

CLARCOR INC.  
Form 10-Q  
June 19, 2015

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 May 30, 2015

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

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

Delaware (State or other jurisdiction of incorporation or organization)	1-11024 (Commission File Number)	36-0922490 (I.R.S. Employer Identification No.)
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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:

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

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

As of June 15, 2015, 50,096,733 common shares with a par value of \$1 per share were outstanding.

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## Part I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## CLARCOR Inc.

## CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS

(Dollars in thousands, except share data)

(Unaudited)

	Quarter Ended		Six Months Ended	
	May 30, 2015	May 31, 2014	May 30, 2015	May 31, 2014
Net sales	\$399,799	\$386,642	\$750,922	\$699,327
Cost of sales	266,189	261,272	504,337	477,370
Gross profit	133,610	125,370	246,585	221,957
Selling and administrative expenses	74,667	74,223	148,449	139,544
Operating profit	58,943	51,147	98,136	82,413
Other income (expense):				
Interest expense	(1,556	) (670	) (2,627	) (1,070
Interest income	90	96	231	203
Other, net	(422	) 174	(538	) 4,145
	(1,888	) (400	) (2,934	) 3,278
Earnings before income taxes	57,055	50,747	95,202	85,691
Provision for income taxes	18,482	16,201	29,892	26,804
Net earnings	38,573	34,546	65,310	58,887
Net (earnings) loss attributable to noncontrolling interests	(76	) 6	(104	) (14
Net earnings attributable to CLARCOR Inc.	\$38,497	\$34,552	\$65,206	\$58,873
Net earnings per share attributable to CLARCOR Inc. - Basic	\$0.77	\$0.68	\$1.30	\$1.17
Net earnings per share attributable to CLARCOR Inc. - Diluted	\$0.76	\$0.68	\$1.28	\$1.16
Weighted average number of shares outstanding - Basic	50,209,215	50,513,588	50,232,565	50,488,651
Weighted average number of shares outstanding - Diluted	50,791,198	50,945,090	50,791,840	50,934,768
Dividends paid per share	\$0.2000	\$0.1700	\$0.4000	\$0.3400

See Notes to Consolidated Condensed Financial Statements  
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CLARCOR Inc.

## CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE EARNINGS

(Dollars in thousands)

(Unaudited)

	Quarter Ended		Six Months Ended	
	May 30, 2015	May 31, 2014	May 30, 2015	May 31, 2014
Net earnings	\$38,573	\$34,546	\$65,310	\$58,887
Other comprehensive income:				
Pension and other postretirement benefits —				
Pension and other postretirement benefits liability adjustments	860	619	1,721	1,283
Pension and other postretirement benefits liability adjustments tax amounts	(335)	(240)	(597)	(507)
Pension and other postretirement benefits liability adjustments, net of tax	525	379	1,124	776
Foreign currency translation —				
Translation adjustments	(5,720)	(1,764)	(22,334)	2,561
Translation adjustments tax amounts	—	—	—	—
Translation adjustments, net of tax	(5,720)	(1,764)	(22,334)	2,561
Comprehensive earnings	33,378	33,161	44,100	62,224
Comprehensive earnings attributable to non-redeemable noncontrolling interests	(50)	(82)	(18)	(133)
Comprehensive loss attributable to redeemable noncontrolling interests	12	83	155	106
Comprehensive earnings attributable to CLARCOR Inc.	\$33,340	\$33,162	\$44,237	\$62,197

See Notes to Consolidated Condensed Financial Statements

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

	May 30, 2015	November 29, 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$81,837	\$94,064
Accounts receivable, less allowance for losses of \$11,132 and \$10,811, respectively	280,563	305,580
Inventories	300,885	274,718
Deferred income taxes	38,209	37,749
Prepaid expenses and other current assets	21,952	16,796
Total current assets	723,446	728,907
Property, plant and equipment, at cost, less accumulated depreciation of \$363,694 and \$357,564 respectively	309,955	288,356
Goodwill	508,273	507,172
Acquired intangible assets, less accumulated amortization	342,878	347,578
Other noncurrent assets	18,420	16,756
Total assets	\$1,902,972	\$1,888,769
<b>LIABILITIES</b>		
Current liabilities:		
Current portion of long-term debt	\$227	\$233
Accounts payable	102,476	97,885
Accrued liabilities	102,360	120,036
Income taxes payable	4,871	6,226
Total current liabilities	209,934	224,380
Long-term debt, less current portion	417,800	411,330
Long-term pension and postretirement healthcare benefits liabilities	32,141	33,266
Deferred income taxes	104,057	104,250
Other long-term liabilities	13,868	8,853
Total liabilities	777,800	782,079
Contingencies ( <u>Note 10</u> )		
Redeemable noncontrolling interests	—	1,587
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock	50,119	50,204
Capital in excess of par value	6,944	10,644
Accumulated other comprehensive loss	(75,290)	(54,080)
Retained earnings	1,142,544	1,097,292
Total CLARCOR Inc. equity	1,124,317	1,104,060
Noncontrolling interests	855	1,043
Total shareholders' equity	1,125,172	1,105,103
Total liabilities and shareholders' equity	\$1,902,972	\$1,888,769

See Notes to Consolidated Condensed Financial Statements  
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CLARCOR Inc.  
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS  
(Dollars in thousands)  
(Unaudited)

	Six Months Ended	
	May 30, 2015	May 31, 2014
Cash flows from operating activities:		
Net earnings	\$65,310	\$58,887
Depreciation	15,583	14,870
Amortization	12,523	7,943
Other noncash items	104	933
Net (gain) loss on disposition of assets	(1,418	) 73
Bargain purchase gain	—	(2,815
Stock-based compensation expense	6,994	3,654
Excess tax benefit from stock-based compensation	(995	) (351
Change in assets and liabilities	(30,871	) (40,444
Net cash provided by operating activities	67,230	42,750
Cash flows from investing activities:		
Restricted cash	—	(642
Business acquisitions, net of cash acquired	(20,881	) (595,621
Additions to plant assets	(37,992	) (28,275
Proceeds from disposition of plant assets	4,792	148
Investment in affiliates	(525	) (473
Net cash used in investing activities	(54,606	) (624,863
Cash flows from financing activities:		
Net borrowings (payments) on multicurrency revolving credit facility	15,000	(22,000
Borrowings under term loan facility	—	315,000
Payments on term loan facility	—	(20,000
Payments on long-term debt	(8,536	) (1,487
Payment of financing costs	—	(723
Sale of capital stock under stock option and employee purchase plans	5,360	2,442
Acquisition of noncontrolling interest	(1,239	) —
Payments for repurchase of common stock	(16,110	) —
Excess tax benefit from stock-based compensation	995	351
Dividend paid to noncontrolling interests	(206	) (166
Cash dividends paid	(20,124	) (17,166
Net cash (used in) provided by financing activities	(24,860	) 256,251
Net effect of exchange rate changes on cash	9	(1,673
Net change in cash and cash equivalents	(12,227	) (327,535
Cash and cash equivalents, beginning of period	94,064	411,562
Cash and cash equivalents, end of period	\$81,837	\$84,027
Cash paid during the period for:		
Interest	\$2,478	\$598
Income taxes, net of refunds	\$26,505	\$28,812

See Notes to Consolidated Condensed Financial Statements

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CLARCOR Inc.

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

(Unaudited)

## 1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

## Basis of Presentation

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

The Consolidated Condensed Statements of Earnings, the Consolidated Condensed Statements of Comprehensive Earnings and the Consolidated Condensed Statements of Cash Flows for the periods ended May 30, 2015 and May 31, 2014 and the Consolidated Condensed Balance Sheet as of May 30, 2015 have been prepared by the Company without audit. The Consolidated Condensed Financial Statements have been prepared on the same basis as those in the Company’s Annual Report on Form 10-K for the fiscal year ended November 29, 2014 (“2014 Form 10-K”). The November 29, 2014 Consolidated Condensed Balance Sheet data was derived from the Company’s year-end audited Consolidated Financial Statements as presented in the 2014 Form 10-K but does not include all disclosures required by accounting principles generally accepted in the United States of America (“U.S. GAAP”). In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows have been made. The results of operations for the period ended May 30, 2015, are not necessarily indicative of the operating results for the full year. The information included in this Form 10-Q should be read in conjunction with the audited Consolidated Financial Statements and accompanying notes included in the 2014 Form 10-K.

## Cash and Cash Equivalents and Restricted Cash

Highly liquid investments with an original maturity of three months or less when purchased and that are readily saleable are considered to be cash and cash equivalents. Restricted cash represents funds held in escrow and cash balances held by German banks as collateral for certain guarantees of overseas subsidiaries. Restricted cash classified as current corresponds to funds held in escrow that will be used within one year or guarantees that expire within one year. The Company had \$1,294 of noncurrent restricted cash recorded in Other noncurrent assets as of both May 30, 2015 and November 29, 2014, corresponding to guarantees and escrow agreements that expire longer than one year from the dates of the Consolidated Condensed Balance Sheets.

## Inventories

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

	May 30, 2015	November 29, 2014
Raw materials	\$107,300	\$101,848
Work in process	50,078	41,729

Finished products	143,507	131,141
Inventories	\$300,885	\$274,718

CLARCOR Inc.

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

(Unaudited)

## Accumulated Other Comprehensive Loss

Changes in accumulated other comprehensive loss by component for the three and six months ended May 30, 2015 are as follows:

	Pension Benefits	Foreign Currency Translation Adjustments	Total
Balance at February 28, 2015, net of tax	\$ (37,068 )	\$ (33,027 )	\$ (70,095 )
Other comprehensive loss before reclassifications and tax	(105 )	(5,720 )	(5,825 )
Tax benefit	21	—	21
Other comprehensive loss before reclassifications, net of tax	(84 )	(5,720 )	(5,804 )
Reclassifications, before tax	965	(a) —	965
Tax expense	(356 )	—	(356 )
Reclassifications, net of tax	609	—	609
Other comprehensive income (loss), net of tax	525	(5,720 )	(5,195 )
Balance at May 30, 2015, net of tax	\$ (36,543 )	\$ (38,747 )	\$ (75,290 )
Balance at November 29, 2014, net of tax	\$ (37,667 )	\$ (16,413 )	\$ (54,080 )
Other comprehensive loss before reclassifications and tax	(210 )	(22,334 )	(22,544 )
Tax benefit	42	—	42
Other comprehensive loss before reclassifications, net of tax	(168 )	(22,334 )	(22,502 )
Reclassifications, before tax	1,932	(a) —	1,932
Tax expense	(640 )	—	(640 )
Reclassifications, net of tax	1,292	—	1,292
Other comprehensive income (loss), net of tax	1,124	(22,334 )	(21,210 )
Balance at May 30, 2015, net of tax	\$ (36,543 )	\$ (38,747 )	\$ (75,290 )

(a) Includes amortization of prior service cost and net actuarial loss included in net periodic benefit cost (see [Note 8](#)) that were reclassified from accumulated other comprehensive loss to selling and administrative expenses.

## Derivative Instruments and Hedging Activities

The Company is exposed to various market risks that arise from transactions entered into in the normal course of business, including market risks associated with changes in foreign currency exchange rates and changes in interest rates. The Company may make use of derivative instruments to manage certain such risks, including derivatives designated as accounting hedges and/or those utilized as economic hedges which are not designated as accounting hedges. The Company does not hold or issue derivatives for trading or speculative purposes.

All derivatives are recorded at fair value in the Consolidated Balance Sheets. Each derivative is designated as either a fair value hedge or remains undesignated. Changes in the fair value of derivatives that are designated and effective as fair value hedges are recognized currently in net income. These changes are offset in net income to the extent the hedge was effective by fair value changes related to the risk being hedged on the hedged item. Changes in fair value of

undesignated hedges are recognized currently in net income. All ineffective changes in derivative fair values are recognized currently in net income.

The Company formally documents all relationships between designated hedging instruments and hedged items as well as its risk management objective and strategy for undertaking hedge transactions. Both at inception and on an ongoing basis the hedging instrument is assessed as to its effectiveness. If and when a derivative is determined not to be highly effective as a hedge, or the underlying hedge transaction is no longer likely to occur, the hedge designation is removed, or the derivative is

CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

(Unaudited)

terminated, the hedge accounting discussed above is discontinued. Further information related to derivatives and hedging activities is included in Note 5 of the Notes to Consolidated Condensed Financial Statements.

#### New Accounting Guidance

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

In June 2014, the FASB issued ASU 2014-12, "Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period." ASU 2014-12 requires that a performance target that affects vesting and could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in ASC 718, Compensation-Stock Compensation, as it relates to such awards. ASU 2014-12 is effective for annual reporting periods and interim periods within that period, beginning after December 15, 2015 (fiscal year 2017 for the Company). The Company does not expect the adoption of this guidance to have a material impact on its Consolidated Financial Statements.

## 2. BUSINESS ACQUISITIONS, INVESTMENTS AND NONCONTROLLING INTERESTS

### Business Acquisitions

#### Filter Resources

On December 17, 2014, the Company acquired 100% of the outstanding shares of Filter Resources, Inc., Filtration, Inc. and Fabrication Specialties, Inc. (collectively, "Filter Resources"). The purchase price for Filter Resources was approximately \$21,861, which the Company funded with borrowings under the Company's revolving credit agreement.

Filter Resources has operating facilities located in the Texas gulf coast and Louisiana region, with approximately 75 total employees. The business is engaged in the manufacture and distribution of filtration products for petrochemical, refinery, pipeline and other industrial applications. The operations of Filter Resources have been merged into the Company's PECOFacet group of companies, headquartered in Mineral Wells, Texas. Its results are included as part of the Company's Industrial/Environmental Filtration segment from the date of acquisition.

A preliminary allocation of the purchase price to the assets acquired and liabilities assumed was made based on available information and incorporating management's best estimates. Assets acquired and liabilities assumed in the transaction were recorded at their estimated acquisition-date fair values. A contingent liability for a potential earn-out payment to the former owners, based on earnings from certain capital projects, has been recorded at its estimated fair value of \$1,282, and is included in Other long-term liabilities in the Consolidated Condensed Balance Sheet. The Company assumed long-term debt of the business of \$1,250, which was immediately repaid in connection with the

closing. The Company is currently in the process of finalizing the valuations of all assets acquired and liabilities assumed. The Company expects to finalize the purchase price allocation within one year of the purchase date.

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CLARCOR Inc.

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

(Unaudited)

The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed at the date of acquisition of Filter Resources:

Accounts receivable	\$3,180
Inventories	2,042
Other current assets	118
Property, plant and equipment	574
Goodwill	11,938
Intangible assets	10,880
Total assets acquired	28,732
Current liabilities	2,670
Noncurrent liabilities	4,201
Net assets acquired	\$21,861

Filter Resources was acquired primarily to expand the Company's access to petrochemical and refinery customers, particularly in the U.S. gulf coast region. Goodwill of \$11,938 recorded in connection with the acquisition, which is not deductible for tax purposes, represents the estimated value of such future opportunities. A summary of the intangible assets acquired is shown in the following table:

	Estimated Value	Weighted average Useful life	Amortization Method
Identifiable intangible assets			
Customer relationships	\$10,800	15 years	Straight-line
Trademarks	80	1 year	Straight-line
	\$10,880		

Net sales and operating profit for Filter Resources for the three and six months ended May 30, 2015 (which, in the case of the six month period ended May 30, 2015, includes the period from December 17, 2014 to May 30, 2015) were as follows:

	Three Months Ended May 30, 2015	Six Months Ended May 30, 2015
Net sales	\$5,134	\$9,182
Operating profit	410	686

## CLARCOR Engine Mobile Solutions

On May 1, 2014, the Company acquired Stanadyne Corporation's diesel fuel filtration business (the "Stanadyne Business") through the acquisition of the stock of Stanadyne Holdings, Inc. The business, which now operates as "CLARCOR Engine Mobile Solutions," is a leading supplier of original equipment and replacement fuel filtration products, primarily for heavy-duty diesel engines used in off-road, agricultural and construction applications. CLARCOR Engine Mobile Solutions has approximately 200 employees and is headquartered in Windsor, Connecticut, with manufacturing operations in Washington, North Carolina. Its results are included as part of the Company's Engine/Mobile Filtration segment from the date of acquisition. The purchase price paid was approximately \$327,719 in cash (cash to Stanadyne Corporation of \$327,719, net of \$0 cash acquired), which the Company funded with cash on hand, a \$315,000 term loan and \$10,000 borrowed under the Company's revolving credit agreement (see [Note 7](#)).

An allocation of the purchase price to the assets acquired and liabilities assumed was made based on available information and incorporating management's best estimates. Assets acquired and liabilities assumed in the transaction were recorded at their estimated acquisition date fair values, while transaction costs associated with the acquisition were expensed as incurred. During the three month period ended May 30, 2015, the Company completed the allocation of the purchase price to the assets and liabilities assumed and, as a result, retrospectively adjusted the

valuation of certain assets and liabilities with a corresponding adjustment to

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CLARCOR Inc.

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

(Unaudited)

goodwill as of the acquisition date. The retrospective adjustments were approximately \$7,378 in the aggregate and primarily relate to updated deferred tax attributes based on the completion of the pre-acquisition tax return filings of the Stanadyne Business.

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

Accounts receivable	\$ 19,098
Inventories	7,257
Deferred income taxes	4,445
Property, plant and equipment	10,176
Goodwill	187,611
Intangible assets	146,430
Total assets acquired	375,017
Current liabilities	9,105
Other noncurrent liabilities	2,000
Deferred income taxes	36,193
Net assets acquired	\$327,719

The Stanadyne Business was acquired to significantly increase CLARCOR's presence in the design, manufacture and supply of original equipment diesel fuel filtration products and the related original equipment services aftermarket, while also providing enhanced scale and market presence to support growth for CLARCOR's other Engine/Mobile Filtration businesses — including the heavy-duty fuel, oil, hydraulic and air filtration products manufactured and marketed by Baldwin Filters — through original equipment customers and services channels. Goodwill of \$187,611 recorded in connection with the acquisition, which is not deductible for tax purposes, represents the estimated value of such future opportunities. A summary of the intangible assets acquired is shown in the following table:

Identifiable intangible assets	Estimated Value	Weighted average Useful life	Amortization Method
Customer relationships	\$135,250	13 years	Straight-line
Developed technology	11,000	10 years	Straight-line
Trademarks	180	Indefinite	Not amortized
	\$146,430		

Net sales and operating profit (loss) for CLARCOR Engine Mobile Solutions for the three and six month periods ended May 30, 2015 and May 31, 2014 (which, in the case of the periods ended May 31, 2014, includes the period from May 1, 2014 to May 31, 2014) were as follows:

	Quarter Ended		Six Months Ended	
	May 30, 2015	May 31, 2014	May 30, 2015	May 31, 2014
Net sales	\$25,588	\$8,992	\$49,660	\$8,992
Operating profit (loss)	6,370	(1,927	) 11,211	(1,927 )

## CLARCOR Industrial Air

On December 16, 2013, the Company acquired the Air Filtration business of General Electric Company's ("GE") Power and Water division through the acquisition of certain assets and the assumption of certain liabilities, as well as the acquisition of the stock of a subsidiary of GE. The business, which now operates as "CLARCOR Industrial Air", was acquired to significantly increase the Company's presence in air inlet filtration products for natural gas turbines and to expand the Company's product offerings, technologies and customer base in industrial air filtration. CLARCOR

Industrial Air employs approximately 700 people

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CLARCOR Inc.

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

(Unaudited)

and is headquartered in Overland Park, Kansas, with manufacturing operations in Missouri and the United Kingdom. Its results are included as part of the Company's Industrial/Environmental Filtration segment from the date of acquisition. The purchase price paid was approximately \$260,312 in cash (cash to GE of \$263,758, net of \$3,446 cash acquired), which the Company funded with cash on hand, a \$100,000 term loan and \$50,000 of cash borrowed under the Company's revolving credit agreement (see Note 7).

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

An allocation of the purchase price to the assets acquired and liabilities assumed was made based on available information and incorporating management's best estimates. Assets acquired and liabilities assumed in the transaction were recorded at their estimated acquisition date fair values, while transaction costs associated with the acquisition were expensed as incurred. The allocation of the purchase price to the assets and liabilities assumed was finalized as of February 28, 2015.

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

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

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

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

\$133,020

Net sales and operating profit for CLARCOR Industrial Air for the three and six month periods ended May 30, 2015 and May 31, 2014 (which, in the case of the six-month period ended May 31, 2014, includes the period from December 16, 2013 to May 31, 2014) were as follows:

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CLARCOR Inc.

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

(Unaudited)

	Quarter Ended		Six Months Ended	
	May 30, 2015	May 31, 2014	May 30, 2015	May 31, 2014
Net sales	\$58,679	\$66,985	\$108,231	\$112,363
Operating profit	7,065	4,820	10,902	3,772

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

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

Prior to acquisition by CLARCOR, the business now operated as CLARCOR Industrial Air was a wholly-owned business of GE's Power and Water division, and the business now operated as CLARCOR Engine Mobile Solutions was a wholly-owned business of Stanadyne Corporation. As such, neither business was a stand-alone entity for financial reporting purposes. Accordingly, the historical operating results of CLARCOR Industrial Air and CLARCOR Engine Mobile Solutions may not be indicative of the results that might have been achieved, historically or in the future, if CLARCOR Industrial Air and CLARCOR Engine Mobile Solutions had been stand-alone entities. The unaudited pro forma results for the three-month and six-month periods ended May 31, 2014 include adjustments to amortization charges for acquired intangible assets, depreciation expense, interest expense, and transaction costs incurred, as well as adjustments to cost of sales related to the step-up of inventory to estimated acquisition-date fair values, other income and related tax effects. The unaudited pro forma results do not give effect to any synergies, operating efficiencies or cost savings that may result from these acquisitions.

	Three Months Ended May 31, 2014			
	As reported	CLARCOR Engine Mobile Solutions	CLARCOR Industrial Air	Pro forma
Net sales	\$386,642	\$19,781	\$—	\$406,423
Operating profit	51,147	10,209	(a) 1,020	(b) 62,376
Net earnings attributable to CLARCOR	34,552	6,240	746	41,538
Diluted earnings per share	\$0.68	\$0.12	\$0.01	\$0.82

	Six Months Ended May 31, 2014			
	As reported	CLARCOR Engine Mobile Solutions	CLARCOR Industrial Air	Pro forma
Net sales	\$699,327	\$46,837	\$15,422	\$761,586
Operating profit	82,413	17,677	(a) 8,643	(c) 108,733
Net earnings attributable to CLARCOR	58,873	10,485	6,426	75,784
Diluted earnings per share	\$1.16	\$0.21	\$0.13	\$1.49

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

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

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

Includes adjustments to remove transaction costs of \$2,089 and cost of sales related to the step-up of inventory to its estimated acquisition-date fair value of \$4,216, as such costs were pushed back to the

(c) period ended March 2, 2013 for pro forma presentation. Also includes adjustments to intangible asset amortization, depreciation expense and interest expense.

## Bekaert Business

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

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

An allocation of the purchase price to the assets acquired and liabilities assumed was made based on available information and incorporating management’s best estimates. Assets acquired and liabilities assumed in the transaction were recorded at their estimated acquisition date fair values, while transaction costs associated with the acquisition were expensed as incurred. The allocation of the purchase price to the assets and liabilities assumed was finalized as of February 28, 2015.

Acquired finite-lived intangible assets of \$2,057 were recorded in connection with the purchase. The \$2,815 excess of the fair value of the identifiable assets acquired and liabilities assumed over the purchase price was recorded as a bargain purchase gain and is included in Other, net income in the Consolidated Condensed Statements of Earnings. Prior to recording this gain, the Company reassessed its identification of assets acquired and liabilities assumed, including the use of independent valuation experts to assist the Company in appraising the personal property, real property and intangible assets acquired. The Company believes there were several factors that contributed to this transaction resulting in a bargain purchase gain, including the business falling outside of NV Bekaert SA’s core activities and historical losses incurred by the business.

Net sales and operating loss for the Bekaert business for the three and six months ended May 30, 2015 and May 31, 2014 (which in the case of the six month period ended May 31, 2014, includes the period from December 3, 2013 to May 31, 2014) were as follows:

	Quarter Ended		Six Months Ended	
	May 30, 2015	May 31, 2014	May 30, 2015	May 31, 2014
Net sales	\$3,189	\$3,526	\$5,717	\$6,303
Operating loss	(83	) (303	) (519	) (554
Investments				

The Company owns 30.0% of BioProcessH2O LLC (“BPH”), a Rhode Island-based manufacturer of industrial waste water and water reuse filtration systems. During the three and six months ended May 30, 2015 and May 31, 2014, respectively, the Company did not make any additional investments. The investment, with a carrying amount of \$2,762 and \$2,918 at May 30, 2015 and November 29, 2014, respectively, included in Other noncurrent assets in the Consolidated Condensed Balance Sheets, is being accounted for under the equity method of accounting. The carrying amount is adjusted each period to recognize the Company’s share of the earnings or losses of BPH, included in Other, net in the Consolidated Condensed Statements of Earnings, based on the percentage of ownership, as well as the receipt of any dividends. During the three and six months ended May 30, 2015 and May 31, 2014, the Company did not receive any dividends from BPH.

CLARCOR Inc.

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

(Unaudited)

The Company also owns 14.6% of BioProcess Algae LLC (“Algae”), a Delaware-based company developing technology to grow and harvest algae which can be used to consume carbon dioxide and also be used as a renewable energy source. During the three and six months ended May 30, 2015 and May 31, 2014 the Company invested an additional \$525 and \$473, respectively into Algae. The investment, with a carrying amount of \$3,802 and \$3,277 at May 30, 2015 and November 29, 2014, respectively, included in Other noncurrent assets in the Consolidated Condensed Balance Sheets, is being accounted for under the cost method of accounting. Under the cost method, the Company recognizes dividends as income when received and reviews the cost basis of the investment for impairment if factors indicate that a decrease in value of the investment may have occurred. During the three and six months ended May 30, 2015 and May 31, 2014, the Company did not receive any dividends from Algae.

## Noncontrolling Interests

Noncontrolling interests changed as follows during the six months ended May 30, 2015 and May 31, 2014:

	Six Months Ended				
	May 30, 2015		May 31, 2014		
	Redeemable	Non-Redeemable	Redeemable	Non-Redeemable	
Noncontrolling interests at beginning of period	\$1,587	\$ 1,043	\$1,836	\$ 1,025	
Noncontrolling interests (loss) earnings	(19	) 123	(101	) 115	
Purchase of Noncontrolling interests	(1,432	) —	—	—	
Foreign currency translation	(136	) (105	) (5	) 18	
Dividend	—	(206	) —	(166	)
Noncontrolling interests at end of period	\$—	\$ 855	\$1,730	\$ 992	

## 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 had the option to require the purchase of the remaining 20% ownership share by the Company after December 31, 2012. During the three month period ended May 30, 2015, the Company exercised its option and acquired the remaining 20% ownership share for approximately \$1,239, following which SINFA became a wholly owned subsidiary. The difference between the amount paid and the carrying value of the noncontrolling interest was recorded to Retained earnings in the Consolidated Condensed Balance Sheet.

## 3. GOODWILL AND ACQUIRED INTANGIBLE ASSETS

All goodwill is stated on a gross basis, as the Company has not recorded any impairment charges against goodwill. The following table reconciles the activity for goodwill by segment for the six months ended May 30, 2015.

Engine/Mobile Filtration	Industrial/ Environmental	Packaging	Total
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		Filtration		
Goodwill at beginning of year	\$216,114	\$291,058	\$—	\$507,172
Acquisitions and purchase accounting adjustments	(7,378	) 11,938	—	4,560
Currency translation adjustments	(934	) (2,525	) —	(3,459
Goodwill at end of period	\$207,802	\$300,471	\$—	\$508,273

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CLARCOR Inc.

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

(Unaudited)

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

	Engine/Mobile Filtration	Industrial/ Environmental Filtration	Packaging	Total
May 30, 2015				
Indefinite Lived Intangibles:				
Trademarks - indefinite lived	\$783	\$75,075	\$—	\$75,858
Finite Lived Intangibles:				
Trademarks, gross - finite lived	\$276	\$568	\$—	\$844
Accumulated amortization	(125	) (389	) —	(514
Trademarks, net - finite lived	\$151	\$179	\$—	\$330
Customer relationships, gross	\$139,545	\$130,793	\$—	\$270,338
Accumulated amortization	(13,395	) (34,123	) —	(47,518
Customer relationships, net	\$126,150	\$96,670	\$—	\$222,820
Other acquired intangibles, gross	\$11,243	\$60,749	\$—	\$71,992
Accumulated amortization	(1,435	) (26,687	) —	(28,122
Other acquired intangibles, net	\$9,808	\$34,062	\$—	\$43,870
Total finite lived intangible assets, net	\$136,109	\$130,911	\$—	\$267,020
Acquired intangible assets, less accumulated amortization	\$136,892	\$205,986	\$—	\$342,878

The following table summarizes estimated amortization expense.

Fiscal year 2015	\$25,017
Fiscal year 2016	24,786
Fiscal year 2017	24,572
Fiscal year 2018	23,906
Fiscal year 2019	23,690

Amortization expense for the six months ended May 30, 2015 and May 31, 2014 was \$12,523 and \$7,943, respectively.

## 4. FAIR VALUE MEASUREMENTS

## Fair Value Measurements

The Company measures certain assets and liabilities at fair value as discussed throughout the notes to its quarterly and annual financial statements. Fair value is the exchange price that would be received for an asset or paid to transfer a

liability, an exit price, in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. Fair value measurements are categorized in a hierarchy based upon the observability of inputs used in valuation techniques. Observable inputs are the highest level and reflect market data obtained from independent sources, while unobservable inputs are the lowest level and reflect internally developed market assumptions. The Company classifies fair value measurements by the following hierarchy:

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Level 1 – Quoted active market prices for identical assets

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

Level 3 – Significant unobservable inputs, such as model determined valuations in which one or more significant inputs or significant value-drivers are unobservable

Assets or liabilities that have recurring fair value measurements are shown below:

	Fair Value Measurements at Reporting Date			
	Total	Level 1	Level 2	Level 3
May 30, 2015				
Restricted trust, included in Other noncurrent assets				
Mutual fund investments - equities	\$404	\$404	\$—	\$—
Mutual fund investments - bonds	398	398	—	—
Cash and equivalents	14	14	—	—
Total restricted trust	\$816	\$816	\$—	\$—
Filter Resources contingent earn-out, included in Other long-term liabilities	\$1,282	\$—	\$—	\$1,282
Foreign exchange contracts, included in Accrued liabilities	\$398	\$—	\$398	\$—
November 29, 2014				
Restricted trust, included in Other noncurrent assets				
Mutual fund investments - equities	\$437	\$437	\$—	\$—
Mutual fund investments - bonds	442	442	—	—
Cash and equivalents	14	14	—	—
Total restricted trust	\$893	\$893	\$—	\$—
Foreign exchange contracts, included in Prepaid expenses and other current assets	\$362	\$—	\$362	\$—
Foreign exchange contracts, included in Accrued liabilities	\$367	\$—	\$367	\$—

There were no changes in the fair value determination methods or significant assumptions used in those methods during the six months ended May 30, 2015. There were no transfers between Level 1 and Level 2 and there were no transfers into or out of Level 3 during the six months ended May 30, 2015. The Company's policy is to recognize transfers on the actual date of transfer. 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 Company is liable for a contingent earn-out established in connection with the acquisition of Filter Resources on December 17, 2014. This earn-out, which is payable to the former owners of Filter Resources, has been recorded at its estimated fair-value of \$1,282, and is recorded as an other long-term liability. The contingent liability for the earn-out will continue to be accounted for and measured at fair value until the contingency is settled during fiscal year 2017. The fair value measurement of

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CLARCOR Inc.

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the earn-out payment is based on estimated earnings from certain capital projects, which represent significant inputs not observed in the market and thus represents a Level 3 measurement.

The Company is liable for a contingent earn-out established in connection with the acquisition of TransWeb on December 29, 2010. This earn-out, which is payable to one of the former owners of TransWeb, had an acquisition-date estimated fair value of \$1,018, which was recorded as an other long-term liability at that time. The contingent liability for the earn-out payment will continue to be accounted for and measured at fair value until the contingency is settled during fiscal year 2016. The fair value measurement of the contingent earn-out payment is based primarily on 2014 and projected 2015 TransWeb adjusted earnings, which represent significant inputs not observed in the market and thus represents a Level 3 measurement. The contingent consideration payment is revalued to its current fair value at each reporting date. The fair value of the TransWeb contingent earn-out payment was \$0 at May 30, 2015 and at November 29, 2014, based on the projected adjusted earnings of TransWeb.

#### Fair Values of Financial Instruments

The fair values of the Company's financial instruments, which are cash and cash equivalents, restricted cash, accounts receivable, the restricted trust and accounts payable and accrued liabilities, approximated the carrying values of those financial instruments at both May 30, 2015 and November 29, 2014. An expected present value technique is used to estimate the fair value of long-term debt, using a model that discounts future principal and interest payments at interest rates available to the Company at the end of the period for similar debt of the same maturity. Long-term debt had a fair value estimate of \$414,235 and \$408,208 at May 30, 2015 and November 29, 2014, respectively. The Company's fair value estimate of its long-term debt represents a Level 2 measurement as it is based on the current interest rates available to the Company for debt with similar remaining maturities. The carrying value for the long-term debt at May 30, 2015 and November 29, 2014 is \$418,027 and \$411,563, respectively.

See [Note 5](#) for information related to the fair value of derivative and hedging instruments.

#### 5. DERIVATIVE INSTRUMENTS AND HEDGING

The Company is exposed to various market risks that arise from transactions entered into in the normal course of business. The Company selectively uses derivative instruments to manage certain such risks, including market risks associated with changes in foreign currency exchange rates and changes in interest rates. The Company does not hold or issue derivatives for trading or speculative purposes. A description of each type of derivative utilized by the Company to manage risk is included below. In addition, refer to [Note 4](#) for information related to the fair value measurements utilized by the Company for each derivative type.

The Company may elect to designate certain derivatives as hedging instruments under the accounting standards for derivatives and hedging. The Company formally documents all relationships between designated hedging instruments and hedged items as well as its risk management objective and strategy for undertaking hedge transactions.

All derivatives are recognized on the balance sheet at fair value and classified based on the instrument's maturity date. The total notional amount of derivatives outstanding at May 30, 2015 was \$36,782, which consists of derivative instruments to manage foreign exchange risk related to inter-company advances, and derivatives to manage the risk of changes in foreign currency exchange rates — principally the Euro and British pound — on certain firm sales commitments expected to be settled at future dates.

The following table presents the fair values of derivative instruments included within the Consolidated Condensed Balance Sheets at May 30, 2015 and November 29, 2014:

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(Dollars in thousands except share data)

(Unaudited)

	May 30, 2015	November 29, 2014
Prepaid expenses and other current assets		
Designated as hedging instruments:		
Unrecognized firm sales commitments	—	248
Total designated	\$—	\$248
Not designated as hedging instruments:		
Foreign exchange contracts	—	362
Total not designated	\$—	\$362
Total derivatives	\$—	\$610
Accrued liabilities		
Designated as hedging instruments:		
Foreign exchange contracts	\$—	\$245
Total designated	\$—	\$245
Not designated as hedging instruments:		
Foreign exchange contracts	398	122
Total not designated	\$398	\$122
Total derivatives	\$398	\$367

The following table presents the amounts of income (expense) from derivative instruments affecting the Consolidated Condensed Statements of Earnings for the six months ended May 30, 2015 and May 31, 2014:

	May 30, 2015	May 31, 2014
Fair value hedges		
Foreign exchange contracts - Selling and administrative expenses	\$19	\$—
Unrecognized firm sales commitments - Selling and administrative expenses	(51)	—
Total designated	\$(32)	\$—
Not designated as hedges		
Foreign exchange contracts - Selling and administrative expenses	\$74	\$—
Foreign exchange contracts - Other, net income (expense)	(158)	—
Total not designated	\$(84)	\$—

As is reflected in the table above, the Company did not hold or issue any derivative instruments during the six months ended May 31, 2014.

## Fair Value Hedges

The Company is exposed to changes in foreign currency exchange rates on certain unrecognized firm sales commitments expected to be settled at future dates. The Company may use foreign currency forward contracts to manage certain such risks. The Company designates each such contract as a fair value hedge from the date the firm sales commitment and derivative contract are entered into through the date the related sale occurs, at which point the foreign currency forward contract is de-designated as a fair value hedging instrument. All realized and unrealized gains or losses on such foreign currency forward contracts are recognized in income as incurred. Changes in the fair

value of the related unrecognized firm sales commitments that arise due to fluctuations in foreign currency exchange rates are also reflected in income and as an asset or liability on the Consolidated Balance Sheets.

The total notional amount of foreign currency contracts designated as fair value hedges outstanding at May 30, 2015 was \$0. There were no such fair value hedges entered into during the six months ended May 31, 2014. The cash flows associated with the

CLARCOR Inc.

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

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periodic settlement of the Company's fair value hedges are reflected as a component of Cash flows from operating activities in the Consolidated Statements of Cash Flows.

## Undesignated Derivative Instruments

The Company is exposed to changes in foreign currency exchange rates on certain inter-company advances. The Company may use foreign currency forward contracts to manage certain such risks. These forward contracts are not designated as hedging instruments under the accounting standards for derivatives and hedging. These undesignated instruments are recorded at fair value as an asset or liability on the Consolidated Balance Sheets and all realized and unrealized gains or losses on such foreign currency forward contracts are recognized in income as incurred.

The total notional amount of such foreign currency contracts not designated as hedging instruments outstanding as of May 30, 2015 was \$36,782. Additionally, the total notional amount of foreign currency contracts de-designated as fair value hedges outstanding at May 30, 2015 was \$0. There were no such foreign currency contracts during the six months ended May 31, 2014. The cash flows associated with the periodic settlement of the Company's undesignated derivative instruments are reflected as a component of Cash flows from operating activities in the Consolidated Statements of Cash Flows.

## Counterparty credit risk

By using derivative instruments to manage certain of its risk exposures, the Company is subject, from time to time, to credit risk and market risk on such derivative instruments. Credit risk arises from the potential failure of the counterparty to perform under the terms of the derivative instrument. When the fair value of a derivative instrument is positive, the counterparty owes the Company, which creates credit risk for the Company. The Company mitigates this credit risk by entering into transactions with only creditworthy counterparties. Market risk arises from the potential adverse effects on the value of the derivative that result from changes in foreign currency exchange rates or interest rates, depending on the nature of the derivative. The Company mitigates this market risk by establishing and monitoring parameters that limit the types and degrees of market risk that may be undertaken.

## 6. ACCRUED LIABILITIES

Accrued liabilities at May 30, 2015 and November 29, 2014 were as follows:

	May 30, 2015	November 29, 2014
Accrued salaries, wages and commissions	\$15,491	\$29,621
Compensated absences	10,155	9,967
Accrued insurance liabilities	9,757	11,358
Warranties	8,595	9,405
Customer deposits	28,309	23,045
Other accrued liabilities	30,053	36,640
Accrued liabilities	\$102,360	\$120,036

The Company had letters of credit totaling \$23,843 and \$33,359 as of May 30, 2015 and November 29, 2014, respectively, issued to various government agencies, primarily related to industrial revenue bonds, and to insurance

companies and other commercial entities in support of its obligations. The Company believes that no payments will be required resulting from these obligations.

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

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## Warranties

Warranties are recorded as a liability on the balance sheet and as charges to current expense for estimated normal warranty costs and, if applicable, for specific performance issues known to exist on products already sold. The expenses estimated to be incurred are provided at the time of sale and adjusted as needed, based primarily upon experience. Changes in the Company's warranty accrual, which is included in Other accrued liabilities, are as follows:

	Six Months Ended	
	May 30, 2015	May 31, 2014
Warranty accrual at beginning of period	\$9,405	\$1,599
Warranty accrual added through business acquisitions	100	10,677
Accruals for warranties issued during the period	827	1,605
Adjustments related to pre-existing warranties	(508)	(134)
Settlements made during the period	(1,090)	(3,198)
Other adjustments, including currency translation	(139)	(1)
Warranty accrual at end of period	\$8,595	\$10,548

Warranty accruals added through business acquisitions in the first six months of 2014 relate primarily to the CLARCOR Industrial Air business, whose sales agreements, particularly for air intake filtration systems for heavy-duty gas turbine applications, include product warranties customary for such types of products. Warranty accruals for this business are established for specifically identified warranty issues known to exist on products already sold, and on a non-specific basis based primarily on past experience.

## 7. LONG-TERM DEBT

On April 5, 2012, the Company entered into a five-year multicurrency revolving credit agreement which included a revolving credit facility (the "Credit Facility") with a group of financial institutions. Under the Credit Facility, the Company may borrow up to \$150,000 which includes a \$10,000 swing line sub-facility, as well as an accordion feature that allows the Company to increase the Credit Facility by a total of up to \$100,000, subject to securing additional commitments from existing lenders or new lending institutions. On November 22, 2013, the Company entered into a credit agreement amendment to include a \$100,000 term loan facility (the "Term Loan Facility") and on May 1, 2014, the Company entered into a second credit agreement amendment to include an additional \$315,000 to the Term Loan Facility, whose maturity date will be the same as the maturity date of the Credit Facility. At the Company's election, loans made under the Credit Facility and Term Loan Facility bear interest at either (1) a defined base rate, which varies with the highest of the defined prime rate, the federal funds rate, or a specified margin over the one-month London Interbank Offered Rate ("LIBOR"), or (2) LIBOR plus an applicable margin. Swing line loans bear interest at the defined base rate plus an applicable margin. Commitment fees and letter of credit fees are also payable under the Credit Facility. Borrowings under the Credit Facility and Term Loan Facility are unsecured, but are guaranteed by substantially all of the Company's material domestic subsidiaries. The credit agreement also contains certain covenants customary to such agreements, including covenants that place limits on our ability to incur additional debt, require us to maintain levels of interest coverage, and restrict certain changes in ownership, as well as customary events of default.

At May 30, 2015, there was \$395,000 outstanding on the Term Loan Facility with a weighted average interest rate of approximately 1.18% and there was \$15,000 outstanding on the Credit Facility with a weighted average interest rate of approximately 0.98% and a remaining borrowing capacity of \$127,479 on the Credit Facility. The Credit Facility includes a \$50,000 letter of credit sub-facility, against which \$7,521 in letters of credit had been issued at both May 30, 2015 and November 29, 2014.



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## 8. PENSION AND OTHER POSTRETIREMENT BENEFITS

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 (income) and Company contributions for these plans were as follows:

	Quarter Ended		Six Months Ended	
	May 30, 2015	May 31, 2014	May 30, 2015	May 31, 2014
Pension Benefits:				
Components of net periodic benefit cost (income):				
Service cost	\$534	\$498	\$1,069	\$996
Interest cost	1,871	1,933	3,747	3,864
Expected return on plan assets	(2,917	) (2,834	) (5,843	) (5,665
Amortization of unrecognized:				
Prior service cost	(1	) (3	) (2	) (6
Net actuarial loss	966	721	1,934	1,442
Net periodic benefit cost	\$453	\$315	\$905	\$631
Cash contributions	\$117	\$62	\$253	\$127
Postretirement Healthcare Benefits:				
Components of net periodic benefit cost (income):				
Interest cost	\$2	\$2	\$4	\$4
Amortization of unrecognized:				
Prior service cost	(31	) (31	) (62	) (62
Net actuarial gain	(37	) (37	) (74	) (74
Net periodic benefit income	\$(66	) \$(66	) \$(132	) \$(132
Cash contributions	\$15	\$16	\$30	\$32

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 the following amounts to its various plans to pay benefits during 2015:

U.S. Qualified Plans	\$—
U.S. Combined Nonqualified Plans	221
Non-U.S. Plan	394
Postretirement Healthcare Benefit Plan	58
Total expected contributions	\$673

During the three and six months ended May 30, 2015, the Company contributed \$132 and \$283 to its various plans. In addition to the plan assets related to its qualified plans, the Company has a funded balance of \$816 and \$893 at May 30, 2015 and November 29, 2014, respectively, in a restricted trust for its U.S. combined nonqualified plans (see Note 4). This trust is included in Other noncurrent assets in the Consolidated Condensed Balance Sheets.

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## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

(Unaudited)

## 9. INCOME TAXES

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

	Six Months Ended	
	May 30, 2015	May 31, 2014
Unrecognized tax benefits at beginning of year	\$2,487	\$2,155
Additions for current period tax positions	284	158
Additions related to acquired tax positions	1,052	—
Changes in interest and penalties	99	72
Unrecognized tax benefits at end of period	\$3,922	\$2,385

At May 30, 2015, the amount of unrecognized tax benefit that would impact the effective tax rate, if recognized, was \$2,852. The Company recognizes interest and penalties related to unrecognized benefits in income tax expense. At May 30, 2015, the Company had \$338 accrued for the payment of interest and penalties.

The Company believes it is reasonably possible that the total amount of unrecognized tax benefits will decrease by \$250 over the next twelve months as a result of expected settlements with taxing authorities or the expiration of the statute of limitations in certain jurisdictions. Due to the various jurisdictions in which the Company files tax returns and the uncertainty regarding the timing of settlements, it is possible that there could be other significant changes in the amount of unrecognized tax benefits in the next twelve months; however, the amount cannot be estimated.

The Company is regularly audited by federal, state and foreign tax authorities. The Company's federal income tax returns for tax years subsequent to fiscal year 2010 are open for examination. With few exceptions, the Company is no longer subject to income tax examinations by state or foreign tax jurisdictions for years prior to 2009.

During the three month period ended May 30, 2015, the Company finalized its allocation of the purchase price to the assets acquired and liabilities assumed with respect to the Stanadyne Business acquisition. Based upon the completed pre-acquisition tax return filings, the Company received and recorded approximately \$70,220 of federal net operating loss carryforwards and \$2,365 of general business credit carryforwards, which are subject to certain annual restrictions on utilization. These loss and credit carryforwards are subject to expiration beginning in 2031. The Company also received approximately \$26,685 of capital loss carryforwards which are subject to a full valuation allowance as the Company does not anticipate that such carryforwards will be utilized prior to their expiration in 2018.

## 10. 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. Certain significant items included in these other matters are discussed below. The Company believes recorded reserves in its Consolidated Condensed Financial Statements are adequate in light of the probable and reasonably estimable outcomes of the items discussed below and other applicable

matters. Any recorded liabilities were not material to the Company's financial position, results of operation or liquidity for the periods presented, and the Company does not currently believe that any pending claims or litigation, including those identified below, will materially affect its financial position, results of operation or liquidity.

TransWeb/3M

On May 21, 2010, 3M Company and 3M Innovative Properties ("3M") brought a lawsuit against TransWeb, LLC ("TransWeb") in the United States District Court for the District of Minnesota, alleging that certain TransWeb products infringe multiple claims of certain 3M patents. Shortly after receiving service of process in this litigation, TransWeb filed its own complaint against 3M

CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

(Unaudited)

in the United States District Court for the District of New Jersey, seeking a declaratory judgment that the asserted patents are invalid and that the products in question do not infringe. 3M withdrew its Minnesota action, and the parties litigated the matter in New Jersey. The litigation in question was filed and underway before the Company acquired TransWeb in December 2010, but the Company assumed the risk of this litigation as a result of the acquisition.

During the litigation TransWeb sought judgment that (i) the asserted 3M patents are invalid, the TransWeb products in question do not infringe, and the 3M patents are unenforceable due to inequitable conduct by 3M in obtaining the patents, and (ii) 3M violated U.S. federal antitrust laws under theories of Walker Process fraud and sham litigation. Following a 2012 trial in which a six-member jury unanimously found in TransWeb's favor on all counts other than sham litigation, on April 21, 2014 the U.S. District Court for the District of New Jersey issued a ruling in favor of TransWeb and awarded TransWeb approximately \$26,147 in damages.

3M timely exercised its automatic right to appeal the court's judgment to the US Court of Appeals for the Federal Circuit, and the matter is currently under active appeal before such tribunal.

#### Other

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 Comprehensive Environmental Response, Compensation, and Liability Act (commonly referred to as the federal Superfund statute). Additionally, the North Carolina Department of Environmental Protection has identified the property on which one of the Company's subsidiaries, CLARCOR Engine Mobile Solutions, LLC, currently operates as having concentrations of certain chemicals in groundwater that are above regulatory action levels.

Although it is not certain what future environmental claims, if any, may be asserted in connection with these known environmental matters, the Company currently believes that its potential liability for known environmental matters is not material and that it has adequately reserved for any probable and reasonably estimable liabilities based on the information available to the Company. 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, the continuing advancement of remediation technology, and the potential imposition of 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 the extent applicable, to reflect the status of a particular matter.

#### 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.

## 11. INCENTIVE PLANS AND STOCK-BASED COMPENSATION

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

### Stock Options

Nonqualified stock options are granted at exercise prices equal to the market price of CLARCOR common stock at the date of grant, which is the date the Company's Board of Directors approves the grant and the participants receive it. The Company's

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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, however, beginning in 2013 stock-based compensation for the Company's Board of Directors has been in the form of restricted stock, rather than stock options. All options expire ten years from the date of grant unless otherwise terminated.

The following table summarizes information related to stock options and stock option exercises during the three and six months ended May 30, 2015 and May 31, 2014.

	Quarter Ended		Six Months Ended	
	May 30, 2015	May 31, 2014	May 30, 2015	May 31, 2014
Pre-tax compensation expense	\$1,716	\$921	\$3,564	\$2,032
Deferred tax benefits	(624	) (328	) (1,296	) (723
Excess tax benefits associated with tax deductions over the amount of compensation expense recognized in the consolidated condensed financial statements	392	88	784	250
Fair value of stock options on date of grant	—	96	3,196	4,650
Total intrinsic value of stock options exercised	1,413	398	3,164	1,156
Cash received upon exercise of stock options	1,485	582	4,596	1,824
Addition to capital in excess of par value due to exercise of stock options	1,831	653	5,249	2,016

The following table summarizes activity for the six months ended May 30, 2015 with respect to stock options granted by the Company and includes options granted under the 1994 Incentive Plan, the 2004 Incentive Plan, the 2009 Incentive Plan and the 2014 Incentive Plan.

	Options Granted Under Incentive Plans	Weighted Average Exercise Price
Outstanding at beginning of year	2,310,720	\$45.71
Granted	311,500	\$63.22
Exercised	(120,922)	\$39.61
Surrendered	(3,263)	\$42.93
Outstanding at end of period	2,498,035	\$48.19
Exercisable at end of period	1,616,304	\$42.90

At May 30, 2015, there was \$4,364 of unrecognized compensation cost related to option awards which the Company expects to recognize over a weighted-average period of 2.28 years.

The following table summarizes information about the Company's outstanding and exercisable options at May 30, 2015.





CLARCOR Inc.

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

(Unaudited)

Range of Exercise Prices	Options Outstanding				Options Exercisable			
	Number	Weighted Average Exercise Price	Intrinsic Value	Weighted Average Remaining Life in Years	Number	Weighted Average Exercise Price	Intrinsic Value	Weighted Average Remaining Life in Years
\$25.31 - \$28.79	47,325	\$26.28	\$1,672	2.92	47,325	\$26.28	\$1,672	2.92
\$31.96 - \$36.48	486,059	\$33.66	13,584	3.18	486,059	\$33.66	13,584	3.18
\$42.86 - \$49.91	1,216,251	\$46.24	18,697	6.68	968,570	\$46.16	14,967	6.47
\$55.01 - \$61.57	436,900	\$61.46	66	8.55	114,350	\$61.49	14	8.55
\$63.22	311,500	\$63.22	—	9.63	—	\$—	—	—
	2,498,035	\$48.19	\$34,019	6.62	1,616,304	\$42.90	\$30,237	5.52

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

	Six Months Ended	
	May 30, 2015	May 31, 2014
Weighted average fair value per option at the date of grant for options granted	\$10.26	\$11.50
Risk-free interest rate	1.31	% 1.55
Expected dividend yield	1.27	% 1.10
Expected volatility factor	19.50	% 21.38
Expected option term in years	5.0	5.0

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

## Restricted Stock Unit Awards

The Company's restricted stock unit awards are considered nonvested share awards. The restricted stock unit awards require no payment from the employee. Compensation cost is recorded based on the market price of the stock on the grant date and is recorded equally over the vesting period of four years. During the vesting period, officers and key employees receive compensation equal to the amount of dividends declared on common shares they would have been entitled to receive had the shares been issued. Upon vesting, employees may elect to defer receipt of their shares. There were 7,997 and 19,457 vested and deferred shares at May 30, 2015 and November 29, 2014, respectively.

The following table summarizes information related to restricted stock unit awards during the three and six months ended May 30, 2015 and May 31, 2014.

Quarter Ended		Six Months Ended	
May 30, 2015	May 31, 2014	May 30, 2015	May 31, 2014

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Pre-tax compensation expense	\$788	\$338	\$1,623	\$742
Deferred tax benefits	(286	) (120	) (590	) (264
Excess tax benefits associated with tax deductions over the amount of compensation expense recognized in the consolidated condensed financial statements	3	—	211	101
Fair value of restricted stock unit awards on date of grant	3	58	3,183	1,524
Fair value of restricted stock unit awards vested	—	—	979	765

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## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

(Unaudited)

The following table summarizes activity for the six months ended May 30, 2015 with respect to the restricted stock unit awards.

	Units	Weighted Average Grant Date Fair Value
Nonvested at beginning of year	51,012	\$53.12
Granted	50,345	\$63.23
Vested	(19,223)	\$50.91
Nonvested at end of period	82,134	\$59.83

As of May 30, 2015, there was \$1,687 of total unrecognized compensation cost related to restricted stock unit awards which the Company expects to recognize over a weighted-average period of 3.10 years.

## Restricted Stock Unit Awards with Performance Conditions

Beginning in 2015, performance awards were issued to officers and certain key employees as an incentive to achieve revenue growth and operating profit margin goals over a three-year period. The awards are in the form of restricted stock units, which vest at the end of the three-year period if the specified sales growth and operating margin goals are achieved. These restricted stock unit awards are considered nonvested share awards. The restricted stock unit awards require no payment from the employee. Fair value of the restricted stock units is determined based on the market price of the stock on the grant date. Compensation cost is recorded equally over the three-year period in which the stock units are earned, based on a periodic determination of the probable performance outcome. There were no vested shares at May 30, 2015 and November 29, 2014, respectively.

The following table summarizes information related to restricted stock unit awards with performance conditions during the three and six months ended May 30, 2015 and May 31, 2014.

	Quarter Ended		Six Months Ended	
	May 30, 2015	May 31, 2014	May 30, 2015	May 31, 2014
Pre-tax compensation expense	\$463	\$—	\$927	\$—
Deferred tax benefits	(168	) —	(337	) —
Excess tax benefits associated with tax deductions over the amount of compensation expense recognized in the consolidated condensed financial statements	—	—	—	—
Fair value of restricted stock unit awards on date of grant	—	—	5,857	—
Fair value of restricted stock unit awards vested	—	—	—	—

The following table summarizes activity for the three months ended May 30, 2015 with respect to the restricted stock unit awards with performance conditions.

Units	Weighted Average Grant Date
-------	-----------------------------------

		Fair Value
Nonvested at beginning of year	—	\$—
Granted	92,650	\$63.22
Vested	—	\$—
Nonvested at end of period	92,650	\$63.22

CLARCOR Inc.

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

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As of May 30, 2015, there was \$4,637 of total unrecognized compensation cost related to restricted stock unit awards with performance conditions, which the Company expects to recognize over a weighted-average period of 2.50 years.

## Directors' Restricted Stock Compensation

The incentive plans provide for grants of shares of common stock to all non-employee directors for annual incentive awards, and for grants of shares of common stock to all non-employee directors equal to a one-year annual retainer in lieu of cash at the directors' option. The directors' rights to the shares vest immediately on the date of grant; however, shares issued on annual retainer fees cannot be sold for a six-month period from the date of grant. The following table summarizes information related to directors' stock compensation during the three and six months ended May 30, 2015 and May 31, 2014, respectively.

	Quarter Ended		Six Months Ended	
	May 30, 2015	May 31, 2014	May 30, 2015	May 31, 2014
Pre-tax compensation expense	\$880	\$880	\$880	\$880
Shares of Company common stock issued under the plans	13,352	15,400	13,352	15,400

## 12. EARNINGS PER SHARE AND STOCK REPURCHASE ACTIVITY

The Company calculates basic earnings per share by dividing net earnings by the weighted average number of shares outstanding. Diluted earnings per share reflects the impact of outstanding stock options, restricted stock and other stock-based arrangements. The FASB has issued guidance requiring unvested share-based payment awards containing nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) be considered participating securities and 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 11](#) qualify as participating securities under this guidance. However, the unvested restricted stock unit awards do not materially impact the calculation of basic or diluted earnings per share; therefore, the Company does not present the two-class method computation. The following table provides a reconciliation of the numerators and denominators utilized in the calculation of basic and diluted earnings per share.

	Quarter Ended		Six Months Ended	
	May 30, 2015	May 31, 2014	May 30, 2015	May 31, 2014
Weighted average number of shares outstanding - Basic	50,209,215	50,513,588	50,232,565	50,488,651
Dilutive effect of stock-based arrangements	581,983	431,502	559,275	446,117
Weighted average number of shares outstanding - Diluted	50,791,198	50,945,090	50,791,840	50,934,768
Net earnings attributable to CLARCOR Inc.	\$38,497	\$34,552	\$65,206	\$58,873
Net earnings per share attributable to CLARCOR Inc. - Basic	\$0.77	\$0.68	\$1.30	\$1.17
Net earnings per share attributable to CLARCOR Inc. - Diluted	\$0.76	\$0.68	\$1.28	\$1.16

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

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CLARCOR Inc.

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

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	Quarter Ended		Six Months Ended	
	May 30, 2015	May 31, 2014	May 30, 2015	May 31, 2014
Number of antidilutive options with exercise prices greater than the average market price excluded from the computation of dilutive earnings per share	—	450,200	—	445,825
Common stock repurchased and retired pursuant to the Company's stock repurchase program	\$8,161	\$—	\$16,110	\$—
Number of shares repurchased and retired pursuant to the Company's stock repurchase program	126,000	—	248,000	—

At May 30, 2015, there remained \$192,350 authorized for future purchases under the Company's \$250,000 stock repurchase program that was approved by the Company's Board of Directors on June 25, 2013.

## 13. SEGMENT INFORMATION

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

Segment information is summarized as follows:

	Quarter Ended		Six Months Ended	
	May 30, 2015	May 31, 2014	May 30, 2015	May 31, 2014
Net sales:				
Engine/Mobile Filtration	\$161,290	\$148,398	\$305,748	\$270,895
Industrial/Environmental Filtration	218,676	219,592	409,592	394,455
Packaging	19,833	18,652	35,582	33,977
	\$399,799	\$386,642	\$750,922	\$699,327
Operating profit:				
Engine/Mobile Filtration	\$30,564	\$26,972	\$55,310	\$49,846
Industrial/Environmental Filtration	26,604	23,005	40,612	31,151
Packaging	1,775	1,170	2,214	1,416
	58,943	51,147	98,136	82,413
Other income (expense), net	(1,888	) (400	) (2,934	) 3,278
Earnings before income taxes	\$57,055	\$50,747	\$95,202	\$85,691





CLARCOR Inc.

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	May 30, 2015	November 29, 2014
Identifiable assets:		
Engine/Mobile Filtration	\$790,360	\$781,204
Industrial/Environmental Filtration	1,029,298	1,022,996
Packaging	41,544	41,817
Corporate	41,770	42,752
	\$1,902,972	\$1,888,769

## 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 accompanying notes and with the audited Consolidated Financial Statements and accompanying notes included in the 2014 Form 10-K. Except as otherwise set forth herein, references to particular years or quarters refer to our applicable fiscal year or quarter. The analysis of operating results focuses on our three reportable business segments: Engine/Mobile Filtration, Industrial/Environmental Filtration and Packaging.

## EXECUTIVE SUMMARY

Management Discussion Snapshot  
(In thousands, except per share data)

	Second Quarter				First Six Months					
	2015	2014	Change		2015	2014	Change			
			\$	%			\$	%		
Net sales	\$399,799	\$386,642	\$13,157	3	%	\$750,922	\$699,327	\$51,595	7	%
Cost of sales	266,189	261,272	4,917	2	%	504,337	477,370	26,967	6	%
Gross profit	133,610	125,370	8,240	7	%	246,585	221,957	24,628	11	%
Selling and administrative expenses	74,667	74,223	444	1	%	148,449	139,544	8,905	6	%
Operating profit	58,943	51,147	7,796	15	%	\$98,136	\$82,413	\$15,723	19	%
Other income (expense)	(1,888 )	(400 )	(1,488 )			\$(2,934 )	\$3,278	\$(6,212 )		
Provision for income taxes	18,482	16,201	2,281	14	%	\$29,892	\$26,804	\$3,088	12	%
Net earnings attributable to CLARCOR	38,497	34,552	3,945	11	%	\$65,206	\$58,873	\$6,333	11	%
Weighted average diluted shares	50,791	50,945	(154 )	—	%	50,792	50,935	(143 )	—	%
Diluted earnings per share attributable to CLARCOR	\$0.76	\$0.68	\$0.08	12	%	\$1.28	\$1.16	\$0.12	10	%
Percentages:										
Gross margin	33.4	% 32.4	%	1.0	pt	32.8	% 31.7	%	1.1	pt
Selling and administrative percentage	18.7	% 19.2	%	(0.5 )	pt	19.8	% 20.0	%	(0.2 )	pt
Operating margin	14.7	% 13.2	%	1.5	pt	13.1	% 11.8	%	1.3	pt
Effective tax rate	32.4	% 31.9	%	0.5	pt	31.4	% 31.3	%	0.1	pt
Net earnings margin	9.6	% 8.9	%	0.7	pt	8.7	% 8.4	%	0.3	pt



## Second Quarter

## Net Sales

Net sales increased \$13.2 million, or 3%, in the second quarter of 2015 from the second quarter of 2014. Estimated components of this 3% increase in net sales are as follows:

Business acquisitions	6	%
Organic volume	1	%
Pricing	—	%
Foreign exchange	(4)	)%
	3	%

The increase in net sales in the second quarter of 2015 from the second quarter of 2014 was driven primarily by the following factors:

Increased net sales of \$18.0 million due to the May 2014 acquisition of the Stanadyne Business (now operated as CLARCOR Engine Mobile Solutions), which is included in the Company's Engine/Mobile Filtration segment from the date of acquisition. Net sales for this business in the second quarter decreased approximately 11% in comparison to the prior year period, including the portion of that prior year period during which the business was owned by Stanadyne Corporation, primarily reflecting declines in sales of first-fit fuel filter assemblies and aftermarket filter elements due to lower demand from off-highway original equipment manufacturers and dealers.

Increased net sales of \$5.1 million due to the December 2014 acquisition of Filter Resources, which is included in the Company's Industrial/Environmental Filtration segment from the date of acquisition.

Excluding net sales arising from the acquisition of Filter Resources, net sales volume increased \$2.6 million, or 1%, at our Industrial/Environmental Filtration segment. This net sales growth resulted from a \$9.3 million, or 7%, increase in sales within the U.S., partly offset by a \$6.7 million, or 9%, decrease in foreign net sales, excluding the impact of changes in foreign currency exchange rates. The 7% increase in sales volume within the U.S. resulted primarily from increased sales of natural gas filtration vessels and aftermarket elements, as well as increased sales of industrial air filtration products and HVAC air filters. The 9% decrease in foreign net sales primarily resulted from lower sales of gas turbine air intake filtration systems.

Excluding net sales arising from the acquisition of the Stanadyne Business, net sales volume decreased \$0.1 million, or less than 1%, at our Engine/Mobile Filtration segment. This net sales decrease resulted from a \$4.6 million, or 9%, decrease in foreign net sales excluding the impact of changes in foreign currency exchange rates, partly offset by a \$4.5 million, or 5%, increase in sales within the U.S. The 9% decrease in foreign net sales volume primarily resulted from lower export sales of heavy-duty engine filters to customers in Southeast Asia, South America and the Middle East, as well as an approximately 24% decline in heavy-duty engine filter sales in China due to slowing macroeconomic activity in China and lower end-market diesel engine sales. The 5% increase in sales volume within the U.S. resulted primarily from a 22% increase in sales of heavy-duty engine filters to the U.S. aftermarket, which included sales to a significant new customer.

Net sales at our Packaging segment increased \$1.1 million, or 6%, due primarily to higher sales of smokeless tobacco packaging products, spice containers and decorated flat sheet metal products.

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Net sales in the second quarter of 2015 compared to the second quarter of 2014 also reflect a \$13.1 million reduction due to changes in foreign currency exchange rates, primarily reflecting strengthening of the U.S. dollar against the Euro, British Pound and most other foreign currencies with respect to which our foreign income and cash flows are derived.

#### Cost of Sales

Cost of sales increased \$4.9 million, or 2%, in the second quarter of 2015 from the second quarter of 2014. This 2% increase in cost of sales was less than the 3% increase in net sales. As a result, our gross margin increased to 33.4% in the second quarter of 2015 from 32.4% in the second quarter of 2014. This 1.0 percentage point increase in gross margin included a 0.5 percentage

point increase due to the impact of \$2.2 million of increased cost of sales in the second quarter of 2014 resulting from the step-up of inventory values to reflect their estimated fair values as of the respective dates of acquisition of the GE Air Filtration business and the Stanadyne Business, which did not recur in the second quarter of 2015. Gross margin was also favorably impacted in the second quarter of 2015 by approximately 0.3 percentage points due to favorable sales mix from the fiscal 2014 acquisition of the Stanadyne Business, and by 0.3 percentage points due to lower material costs, resulting primarily from our ongoing cost reduction and continuous improvement initiatives across each of our businesses. These favorable effects were partly offset by an approximately 0.1 percentage point decrease in gross margin due to lower fixed cost leverage and unfavorable sales mix at certain of our businesses.

#### Selling and Administrative Expenses

Selling and administrative expenses increased \$0.4 million, or 1%, in the second quarter of 2015 from the second quarter of 2014. This increase was primarily the result of \$3.7 million of increased operating costs (including \$1.9 million of increased intangible asset amortization) related to the May 2014 acquisition of the Stanadyne Business, reflecting our ownership of this business for the full three month period ended May 30, 2015 versus only one month of ownership in the three month period ended May 31, 2014. Other selling and administrative expense increases in the second quarter of 2015 versus the comparable prior year period include \$1.7 million of increased costs related to stock-based compensation (including the impact of accelerated vesting of awards granted to retirement-eligible employees), \$1.1 million of increased research and development expenses, \$1.1 million of other increased employee costs (including headcount related to strategic growth initiatives) and \$0.4 million of other net increased costs. These increases were partly offset by a \$4.2 million decrease resulting from legal, investment advisory and other professional services costs incurred in the second quarter of 2014 related to the acquisitions of the Stanadyne Business and the GE Air Filtration business, which did not recur in 2015. Lower selling and administrative expenses in the second quarter of 2015 versus the comparable prior year period also reflected \$1.8 million of decreased costs resulting from a gain on the sale of an administrative facility in the second quarter of 2015, as well as \$1.7 million of decreased compensation expense related to our company-wide profit sharing program. Since selling and administrative expenses increased 1% while net sales increased 3%, our selling and administrative expenses as a percentage of net sales decreased to 18.7% in the second quarter of 2015 from 19.2% in last year's second quarter.

#### First Six Months

##### Net Sales

Net sales increased \$51.6 million, or 7%, in the first six months of 2015 from the first six months of 2014. Estimated components of this 7% increase in net sales are as follows:

Business acquisitions	7	%
Organic volume	3	%
Pricing	—	%
Foreign exchange	(3)	)%
	7	%

The increase in net sales in the first six months of 2015 from the first six months of 2014 was driven primarily by the following factors:

- Increased net sales of \$42.1 million due to the May 2014 acquisition of the Stanadyne Business (now operated as CLARCOR Engine Mobile Solutions), which is included in the Company's Engine/Mobile Filtration segment from the date of acquisition. Net sales for this business in the first six months of 2014 decreased approximately 11% versus the comparable prior year period, including the portion of that prior year period

during which the business was owned by Stanadyne Corporation. This decrease primarily reflects lower sales of first-fit fuel filter assemblies and aftermarket filter elements, due to decreased demand from off-highway original equipment manufacturers and dealers.

Increased net sales of \$9.2 million due to the December 2014 acquisition of Filter Resources, which is included in the Company's Industrial/Environmental Filtration segment from the date of acquisition.

Excluding net sales arising from the acquisition of Filter Resources, net sales increased \$19.2 million, or 5%, at our Industrial/Environmental Filtration segment. This net sales growth resulted from a \$19.1 million, or 7%, increase in sales within the U.S., and a \$0.1 million, or less than 1%, increase in foreign net sales, excluding the impact of changes in

foreign currency exchange rates. The 7% increase in sales volume within the U.S. resulted primarily from increased sales of natural gas filtration vessels and aftermarket elements, as well as increased sales of dust collection and other industrial air filtration products. The change in foreign net sales reflects increased sales of natural gas filtration vessels and aftermarket elements and increased sales of industrial air filtration products, offset by lower sales of gas turbine air intake filtration systems.

Excluding net sales arising from the acquisition of the Stanadyne Business, net sales declined \$0.9 million, or less than 1%, at our Engine/Mobile Filtration segment. This net sales decrease resulted from a \$10.4 million, or 11%, decrease in foreign net sales excluding the impact of changes in foreign currency exchange rates, partly offset by a \$9.5 million, or 5%, increase in sales within the U.S. The 11% decrease in foreign net sales volume in this segment primarily resulted from lower export sales of heavy-duty engine filters to customers in Southeast Asia, South America and the Middle East, as well as an approximately 25% decline in sales of heavy-duty engine filters in China, reflecting lower demand from original equipment manufacturers. The 5% increase in sales volume within the U.S. resulted primarily from a 17% increase in sales of heavy-duty engine filters to the U.S. aftermarket, which includes sales to a significant new customer. This growth was partly offset by lower sales of heavy-duty engine filters to filtration companies and to original equipment dealers, as well as decreased sales of automotive filtration products.

- Net sales at our Packaging segment increased \$1.6 million, or 5%, due primarily to higher sales of smokeless tobacco packaging products and spice containers.

Net sales in the first six months of 2015 compared to the first six months of 2014 also reflect a \$20.9 million reduction due to changes in foreign currency exchange rates, primarily reflecting strengthening of the U.S. dollar relative to the Euro, British Pound and most other foreign currencies where our foreign income and cash flows are derived.

#### Cost of Sales

Cost of sales increased \$27.0 million, or 6%, in the first six months of 2015 from the first six months of 2014. This 6% increase in cost of sales was less than the 7% increase in net sales. As a result, our gross margin increased to 32.8% in the first six months of 2015 from 31.7% in the first six months of 2014. This 1.1 percentage point increase in gross margin includes a 0.8 percentage point increase due to the impact of \$5.8 million of increased cost of sales in the first six months of 2014 resulting from the step-up of inventory values to reflect their estimated fair values as of the respective dates of acquisition of the GE Air Filtration business and the Stanadyne Business, which did not recur in the first six months of 2015. Gross margin was also favorably impacted in the first six months of 2015 by approximately 0.5 percentage points due to the favorable impact on sales mix from the fiscal 2014 acquisition of the Stanadyne Business and by 0.2 percentage points from increases in the selling prices of our products. These favorable effects were partly offset by a 0.3 percentage point decrease in gross margin due to lower fixed cost leverage and unfavorable sales mix at certain of our businesses, and by a 0.1 percentage point decrease in gross margin resulting from costs related to the start-up of production and support for a significant new customer.

#### Selling and Administrative Expenses

Selling and administrative expenses increased \$8.9 million, or 6%, in the first six months of 2015 from the first six months of 2014. This increase was primarily the result of \$9.3 million of increased operating costs (including \$4.8 million of increased intangible asset amortization) related to the May 2014 acquisition of the Stanadyne Business, reflecting our ownership of this business for the entire six month period ended May 30, 2015 in comparison to only one month of ownership in the six month period ended May 31, 2014. Other selling and administrative expense increases in the first six months of 2015 versus the comparable prior year period include \$3.3 million of increased



costs related to stock-based compensation (including the impact of accelerated vesting of awards granted to retirement-eligible employees), \$1.9 million of increased research and development expenses, and \$3.5 million of other increased employee costs (including new headcount related to strategic growth initiatives). These increases were partly offset by a \$7.3 million decrease resulting from legal, investment advisory and other professional services costs incurred in the first six months of 2014 related to the acquisitions of the Stanadyne Business and the GE Air Filtration business, which did not recur in 2015. Selling and administrative expenses in the first six months of 2015 versus the comparable prior year period also reflect \$1.9 million of decreased costs due to a gain realized in the second quarter of 2015 resulting from the sale of an administrative facility, as well as \$1.7 million of decreased compensation expense related to our company-wide profit sharing program. Since selling and administrative expenses increased 6% while net sales increased 7%, our selling and administrative expenses as a percentage of net sales decreased to 19.8% in the first six months of 2015 from 20.0% in the first six months of 2014.

## Other Items

Other significant items impacting the comparison between the periods presented are as follows:

## Significant Acquisitions

On December 16, 2013, the Company acquired the GE Air Filtration business, which is now operated as CLARCOR Industrial Air. The impact of including CLARCOR Industrial Air's results, which are reported within our Industrial/Environmental Filtration segment, from the date of acquisition, on our net sales and operating profit in the second quarter and first six months of 2015 compared to the second quarter and first six months of 2014 was as follows:

(Dollars in thousands)	Second Quarter			First Six Months		
	2015	2014	Change	2015	2014	Change
Net sales	\$58,679	\$66,985	\$(8,306)	\$108,231	\$112,363	\$(4,132)
Operating profit	7,065	4,820	2,245	10,902	3,772	7,130

Net sales and operating profit for CLARCOR Industrial Air in the first six months of fiscal 2014 reflect results from December 16, 2013, the date of acquisition, through May 31, 2014. Operating profit for the second quarter and first six months of 2014 included approximately \$0.6 million and \$4.2 million, respectively, of cost of sales related to the recording of inventory acquired in the transaction at estimated acquisition date fair values, as well as approximately \$1.1 million and \$4.3 million, respectively, of selling and administrative expenses related to the acquisition execution and integration. These costs did not recur in 2015.

On May 1, 2014 the Company acquired Stanadyne Corporation's diesel fuel filtration business, which is now operated as CLARCOR Engine Mobile Solutions. The impact of including CLARCOR Engine Mobile Solutions' results, which are reported within our Engine/Mobile Filtration segment, from the date of acquisition, on our net sales and operating profit in the second quarter and first six months of 2015 compared with the second quarter and first six months of 2014 was as follows:

(Dollars in thousands)	Second Quarter			First Six Months		
	2015	2014	Change	2015	2014	Change
Net sales	\$25,558	\$8,992	\$16,566	\$49,660	\$8,992	\$40,668
Operating profit (loss)	6,370	(1,927)	)8,297	11,211	(1,927)	)13,138

Net sales and operating profit for CLARCOR Engine Mobile Solutions in the second quarter and first six months of fiscal 2014 reflect results from May 1, 2014, the date of acquisition, through May 31, 2014. Operating profit for the second quarter and first six months of 2014 included approximately \$1.4 million of cost of sales related to the recording of inventory acquired in the transaction at estimated acquisition date fair values, as well as approximately \$3.0 million of selling and administrative expenses related to acquisition execution. These costs did not recur in 2015.

## Foreign Exchange

The average exchange rates for foreign currencies versus the U.S. dollar unfavorably impacted our 2015 translated U.S. dollar value of net sales and operating profit compared to the same periods in 2014 as follows:

(Dollars in thousands)	Second Quarter	First Six Months
Net sales	\$(13,055)	\$(20,875)
Operating profit (loss)	(1,092)	(2,014)

Other income (expense)

Interest expense

We recognized net interest expense in other income (expense) as follows:

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(Dollars in thousands)

2015

Second Quarter	First Six Months
\$(1,466 )	\$(2,396 )