

Edgar Filing: CLARCOR INC - Form 10-Q

CLARCOR INC
Form 10-Q
September 19, 2008

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 quarter ended August 30, 2008

REGISTRANT: CLARCOR Inc. (Delaware)

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 August 30, 2008

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

36-0922490

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

840 Crescent Centre Drive, Suite 600, Franklin, Tennessee 37067

(Address of principal executive offices)

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

No Change

(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

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

As of August 30, 2008, 50,776,403 common shares with a par value of \$1 per share were outstanding.

Part I Item 1

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

	August 30, 2008 (unaudited)	December 1, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 44,568	\$ 36,059
Restricted cash	468	1,055
Short-term investments	7,431	4,884
Accounts receivable, less allowance for losses of \$12,543 for 2008 and \$11,143 for 2007	209,036	166,912
Inventories:		
Raw materials	59,534	49,722
Work in process	34,466	18,973
Finished products	70,627	67,151
Total inventories	164,627	135,846
Prepaid expenses and other current assets	9,556	6,968
Deferred income taxes	20,698	20,196
Total current assets	456,384	371,920
Plant assets at cost, less accumulated depreciation	438,219 (244,831)	398,350 (229,138)
	193,388	169,212
Goodwill	223,895	124,718
Acquired intangibles, less accumulated amortization	96,333	53,209
Pension assets		8,341
Deferred income taxes	294	294
Other noncurrent assets	15,433	11,441
Total assets	\$ 985,727	\$ 739,135
LIABILITIES		
Current liabilities:		
Current portion of long-term debt	\$ 131	\$ 94
Accounts payable	76,038	53,523
Accrued salaries, wages and commissions	15,605	11,945

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Compensated absences	7,619	7,484
Accrued insurance liabilities	12,163	11,412
Customer deposits	16,072	
Other accrued liabilities	34,840	25,255
Income taxes	6,689	4,458
Total current liabilities	169,157	114,171
Long-term debt, less current portion	97,383	17,329
Postretirement health care benefits	766	947
Long-term pension liabilities	18,625	15,104
Deferred income taxes	35,476	25,485
Other long-term liabilities	8,127	5,792
Minority interests	3,984	4,577
Total liabilities	333,518	183,405
Contingencies		
SHAREHOLDERS EQUITY		
Capital stock	50,776	49,219
Capital in excess of par value	47,276	
Accumulated other comprehensive earnings (loss)	(871)	5,912
Retained earnings	555,028	500,599
Total shareholders equity	652,209	555,730
Total liabilities and shareholders equity	\$ 985,727	\$ 739,135

See Notes to Consolidated Condensed Financial Statements
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CLARCOR Inc.
CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS
(Dollars in thousands except per share data)
(Unaudited)

	Quarter Ended		Nine Months Ended	
	August 30, 2008	September 1, 2007	August 30, 2008	September 1, 2007
Net sales	\$ 276,300	\$ 238,270	\$ 793,618	\$ 682,925
Cost of sales	188,152	165,412	543,304	478,318
 Gross profit	 88,148	 72,858	 250,314	 204,607
Selling and administrative expenses	47,328	38,236	144,297	114,904
 Operating profit	 40,820	 34,622	 106,017	 89,703
 Other income (expense):				
Interest expense	(1,313)	(281)	(4,951)	(776)
Interest income	311	264	1,012	1,233
Other, net	(347)	70	(736)	(176)
	(1,349)	53	(4,675)	281
 Earnings before income taxes and minority interests	 39,471	 34,675	 101,342	 89,984
Provision for income taxes	13,578	7,999	34,422	25,878
 Earnings before minority interests	 25,893	 26,676	 66,920	 64,106
Minority interests in earnings of subsidiaries	(82)	(61)	(326)	(189)
 Net earnings	 \$ 25,811	 \$ 26,615	 \$ 66,594	 \$ 63,917
 Net earnings per common share:				
Basic	\$ 0.51	\$ 0.53	\$ 1.31	\$ 1.26
Diluted	\$ 0.50	\$ 0.53	\$ 1.30	\$ 1.25

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Average number of common shares
outstanding:

Basic	50,885,417	49,961,327	50,745,240	50,555,380
Diluted	51,455,710	50,560,937	51,252,593	51,001,420
Dividends paid per share	\$ 0.0800	\$ 0.0725	\$ 0.2400	\$ 0.2175

See Notes to Consolidated Condensed Financial Statements

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

	Nine Months Ended	
	August 30, 2008	September 1, 2007
Cash flows from operating activities:		
Net earnings	\$ 66,594	\$ 63,917
Depreciation	19,130	16,448
Amortization	3,975	1,999
Loss on interest rate agreement	1,421	
Stock-based compensation expense	4,162	3,217
Excess tax benefit from stock-based compensation	(2,396)	(2,622)
Changes in short-term investments	(2,547)	23,445
Changes in assets and liabilities, excluding short-term investments	(15,521)	(8,357)
Other, net	396	933
Net cash provided by operating activities	75,214	98,980
Cash flows from investing activities:		
Business acquisitions, net of cash acquired	(75,329)	(12,378)
Additions to plant assets	(24,851)	(29,336)
Investment in affiliate	(2,000)	(47)
Other, net	139	1,704
Net cash used in investing activities	(102,041)	(40,057)
Cash flows from financing activities:		
Net proceeds under line of credit	80,000	
Payment of long-term debt	(7,366)	(4,638)
Sale of capital stock under stock option and employee purchase plans	8,467	4,966
Purchase of treasury stock	(37,260)	(49,334)
Excess tax benefits from stock-based compensation	2,396	2,622
Cash dividends paid	(12,259)	(11,017)
Net cash provided by / (used in) financing activities	33,978	(57,401)
Net effect of exchange rate changes on cash	1,358	1,174
Net change in cash and cash equivalents	8,509	2,696

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Cash and cash equivalents, beginning of period	36,059	29,051
Cash and cash equivalents, end of period	\$ 44,568	\$ 31,747
Cash paid during the period for:		
Interest	\$ 2,892	\$ 613
Income taxes	\$ 29,249	\$ 28,607

See Notes to Consolidated Condensed Financial Statements

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CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

(Unaudited)

1. CONSOLIDATED FINANCIAL STATEMENTS

The consolidated condensed balance sheet as of August 30, 2008, the consolidated condensed statements of earnings and the consolidated condensed statements of cash flows for the periods ended August 30, 2008, and September 1, 2007, have been prepared by the Company without audit. The financial statements have been prepared on the same basis as those in the Company's Annual Report on Form 10-K for the fiscal year ended December 1, 2007 (2007 Form 10-K). The December 1, 2007 consolidated balance sheet data was derived from the Company's year-end audited financial statements as presented in the 2007 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 results of operations for the period ended August 30, 2008, are not necessarily indicative of the operating results for the full year.

2. BUSINESS ACQUISITIONS

Effective May 1, 2008, the Company acquired a 30% preferred equity share in BioProcess Technologies, Inc. (BPT), a Rhode Island based manufacturer of industrial waste water and water reuse filtration systems, for approximately \$4,000, payable \$2,000 in cash with the remaining \$2,000 to be paid by December 31, 2009. Under the terms of the agreement with BPT, the Company will have 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, BPT's operating income. The investment is being accounted for under the equity method.

On December 3, 2007, the Company acquired Perry Equipment Corporation (Peco), a privately-owned manufacturer of engineered filtration products and technologies used in a wide array of industries, including oil and natural gas, refining, power generation, petrochemical, food and beverage, electronics, polymers and pulp and paper. Peco is based in Mineral Wells, Texas with operations in Mexico, Canada, the United Kingdom, Italy, Romania, Malaysia and China. Peco was merged with the Company's Facet operations with the combined headquarters based in Mineral Wells. Peco was acquired to expand the Company's product offerings, technology, filtration solutions and customer base in the growing oil and natural gas industries. Its results are included as part of the Company's Industrial/Environmental Filtration segment since the date of acquisition. The purchase price was approximately \$146,216 excluding cash acquired and including acquisition costs. The Company issued 2,137,797 shares of CLARCOR common stock with a value of approximately \$71,954 and paid the remaining purchase price with cash on hand and approximately \$80,000 of cash borrowed under the Company's revolving credit agreement.

A preliminary allocation of the initial purchase price for the acquisition has been made to major categories of assets and liabilities based on available information and is currently subject to change. The \$98,984 excess of the initial purchase price over the preliminary estimated fair value of the net tangible and identifiable intangible assets acquired was recorded as goodwill. Other acquired intangibles will be amortized over a straight-line basis according to their useful lives. The estimated amounts recognized and their respective lives are shown in the following table.

CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

(Unaudited) Continued

2. BUSINESS ACQUISITIONS (Continued)

Identifiable Intangible Asset	Value	Estimated Useful Life
Trade names	\$ 11,800	Indefinite
Non-compete agreements	800	2 years
Customer relationships	14,200	15 years
Developed technology	20,300	16 years
Total fair value	\$ 47,100	

The Company expects to finalize the purchase price allocation during fiscal 2008. The allocation will be completed when the Company finishes its appraisal of the assets acquired (which includes completing an assessment of the liabilities assumed) and finalizes the estimates associated with deferred taxes and other costs related to the acquisition. The actual allocation of the final purchase price and the resulting effect on income from operations will likely differ from the unaudited pro forma amounts included herein.

Following is a condensed balance sheet based on the current assessment of fair values of the assets acquired and liabilities assumed.

Cash	\$ 11,448
Accounts receivable, less allowance for losses	18,549
Inventory, net	15,220
Prepaid expenses and current assets	2,949
Current deferred tax assets	875
Plant assets	18,822
Goodwill	98,984
Trademarks and trade names	11,800
Other acquired intangibles	35,300
Other noncurrent assets	1,012
Total assets acquired	214,959
Current notes payable	(7,411)
Accounts payable and accrued liabilities	(31,373)
Long-term deferred tax liabilities	(17,031)
Long-term liabilities	(1,480)
Net assets acquired	157,664
Less cash acquired	(11,448)
Assets acquired, net of cash	\$ 146,216

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For its fiscal year ended May 31, 2007, Peco had sales of approximately \$102,000 and operating profit of approximately \$12,500.

The following unaudited pro forma information summarizes the results of operations and the condensed consolidated balance sheet for the period indicated as if the Peco acquisition had been completed as of the beginning of fiscal 2007. The pro forma information gives effect to actual operating results prior to the acquisition, adjusted to include the estimated pro forma effect of interest expense, depreciation, amortization of intangibles, income taxes and the additional Company shares issued. These pro forma amounts are based on a preliminary

CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

(Unaudited) Continued

2. BUSINESS ACQUISITIONS (Continued)

allocation of the purchase price to estimates of the fair values of the assets acquired and liabilities assumed. The pro forma amounts include the Company's preliminary determination of purchase accounting adjustments based upon available information and certain assumptions that the Company believes are reasonable. The unaudited pro forma results do not include the impact of any revenues, costs or other operating synergies and non-recurring charges expected to result from the acquisition. In addition, management has performed an initial review of the respective accounting policies and has determined that conforming Peco's policies to the Company's policies, where applicable, creates no significant differences that impact the unaudited pro forma amounts shown below. The pro forma amounts do not purport to be indicative of the results that would have actually been obtained if the acquisition had occurred as of the beginning of the period presented or that may be obtained in the future.

	Quarter Ended September 1, 2007	Nine Months Ended September 1, 2007
Net sales	\$ 264,160	\$ 768,762
Operating profit	36,394	98,128
Net earnings	26,983	67,518
Diluted earnings per share	\$ 0.51	\$ 1.27
As of November 30, 2007		
Current assets	\$ 413,704	
Plant assets	188,624	
Goodwill	223,702	
Other acquired intangibles	100,309	
Other noncurrent assets	21,533	
Total assets	\$ 947,872	
Current liabilities	\$ 145,994	
Long-term debt	97,373	
Other long-term liabilities	70,335	
Shareholders' equity	634,170	
Total liabilities and shareholders' equity	\$ 947,872	

Also in December 2007, the Company purchased a distributor of engineered filtration products in Canada for approximately \$1,402 including acquisition costs. Of the purchase price, \$811 was paid at closing and the remaining \$591 will be paid over the next four years. A preliminary allocation of the purchase price for the acquisition has been made to major categories of assets and liabilities. The \$698 excess of the purchase price over the preliminary estimated fair value of the net tangible and identifiable intangible assets acquired was recorded as goodwill. The business is included in the Industrial/Environmental Filtration segment from the date of acquisition and is not material to the results of the Company.

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On March 5, 2007, the Company acquired an 80% ownership share in Sinfa SA, a manufacturer of automotive and heavy-duty engine filters based in Casablanca, Morocco, for approximately \$5,556 in cash including acquisition expenses, net of cash received, plus debt of approximately \$6 million which the Company paid after the acquisition date. The business is included in the Engine/Mobile Filtration segment from the date of acquisition. The acquisition is not material to the results of the Company.

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CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

(Unaudited) Continued

2. BUSINESS ACQUISITIONS (Continued)

As part of the purchase agreement, the Company and the minority owners each have an option to require the purchase of the remaining 20% ownership share by the Company after December 31, 2012. As of August 30, 2008, the purchase price for such 20% ownership share is estimated to be \$1 million based on the formula in the purchase agreement. Any change in the estimated purchase price for the remaining ownership share will be recorded through net earnings.

During February 2007, the Company acquired a synthetic fibers filtration business from Newton Tool & Mfg. Company, Inc., a privately-owned engineering and machining company based in Swedesboro, New Jersey, for \$6,603 in cash, including acquisition expenses. The synthetic fibers filtration business, including all of the related production equipment, was moved into the Company's operations in Houston, Texas, and Shelby, North Carolina. The business is included in the Industrial/Environmental Filtration segment from the date of acquisition.

An allocation of the purchase price for the acquisition was made to major categories of assets and liabilities. The \$715 excess of the purchase price over the estimated fair value of the net tangible and identifiable intangible assets acquired was recorded as goodwill. Other acquired intangibles included non-compete agreements valued at \$100 and customer relationships valued at \$2,100, which are being amortized on a straight-line basis over three years and thirteen years, respectively. The acquisition is not material to the results of the Company.

3. STOCK-BASED COMPENSATION

The Company applies the provisions of Statement of Financial Accounting Standards (SFAS) No. 123R, Share-Based Payment, which establishes the accounting for stock-based awards. Under this method, stock-based employee compensation cost is recognized using the fair-value based method for all awards granted on or after the date of adoption. The Company issues stock option awards and restricted share unit awards to employees and issues stock option awards and restricted stock to non-employee directors under its stock-based incentive plans. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. Compensation cost related to restricted share units is recorded based on the market price of the Company's common stock on the grant date. The key provisions of the Company's stock-based incentive plans are described in Note O of the Company's consolidated financial statements included in the 2007 Form 10-K.

The Company recorded pretax compensation expense related to stock options of \$365 and \$3,140 and related tax benefits of \$126 and \$1,081 for the quarter and nine months ended August 30, 2008, respectively. For the quarter and nine months ended September 1, 2007, the Company recorded pretax compensation expense related to stock options of \$892 and \$2,402 and related tax benefits of \$296 and \$798, respectively. The Company also recorded \$84 and \$1,022 in pretax compensation expense related to its restricted share units for the quarter and nine months ended August 30, 2008, respectively, and \$272 and \$815 for the quarter and nine months ended September 1, 2007, respectively. The tax benefits associated with tax deductions that exceed the amount of compensation expense recognized in the financial statements related to stock-based compensation were \$107 and \$2,396 for the quarter and nine months ended August 30, 2008, respectively, and \$575 and \$2,622 for the quarter and nine months ended September 1, 2007, respectively.

CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

(Unaudited) Continued

3. STOCK-BASED COMPENSATION (Continued)Stock Options

The following table summarizes the activity for the nine months ended August 30, 2008, with respect to non-qualified stock options granted under the Company's incentive plans.

	Shares Granted under Incentive Plans	Weighted Average Exercise Price
Outstanding at beginning of year	3,191,598	\$ 23.79
Granted	477,900	36.38
Exercised	(450,075)	21.54
Surrendered	(67,724)	35.77
Outstanding at August 30, 2008	3,151,699	\$ 25.76
Options exercisable at August 30, 2008	2,495,433	\$ 23.26

The total intrinsic value of options exercised during the nine months ended August 30, 2008, and September 1, 2007, was \$7,379 and \$7,741, respectively. The weighted average fair value per option at the date of grant for options granted during the nine months ended August 30, 2008 and September 1, 2007, was \$9.37 and \$9.36, respectively.

The following table summarizes information about the Company's outstanding and exercisable options at August 30, 2008.

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Number	Weighted Average Exercise Price	Weighted Average Remaining Life in Years	Number	Weighted Average Exercise Price	Weighted Average Remaining Life in Years
\$ 8.97 - \$ 9.75	198,624	\$ 9.14	1.42	198,624	\$ 9.14	1.42
\$11.50 - \$13.75	169,600	13.16	3.09	169,600	13.16	3.09
\$16.01 - \$22.80	913,198	20.54	4.12	913,198	20.54	4.12