

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
x o o o

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

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	Number	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								