxes	\$ 22,402	\$ 12,881
	February 27, 2010	November 28, 2009
	(Unaudited)	
Identifiable assets:		
Engine/Mobile Filtration	\$ 264,934	\$ 252,747
Industrial/Environmental Filtration	623,239	629,488
Packaging	37,356	36,456
Corporate	41,829	55,199
	\$ 967,358	\$ 973,890

Part I – 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
(Dollars in millions except share and per share data)

	First Quarter		2010 vs. 2009	
	2010	2009	\$ Change	% Change
Net sales	\$ 215.1	\$ 213.7	\$ 1.4	1%
Cost of sales	145.3	152.7	(7.4)	-5%
Gross profit	69.8	61.0	8.8	14%
Selling and administrative expenses	46.9	47.3	(0.4)	-1%
Operating profit	22.9	13.7	9.2	67%
Other income (expense)	(0.5)	(0.8)	0.3	
Provision for income taxes	7.6	4.1	3.5	85%
Net earnings attributable to CLARCOR	14.9	8.8	6.1	69%
Average diluted shares (millions)	50.9	51.5	(0.6)	-1%
Diluted earnings per share	\$ 0.29	\$ 0.17	\$ 0.12	71%
Percentages:				
Gross margin	32.5%	28.5%		3.9 pt
Selling and administrative percentage	21.8%	22.1%		-0.3 pt
Operating margin	10.6%	6.4%		4.2 pt
Effective tax rate	33.9%	31.8%		2.1 pt
Net earnings margin	6.9%	4.1%		2.8 pt

Our operating performance in the first quarter of 2010 improved significantly from results in the first quarter of 2009. Even though net sales increased only slightly year-over-year, operating profit increased \$9.2 million or 67%,

net earnings attributable to CLARCOR increased \$6.1 million or 69% and diluted earnings per share increased \$0.12 or 71% from \$0.17 in the first quarter of 2009. Operating margin improved to 10.6% from 6.4% in the first quarter of 2009. Net sales in the first quarter were negatively impacted by a \$3.9 million reduction in HVAC filter sales to the 3M Company (“3M”).

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - CONTINUED

Our strong operating performance in the first quarter of 2010 compared with 2009 was driven by an \$11.0 million or 13% increase in net sales at our Engine/Mobile Filtration segment, the cost benefits of restructuring efforts at our HVAC operations and lower material costs on sales of natural gas vessels. The benefits of the restructuring of the HVAC operations and lower material costs were clearly seen in the operating results of our Industrial/Environmental Filtration segment. In this segment net sales declined \$11.5 million, but operating profit increased \$3.6 million from the first quarter of 2009.

- Acquisitions

We completed no acquisitions in the first quarter of 2010. We completed six acquisitions during fiscal year 2009, some of which were finalized after the first quarter of 2009. The net impact of these acquisitions in the first quarter of 2010 compared to 2009 was to increase net sales by \$1.7 million and operating profit by \$0.2 million.

- Foreign Exchange

The average exchange rate for most foreign currencies versus the U.S. dollar was stronger in the first quarter of 2010 compared to the first quarter of 2009. As a result, stronger foreign currencies positively impacted our translated U.S. dollar value of net sales by \$5.1 million and operating profit by \$0.8 million in the first quarter of 2010 versus the first quarter of 2009.

- Other income (expense)

Interest expense

Interest expense declined \$0.8 million in the first quarter of 2010 compared to the first quarter of 2009. \$0.6 million of this decrease was driven by the impact of a mark-to-market adjustment on an interest rate swap agreement in the first quarter of 2009. The remaining \$0.2 million decline was driven by lower interest expense on our line of credit as a result of by a lower average interest rate (0.6% in 2010 and 1.2% in 2009) and lower average outstanding balances (\$22.0 million in 2010 and \$75.0 million in 2009).

Foreign currency gains and losses

Changes in foreign currency gains and losses negatively impacted other income (expense) by \$0.2 million in the first quarter of 2010 versus the first quarter of 2009. Much of the foreign currency gain or loss is driven by the translation of U.S. dollar denominated intercompany debt into a local currency, primarily the Euro. Since the U.S. dollar strengthened against the Euro during the first quarter of 2010, we recognized a foreign currency loss.

- Provisions for income taxes

The effective tax rate in the first quarter of 2010 was 33.9% versus 31.8% in the first quarter of 2009. This higher effective tax rate was caused by a higher mix of our earnings in the first quarter of 2010 being generated in the U.S.—which has a higher tax rate than our foreign tax jurisdictions.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - CONTINUED

• Shares outstanding

Average diluted shares outstanding declined 0.6 million in the first quarter of 2010 compared with the first quarter of 2009. This reduction was driven by a 0.5 million decrease in average basic shares outstanding. Average basic shares outstanding decreased primarily due to the repurchase of 0.7 million shares in the third quarter of 2009.

SEGMENT ANALYSIS

(Dollars in millions)	2010	First Quarter		2009	% Total
			% Total		
Net sales:					
Engine/Mobile Filtration	\$ 96.4	45%	\$ 85.4	40%	
Industrial/Environmental Filtration	102.0	47%	113.5	53%	
Packaging	16.7	8%	14.8	7%	
	\$ 215.1	100%	\$ 213.7	100%	
Operating profit:					
Engine/Mobile Filtration	\$ 17.9	78%	\$ 13.3	97%	
Industrial/Environmental Filtration	4.3	19%	0.7	5%	
Packaging	0.7	3%	(0.3)	-2%	
	\$ 22.9	100%	\$ 13.7	100%	
Operating margin:					
Engine/Mobile Filtration	18.5%		15.6%		
Industrial/Environmental Filtration	4.2%		0.6%		
Packaging	4.5%		-1.9%		
	10.6%		6.4%		

Engine/Mobile Filtration Segment

(Dollars in millions)	First Quarter		2010 v 2009	
	2010	2009	\$ Change	% Change
Net sales	\$ 96.4	\$ 85.4	\$ 11.0	13%
Operating profit	17.9	13.3	4.6	35%
Operating margin	18.5%	15.6%		2.9 pt

Our Engine/Mobile Filtration segment primarily sells after-market filters for heavy-duty over-the-road trucks, heavy-duty off-highway vehicles, locomotives and automobiles. The largest market included in this segment is engine filters for heavy-duty trucks produced at our Baldwin business unit.

Net sales for our Engine/Mobile Filtration segment increased \$11.0 million or 13% from the first quarter of 2009 to the first quarter of 2010 as detailed in the following table:

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - CONTINUED

(Dollars in millions)	Net Sales
2009	\$ 85.4
U.S. sales	0.1
Foreign sales (including export)	7.9
Foreign exchange	3.0
Net increase	11.0
2010	\$