

CLARCOR INC.  
Form 10-Q  
June 21, 2013

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 June 1, 2013

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 17, 2013, 49,897,540 common shares with a par value of \$1 per share were outstanding.

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\* Item omitted because the item is not applicable

## 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	
	June 1, 2013	June 2, 2012	June 1, 2013	June 2, 2012
Net sales	\$287,583	\$284,855	\$543,854	\$542,119
Cost of sales	189,369	186,670	364,154	357,719
Gross profit	98,214	98,185	179,700	184,400
Selling and administrative expenses	48,813	49,074	96,484	100,977
Operating profit	49,401	49,111	83,216	83,423
Other income (expense):				
Interest expense	(162	) (88	) (312	) (188
Interest income	168	169	307	303
Other, net	(223	) (117	) (223	) 495
	(217	) (36	) (228	) 610
Earnings before income taxes	49,184	49,075	82,988	84,033
Provision for income taxes	16,031	15,996	26,307	27,462
Net earnings	33,153	33,079	56,681	56,571
Net earnings attributable to noncontrolling interests	(102	) (152	) (168	) (165
Net earnings attributable to CLARCOR Inc.	\$33,051	\$32,927	\$56,513	\$56,406
Net earnings per share attributable to CLARCOR Inc. - Basic	\$0.66	\$0.65	\$1.13	\$1.12
Net earnings per share attributable to CLARCOR Inc. - Diluted	\$0.66	\$0.65	\$1.12	\$1.11
Weighted average number of shares outstanding - Basic	49,826,567	50,378,164	49,830,634	50,394,680
Weighted average number of shares outstanding - Diluted	50,428,875	50,980,347	50,419,170	51,037,366
Dividends paid per share	\$0.1350	\$0.1200	\$0.2700	\$0.2400

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	
	June 1, 2013	June 2, 2012	June 1, 2013	June 2, 2012
Net earnings	\$33,153	\$33,079	\$56,681	\$56,571
Other comprehensive income:				
Pension and other postretirement benefits --				
Pension and other postretirement benefits liability adjustments	1,321	1,727	2,642	3,454
Pension and other postretirement benefits liability adjustments tax amounts	(432)	(643)	(942)	(1,289)
Pension and other postretirement benefits liability adjustments, net of tax	889	1,084	1,700	2,165
Foreign currency translation --				
Translation adjustments	(1,710)	(12,646)	(3,935)	(10,636)
Translation adjustments tax amounts	—	—	—	—
Translation adjustments, net of tax	(1,710)	(12,646)	(3,935)	(10,636)
Comprehensive earnings	32,332	21,517	54,446	48,100
Comprehensive earnings attributable to non-redeemable noncontrolling interests	(79)	73	(141)	57
Comprehensive earnings attributable to redeemable noncontrolling interests	(11)	(30)	(32)	(58)
Comprehensive earnings attributable to CLARCOR Inc.	\$32,242	\$21,560	\$54,273	\$48,099

See Notes to Consolidated Condensed Financial Statements

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

	June 1, 2013	December 1, 2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 190,539	\$ 185,496
Restricted cash	219	566
Accounts receivable, less allowance for losses of \$9,715 and \$9,554, respectively	205,183	214,474
Inventories	224,951	211,251
Deferred income taxes	25,806	34,693
Income taxes receivable	155	—
Prepaid expenses and other current assets	10,313	8,114
Total current assets	657,166	654,594
Property, plant and equipment, at cost, less accumulated depreciation of \$324,196 and \$315,018, respectively	199,052	195,101
Assets held for sale	—	2,000
Goodwill	240,928	241,924
Acquired intangible assets, less accumulated amortization	92,479	95,681
Other noncurrent assets	14,811	16,202
Total assets	\$ 1,204,436	\$ 1,205,502
<b>LIABILITIES</b>		
Current liabilities:		
Current portion of long-term debt	\$ 213	\$ 201
Accounts payable and accrued liabilities	141,692	172,262
Income taxes payable	—	2,428
Total current liabilities	141,905	174,891
Long-term debt, less current portion	16,441	16,391
Long-term pension and postretirement healthcare benefits liabilities	47,608	50,680
Deferred income taxes	50,759	51,385
Other long-term liabilities	6,079	8,571
Total liabilities	262,792	301,918
Contingencies ( <u>Note 11</u> )		
Redeemable noncontrolling interests	1,786	1,754
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock	49,709	49,653
Capital in excess of par value	238	—
Accumulated other comprehensive loss	(53,948)	(51,708)
Retained earnings	942,732	902,899
Total CLARCOR Inc. equity	938,731	900,844
Noncontrolling interests	1,127	986
Total shareholders' equity	939,858	901,830



Total liabilities and shareholders' equity	\$1,204,436	\$1,205,502
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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	
	June 1, 2013	June 2, 2012
Cash flows from operating activities:		
Net earnings	\$56,681	\$56,571
Depreciation	13,542	13,192
Amortization	2,980	2,877
Other noncash items	48	(67)
Net gain on disposition of assets	(849)	(553)
Stock-based compensation expense	3,090	4,152
Excess tax benefit from stock-based compensation	(4,267)	(2,487)
Deferred income taxes	7,265	8,890
Change in assets and liabilities	(35,280)	(49,197)
Net cash provided by operating activities	43,210	33,378
Cash flows from investing activities:		
Restricted cash	368	91
Business acquisitions, net of cash acquired	(3,811)	(10,510)
Additions to plant assets	(17,165)	(19,398)
Proceeds from disposition of plant assets	2,952	446
Investment in affiliates	(459)	(357)
Net cash used in investing activities	(18,115)	(29,728)
Cash flows from financing activities:		
Cash dividends paid	(13,461)	(12,096)
Payments on long-term debt	(110)	(79)
Payment of financing costs	—	(564)
Sale of capital stock under stock option and employee purchase plans	7,811	3,864
Payments for repurchase of common stock	(17,364)	(11,383)
Excess tax benefit from stock-based compensation	4,267	2,487
Net cash used in financing activities	(18,857)	(17,771)
Net effect of exchange rate changes on cash	(1,195)	(1,304)
Net change in cash and cash equivalents	5,043	(15,425)
Cash and cash equivalents, beginning of period	185,496	155,999
Cash and cash equivalents, end of period	\$190,539	\$140,574
Cash paid during the period for:		
Interest	\$228	\$144
Income taxes, net of refunds	\$15,032	\$18,849

See Notes to Consolidated Condensed Financial Statements



CLARCOR Inc.

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

(Unaudited)

## 1. CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

## 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 and the Consolidated Condensed Statements of Cash Flows for the periods ended June 1, 2013 and June 2, 2012 and the Consolidated Condensed Balance Sheet as of June 1, 2013 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 December 1, 2012 (“2012 Form 10-K”). The December 1, 2012 Consolidated Condensed Balance Sheet data was derived from the Company’s year-end audited Consolidated Financial Statements as presented in the 2012 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 June 1, 2013, 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 2012 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 guarantees that expire within one year. The Company also has \$1,823 and \$1,839 of noncurrent restricted cash recorded in Other noncurrent assets as of June 1, 2013 and December 1, 2012, respectively, 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:

	June 1, 2013	December 1, 2012
Raw materials	\$80,640	\$75,928
Work in process	39,330	34,996
Finished products	104,981	100,327
Inventories	\$224,951	\$211,251

Property, Plant and Equipment

At December 1, 2012, land of \$398 and building and building fixtures of \$1,602 related to one Kentucky plant were classified as Assets held for sale. Those assets were sold March 29, 2013 for \$2,211 resulting in a gain of \$211, which is included in Cost of sales in the accompanying Consolidated Condensed Statements of Earnings for the three and six months ended June 1, 2013.

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CLARCOR Inc.

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

(Unaudited)

## Accumulated Other Comprehensive Loss

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

	June 1, 2013	December 1, 2012
Pension liability, net of tax	\$(49,190 )	\$(50,890 )
Translation adjustments, net of tax	(4,758 )	(818 )
Accumulated other comprehensive loss	\$(53,948 )	\$(51,708 )

## New Accounting Guidance

In February 2013, the Financial Accounting Standards Board ("FASB") issued guidance to improve the reporting of reclassifications out of accumulated other comprehensive income ("AOCI"). The amendments do not change the current requirement for reporting net income or other comprehensive income in financial statements; however, the amendments require an entity to provide information about the amounts reclassified out of AOCI by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of AOCI by the respective line items of net income, but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. The guidance is effective for annual and interim periods beginning after December 15, 2012, although early adoption is permitted. The Company does not expect the adoption of this guidance on the first day of fiscal year 2014 to have a material impact on the Consolidated Financial Statements.

In July 2012, the FASB issued amendments to its indefinite-lived intangible assets impairment testing guidance to simplify how entities test for indefinite-lived intangible asset impairments. The objective of the amendments is to reduce cost and complexity by providing an entity with the option to make a qualitative assessment about the likelihood that an indefinite-lived intangible asset is impaired to determine whether it should perform a quantitative impairment test. The amendments also enhance the consistency of impairment testing guidance amount long-lived asset categories by permitting an entity to assess qualitative factors to determine whether it is necessary to calculate the asset's fair value when testing an indefinite-lived intangible asset for impairment, which is equivalent to the impairment testing requirements for other long-lived assets. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, although early adoption is permitted. The adoption of this guidance on the first day of fiscal year 2013 did not have a material impact on the Consolidated Financial Statements.

In September 2011, the FASB issued amendments to its goodwill impairment testing guidance to simplify how entities test for goodwill impairments. The amendments are intended to reduce complexity and cost by providing a company the option of making an initial qualitative evaluation about the likelihood of goodwill impairment in determining whether it should calculate the fair value of a reporting unit. The amendments also include examples of events and circumstances that a company should consider in evaluating whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, although early adoption is permitted. The adoption of this guidance on the first day of fiscal year 2013 did not have a material impact on the Consolidated

Financial Statements.

In June 2011, the FASB issued amendments to its comprehensive income guidance to (a) improve the comparability, consistency and transparency of financial reporting, (b) increase the prominence of items reported in other comprehensive income and (c) facilitate the convergence of U.S. GAAP with International Financial Reporting Standards ("IFRS"). The amendments require all non-owner changes in shareholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The required amendments, pursuant to the guidance, must be applied retrospectively. In December 2011, the FASB issued amendments to defer certain presentation requirements of the initial guidance. The guidance is effective for fiscal years and interim periods within those years, beginning after December 15, 2011, although early adoption is permitted. The adoption of this guidance on the first day of fiscal year 2013 resulted in the presentation of the Consolidated Condensed Statements of Comprehensive Earnings, but did not have a material effect on the Company's financial position or results of operations.

CLARCOR Inc.

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

(Unaudited)

## 2. BUSINESS ACQUISITIONS AND INVESTMENTS

## Business Acquisitions

On May 9, 2012, the Company acquired 100% of the shares in Modular Engineering Company Pty Ltd. ("Modular") for \$7,875. An initial payment of \$5,237 was made at closing. On May 8, 2013, another installment of the purchase price in the amount of \$1,530 was paid. The remaining purchase price will be paid on the second anniversary of the closing date. Modular, a manufacturer of pressure vessels, process and storage tanks and other natural gas filtration products and distributor of aftermarket elements is located in Henderson, Western Australia. The acquisition of Modular gave the Company first-fit manufacturing capabilities in Western Australia, as well as a platform for aftermarket growth throughout the region. Modular has been combined into an existing Company subsidiary, which is part of the Company's Industrial/Environmental Filtration segment. An allocation of the purchase price for the acquisition has been made to major categories of assets and liabilities. Acquired finite-lived intangible assets of \$2,552 were recorded in connection with the purchase. The \$5,339 excess of the initial purchase price over the estimated fair value of the assets acquired and liabilities assumed was recorded as goodwill, which is not deductible for income tax purposes. Net sales and Operating profit (loss) attributable to Modular for the three and six months ended June 1, 2013 and June 2, 2012 were as follows:

	Quarter Ended		Six Months Ended	
	June 1, 2013	June 2, 2012	June 1, 2013	June 2, 2012
Net sales	\$2,911	\$572	\$3,627	\$572
Operating profit (loss)	(256	) 32	(967	) 32

## Investments

Effective May 1, 2008, the Company acquired a 30% share in BioProcessH2O LLC ("BPH"), a Rhode Island-based manufacturer of industrial waste water and water reuse filtration systems, for \$4,000. During the three and six months ended June 1, 2013, the Company did not make any additional investments. During the three months ended June 2, 2012, the Company did not make any additional investments. During the six months ended June 2, 2012, the Company invested an additional \$33. The Company also has \$21 accrued which has not yet been funded and is included in Accounts payable and accrued liabilities in the accompanying Consolidated Condensed Balance Sheets at both June 1, 2013 and December 1, 2012. Under the terms of the agreement with BPH, the Company has the right, but not the obligation, to acquire additional ownership shares and eventually complete ownership of BPH over several years at a price based on, among other factors, BPH's operating income. The investment, with a carrying amount of \$3,069 and \$3,137, at June 1, 2013 and December 1, 2012, 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 June 1, 2013 and June 2, 2012, the Company did not receive any dividends from BPH. The equity investment is periodically reviewed for indicators of impairment.

The Company also owns a 15.63% share in BioProcess Algae LLC ("Algae"), a Delaware-based company developing technology to grow and harvest algae which can be used to consume carbon dioxide and also be used as a renewable energy source. During the three and six months ended June 1, 2013, the Company invested an additional \$236 and



\$459, respectively, into Algae, of which \$223 had been accrued and included in Accounts payable and accrued liabilities at December 1, 2012 in the accompanying Consolidated Condensed Balance Sheets. During the three and six months ended June 2, 2012, the Company invested an additional \$225 and \$324, respectively, into Algae. The investment, with a carrying amount of \$2,048 and \$1,812 at June 1, 2013 and December 1, 2012, respectively, included in Other noncurrent assets, is being accounted for under the cost method of accounting. Under the cost method, the Company recognizes dividends as income when received and reviews the cost basis of the investment for impairment if factors indicate that a decrease in value of the investment has occurred. During the three and six months ended June 1, 2013, the Company did not receive any dividends from Algae. During the three months ended June 2, 2012, the Company did not receive any dividends from Algae. During the six months ended June 2, 2012, the Company received dividends from Algae of \$1,200, which is included in Other, net in the Consolidated Condensed Statements of Earnings.

CLARCOR Inc.

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

(Unaudited)

## 3. INCENTIVE PLANS AND STOCK-BASED COMPENSATION

On March 23, 2009, the shareholders of CLARCOR approved the 2009 Incentive Plan, which replaced the 2004 Incentive Plan. The 2009 Incentive Plan allows the Company to grant stock options, restricted stock unit awards, restricted stock, performance awards and other awards to officers, directors and key employees of up to 3,800,000 shares during a ten-year period that ends in December 2019. Upon share option exercise or restricted stock unit award conversion, the Company issues new shares unless treasury shares are available. The key provisions of the Company's stock-based incentive plans are described in Note M of the Company's Consolidated Financial Statements included in the 2012 Form 10-K.

## Stock Options

Nonqualified stock options are granted at exercise prices equal to the market price of CLARCOR common stock at the date of grant, which is the date the Company's Board of Directors approves the grant and the participants receive it. The Company's Board of Directors determines the vesting requirements for stock options at the time of grant and may accelerate vesting. In general, options granted to key employees vest 25% per year beginning at the end of the first year; therefore, they become fully exercisable at the end of four years. Vesting may be accelerated in the event of retirement, disability or death of a participant or change in control of the Company. Options granted to non-employee directors vest immediately. All options expire ten years from the date of grant unless otherwise terminated.

The following table summarizes information related to stock options and stock option exercises during the three and six months ended June 1, 2013 and June 2, 2012.

	Quarter Ended		Six Months Ended	
	June 1, 2013	June 2, 2012	June 1, 2013	June 2, 2012
Pre-tax compensation expense	\$774	\$1,091	\$1,661	\$3,218
Deferred tax benefits	(275	) (401	) (591	) (1,183
Excess tax benefits associated with tax deductions over the amount of compensation expense recognized in the consolidated condensed financial statements	1,168	260	2,899	2,487
Fair value of stock options on date of grant	—	867	3,836	6,413
Total intrinsic value of stock options exercised	3,594	746	8,880	7,746
Cash received upon exercise of stock options	3,859	576	7,184	3,251
Addition to capital in excess of par value due to exercise of stock options	4,887	772	8,813	4,059

The following table summarizes activity for the six months ended June 1, 2013 with respect to stock options granted by the Company and includes options granted under the 1994 Incentive Plan, the 2004 Incentive Plan and the 2009 Incentive Plan.

	Options Granted Under Incentive Plans	Weighted Average Exercise Price
Outstanding at beginning of year	3,037,151	\$36.09

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Granted	385,000	\$45.19
Exercised	(354,979)	\$26.79
Surrendered	(18,573)	\$42.40
Outstanding at end of period	3,048,599	\$38.29
Exercisable at end of period	2,249,924	\$35.80

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CLARCOR Inc.

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

(Unaudited)

At June 1, 2013, there was \$6,906 of unrecognized compensation cost related to option awards which the Company expects to recognize over a weighted-average period of 2.74 years.

The following table summarizes information about the Company's outstanding and exercisable options at June 1, 2013.

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
\$20.57 - \$28.79	416,000	\$26.89	\$11,379	2.53	416,000	\$26.89	\$11,379	2.53
\$31.96 - \$38.06	1,301,400	\$33.84	26,544	4.97	1,247,266	\$33.91	25,359	4.90
\$40.73 - \$49.91	1,331,199	\$46.19	10,717	8.69	586,658	\$46.15	4,748	8.20
	3,048,599	\$38.29	\$48,640	6.26	2,249,924	\$35.80	\$41,486	5.32

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			
	June 1, 2013	June 2, 2012		
Weighted average fair value per option at the date of grant for options granted	\$9.96	\$12.49		
Risk-free interest rate	1.19	% 1.38	%	
Expected dividend yield	1.19	% 0.96	%	
Expected volatility factor	25.81	% 26.52	%	
Expected option term in years	5.4	6.1		

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.

CLARCOR Inc.

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

(Unaudited)

## Restricted Stock Unit Awards

The Company's restricted stock unit awards are considered nonvested share awards. The restricted stock unit awards require no payment from the employee. Compensation cost is recorded based on the market price of the stock on the grant date and is recorded equally over the vesting period of four years. During the vesting period, officers and key employees receive compensation equal to the amount of dividends declared on common shares they would have been entitled to receive had the shares been issued. Upon vesting, employees may elect to defer receipt of their shares. There were 14,760 and 131,197 vested and deferred shares at June 1, 2013 and December 1, 2012, respectively.

The following table summarizes information related to restricted stock unit awards during the three and six months ended June 1, 2013 and June 2, 2012.

	Quarter Ended		Six Months Ended	
	June 1, 2013	June 2, 2012	June 1, 2013	June 2, 2012
Pre-tax compensation expense	\$210	\$155	\$469	\$934
Deferred tax benefits	(75	) (57	) (167	) (343
Excess tax (expense) benefits associated with tax deductions under the amount of compensation expense recognized in the consolidated condensed financial statements	1,258	(99	) 1,354	(24
Fair value of restricted stock unit awards on date of grant	—	—	1,068	1,489
Fair value of restricted stock unit awards vested	—	—	621	997

The following table summarizes activity for the six months ended June 1, 2013 with respect to the restricted stock unit awards.

	Units	Weighted Average Grant Date Fair Value
Nonvested at beginning of year	39,945	\$43.16
Granted	23,624	\$45.19
Vested	(15,525)	\$40.01
Nonvested at end of period	48,044	\$45.18

As of June 1, 2013, there was \$1,596 of total unrecognized compensation cost related to restricted stock unit awards which the Company expects to recognize over a weighted-average period of 3.00 years.

CLARCOR Inc.

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

(Unaudited)

## 4. NONCONTROLLING INTERESTS

Noncontrolling interests changed as follows during the six months ended June 1, 2013 and June 2, 2012:

	Six Months Ended			
	June 1, 2013		June 2, 2012	
	Redeemable	Non-Redeemable	Redeemable	Non-Redeemable
Noncontrolling interests at beginning of period	\$1,754	\$ 986	\$1,557	\$ 831
Noncontrolling interests earnings (loss)	31	137	170	(5 )
Foreign currency translation	1	4	(112 )	(52 )
Noncontrolling interests at end of period	\$1,786	\$ 1,127	\$1,615	\$ 774

## Redeemable Noncontrolling Interests

In March 2007, the Company acquired an 80% ownership share in Sinfa SA ("SINFA"), a manufacturer of automotive and heavy-duty engine filters based in Casablanca, Morocco. As part of the purchase agreement, the Company and the noncontrolling owners each have an option to require the purchase of the remaining 20% ownership shares by the Company after December 31, 2012 which would result in SINFA becoming a wholly owned subsidiary. As of June 1, 2013, neither the Company nor the noncontrolling owners have exercised the purchase option. The remaining 20% of SINFA owned by the noncontrolling owners has been reported as Redeemable noncontrolling interests and classified as mezzanine equity in the Consolidated Condensed Balance Sheets. The Redeemable noncontrolling interests is reflected at its carrying value, which is greater than its estimated redemption price. The Redeemable noncontrolling interests will be accreted to the redemption price, through equity, at the point at which the redemption becomes probable. The Company has not recorded any accretion to date.

## 5. 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 June 1, 2013.

	Engine/Mobile Filtration	Industrial/ Environmental Filtration	Packaging	Total
Goodwill at beginning of year	\$21,593	\$220,331	\$—	\$241,924
Currency translation adjustments	(392 )	(604 )	—	(996 )
Goodwill at end of period	\$21,201	\$219,727	\$—	\$240,928

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
June 1, 2013				
Indefinite Lived Intangibles:				
Trademarks - indefinite lived	\$603	\$41,659	\$—	\$42,262
Finite Lived Intangibles:				
Trademarks, gross - finite lived	\$300	\$488	\$—	\$788
Accumulated amortization	(97	) (322	) —	(419
Trademarks, net - finite lived	\$203	\$166	\$—	\$369
Customer relationships, gross	\$4,290	\$45,664	\$—	\$49,954
Accumulated amortization	(1,785	) (18,493	) —	(20,278
Customer relationships, net	\$2,505	\$27,171	\$—	\$29,676
Other acquired intangibles, gross	\$243	\$39,574	\$—	\$39,817
Accumulated amortization	(243	) (19,402	) —	(19,645
Other acquired intangibles, net	\$—	\$20,172	\$—	\$20,172
Total finite lived intangible assets, net	\$2,708	\$47,509	\$—	\$50,217
Acquired intangible assets, less accumulated amortization	\$3,311	\$89,168	\$—	\$92,479

The following table summarizes estimated amortization expense.

Fiscal year 2013	\$5,908
Fiscal year 2014	5,696
Fiscal year 2015	5,633
Fiscal year 2016	5,499
Fiscal year 2017	5,261

CLARCOR Inc.

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

(Unaudited)

## 6. FAIR VALUE MEASUREMENTS

## Fair Value Measurements

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

Level 1 – Quoted active market prices for identical assets

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

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

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

	Fair Value Measurements at Reporting Date			
	Total	Level 1	Level 2	Level 3
June 1, 2013				
Restricted trust, included in Other noncurrent assets				
Mutual fund investments - equities	\$ 607	\$ 607	\$—	\$—
Mutual fund investments - bonds	419	419	—	—
Cash and equivalents	28	28	—	—
Total restricted trust	\$ 1,054	\$ 1,054	\$—	\$—
TransWeb contingent earn-out, included in Other long-term liabilities	\$ 1,367	\$—	\$—	\$ 1,367
	Fair Value Measurements at Reporting Date			
	Total	Level 1	Level 2	Level 3
December 1, 2012				
Restricted trust, included in Other noncurrent assets				
Mutual fund investments - equities	\$ 614	\$ 614	\$—	\$—
Mutual fund investments - bonds	425	425	—	—
Cash and equivalents	31	31	—	—
Total restricted trust	\$ 1,070	\$ 1,070	\$—	\$—
TransWeb contingent earn-out, included in Other long-term liabilities	\$ 1,292	\$—	\$—	\$ 1,292





CLARCOR Inc.

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

(Unaudited)

There were no changes in the fair value determination methods or significant assumptions used in those methods during the six months ended June 1, 2013. 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 June 1, 2013. 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 TransWeb contingent earn-out payment was established in connection with the acquisition of TransWeb on December 29, 2010, and the acquisition-date estimated fair value of the earn-out payment to one of the former owners was \$1,018. 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 projected 2014 and 2015 TransWeb earnings, which represent significant inputs not observed in the market and thus represents a Level 3 measurement as defined by accounting literature. The contingent consideration payment is revalued to its current fair value at each reporting date. Any increase or decrease in the fair value, as a result of changes in significant inputs such as the discount rate, the discount period or other factors used in the calculation, is recognized in Selling and administrative expenses in the Consolidated Condensed Statements of Earnings in the period the estimated fair value changes. The fair value of the contingent consideration was estimated using a probability-weighted discounted cash flow model with a discount rate of 11.9%. The fair value of the TransWeb contingent earn-out payment increased by \$75, based on changes in the remaining discount period, during the six months ended June 1, 2013.

## 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 June 1, 2013 and December 1, 2012. An expected present value technique is used to estimate the fair value of long-term debt. Long-term debt had a fair value estimate of \$16,510 and \$16,532 at June 1, 2013 and December 1, 2012, 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 June 1, 2013 and December 1, 2012 is \$16,654 and \$16,592, respectively.

## 7. ACCOUNTS PAYABLE, ACCRUED LIABILITIES AND GUARANTEES

Accounts payable and accrued liabilities at June 1, 2013 and December 1, 2012 were as follows:

	June 1, 2013	December 1, 2012
Accounts payable	\$67,415	\$69,206
Accrued salaries, wages and commissions	11,004	16,884
Pension and postretirement healthcare benefits liabilities	7,876	21,442
Compensated absences	8,636	9,010
Accrued insurance liabilities	7,203	7,733
Customer deposits	14,419	14,207
Other accrued liabilities	25,139	33,780
Accounts payable and accrued liabilities	\$ 141,692	\$ 172,262

The Company has letters of credit totaling \$29,890 and \$23,307 as of June 1, 2013 and December 1, 2012, 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.

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CLARCOR Inc.

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

(Unaudited)

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

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

	Six Months Ended	
	June 1, 2013	June 2, 2012
Warranty accrual at beginning of period	\$1,533	\$2,580
Warranty accrual added through business acquisitions	—	32
Accruals for warranties issued during the period	104	91
Adjustments related to pre-existing warranties	(39	) 23
Settlements made during the period	(225	) (400
Other adjustments, including currency translation	(9	) (45
Warranty accrual at end of period	\$1,364	\$2,281

## 8. LONG-TERM DEBT

On April 5, 2012, the Company entered into a five-year multicurrency revolving credit agreement ("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. At the Company's election, loans made under the Credit 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 are unsecured, but are guaranteed by substantially all of the Company's material domestic subsidiaries. The Credit Facility also contains certain covenants customary to such agreements, as well as customary events of default. At June 1, 2013, there were no borrowings outstanding on the Credit Facility. The Credit Facility includes a \$50,000 letter of credit sub-facility, against which \$16,012 in letters of credit had been issued at both June 1, 2013 and December 1, 2012.

CLARCOR Inc.

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

(Unaudited)

## 9. PENSION AND OTHER POSTRETIREMENT PLANS

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

	Quarter Ended		Six Months Ended	
	June 1, 2013	June 2, 2012	June 1, 2013	June 2, 2012
Pension Benefits:				
Components of net periodic benefit cost (income):				
Service cost	\$621	\$530	\$1,243	\$1,060
Interest cost	1,726	1,980	3,456	3,959
Expected return on plan assets	(2,693)	(2,105)	(5,392)	(4,208)
Amortization of unrecognized:				
Prior service cost	(2)	(3)	(5)	(6)
Net actuarial loss (gain)	1,515	1,909	3,031	3,818
Net periodic benefit cost (income)	\$1,167	\$2,311	\$2,333	\$4,623
Cash contributions	\$1,565	\$1,575	\$16,507	\$14,928
Postretirement Healthcare Benefits:				
Components of net periodic benefit cost (income):				
Interest cost	\$2	\$4	\$4	\$8
Amortization of unrecognized:				
Prior service cost	(31)	(31)	(62)	(62)
Net actuarial loss (gain)	(37)	(30)	(74)	(60)
Net periodic benefit cost (income)	\$(66)	\$(57)	\$(132)	\$(114)
Cash contributions	\$18	\$25	\$36	\$50

The Company's policy is to contribute to its qualified U.S. and non-U.S. pension plans at least the minimum amount required by applicable laws and regulations, to contribute to the U.S. combined nonqualified plans when required for benefit payments, and to contribute to the postretirement healthcare benefit plan an amount equal to the benefit payments. The Company, from time to time, makes voluntary contributions in excess of the minimum amount required as economic conditions warrant. The Company expects to contribute up to the following amounts to its various plans to pay benefits during 2013:

U.S. Qualified Plans	\$6,156
U.S. Combined Nonqualified Plans	21,372
Non-U.S. Plan	340
Postretirement Healthcare Benefit Plan	70
Total expected contributions	\$27,938

During the three and six months ended June 1, 2013, the Company contributed \$1,583 and \$16,543, respectively, to its various plans. In addition to the plan assets related to its qualified plans, the Company has also funded \$1,054 and

\$1,070 at June 1, 2013 and December 1, 2012, respectively, into a restricted trust for its U.S. combined nonqualified plans (see Note 6). This trust is included in Other noncurrent assets in the Consolidated Condensed Balance Sheets.

CLARCOR Inc.

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

(Unaudited)

## 10. INCOME TAXES

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

	Six Months Ended	
	June 1, 2013	June 2, 2012
Unrecognized tax benefits at beginning of year	\$2,209	\$3,015
Additions for current period tax positions	151	179
Reductions for lapse of statute of limitations / settlements	(334)	) —
Changes in interest and penalties	(213)	) 123
Unrecognized tax benefits at end of period	\$1,813	\$3,317

At June 1, 2013, the amount of unrecognized tax benefit, that would impact the effective tax rate if recognized, was \$1,238. The Company recognizes interest and penalties related to unrecognized benefits in income tax expense. At June 1, 2013, the Company had \$228 accrued for the payment of interest and penalties.

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

The Company is regularly audited by federal, state and foreign tax authorities. The Internal Revenue Service has completed its audits of the Company's U.S. income tax returns through fiscal year 2009. With few exceptions, the Company is no longer subject to income tax examinations by state or foreign tax jurisdictions for years prior to 2007.

During the six months ended June 1, 2013, the Company recognized a \$855 benefit related to the extension of the research and development tax credit in January 2013.

## 11. CONTINGENCIES

## Legal Contingencies

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





CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

(Unaudited)

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 in the United States District Court for the District of New Jersey, seeking a declaratory judgment that the asserted patents are invalid and that the products in question do not infringe. 3M withdrew its Minnesota action, and the parties are currently litigating the matter in New Jersey.

The litigation in question was filed and underway before the Company acquired TransWeb in December 2010, but the Company assumed the risk of this litigation as a result of the acquisition. On June 3, 2011, TransWeb filed a Second Amended Complaint against 3M, (i) seeking declaratory judgment that the asserted 3M patents are invalid, the TransWeb products in question do not infringe, and the 3M patents are unenforceable due to inequitable conduct by 3M in obtaining the patents, (ii) alleging patent infringement by 3M of a patent held by TransWeb, and (iii) alleging antitrust violations by 3M in connection with certain upstream and downstream markets for fluorinated polymeric filtration media under theories of Walker Process fraud and sham litigation. TransWeb later dropped its patent infringement allegations against 3M, but continued to allege and pursue its inequitable conduct and antitrust claims. Prior to trial, 3M voluntarily dismissed with prejudice the majority of the patent claims 3M had originally brought against TransWeb, but continued to allege infringement by TransWeb of two claims of one of the patents in suit.

A jury trial commenced on November 13, 2012. After 10 days of testimony and deliberation, on November 30, 2012, a six-member jury unanimously found that (i) TransWeb does not infringe the asserted claims of the 3M patent in suit, (ii) the asserted claims of the patent in suit are invalid as being obvious, (iii) 3M violated the antitrust laws in trying to enforce patents obtained through fraud on the United States Patent Office (i.e., Walker Process fraud), (iv) TransWeb is entitled to recoup lost profits of approximately \$34 plus its attorneys' fees as damages, and (v) 3M did not engage in "sham" litigation. The jury also rendered a unanimous advisory verdict, which is not binding on the court, that 3M's asserted patents were obtained through inequitable conduct, and thus unenforceable.

The court has not yet decided whether to accept the jury's verdict on inequitable conduct and has not yet issued a final judgment in the case, pending (i) resolution of various post-trial motions made by 3M to set aside the jury verdicts adverse to 3M, and (ii) a separate procedure before a third party Special Master to quantify and qualify TransWeb's attorneys' fees that may be awarded as damages, including those subject to potential trebling under the antitrust laws. Such procedure is anticipated to take until at least July 2013 to resolve.

The Company acquired TransWeb on December 29, 2010. Of the base purchase price, the Company withheld payment of \$17,000 pending resolution of the 3M litigation, which funds may be used by the Company in connection with the same. Any litigation related amounts incurred in excess of the amount withheld will be expensed and paid by the Company. During the three months ended June 1, 2013, the Company did not apply any legal charges against the withheld payment as the limit had been reached. During the six months ended June 1, 2013, the Company applied legal charges of \$531 against the withheld payment. Since the acquisition, the Company has incurred legal charges of \$17,874 related to the 3M litigation, of which \$17,000 has been applied against the withheld portion of the TransWeb purchase price as noted above. During the three and six months ended June 1, 2013, the Company expensed \$418 and \$874, respectively, related to the 3M litigation, which is included in Selling and administrative expenses in the Consolidated Condensed Statements of Earnings.

Other

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

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CLARCOR Inc.

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

(Unaudited)

In addition to the matters cited above, the Company is involved in legal actions arising in the normal course of business. The Company records provisions with respect to identified claims or lawsuits when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Claims and lawsuits are reviewed quarterly and provisions are taken or adjusted to reflect the status of a particular matter.

## 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.

## 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 3](#) 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	
	June 1, 2013	June 2, 2012	June 1, 2013	June 2, 2012
Weighted average number of shares outstanding - Basic	49,826,567	50,378,164	49,830,634	50,394,680
Dilutive effect of stock-based arrangements	602,308	602,183	588,536	642,686
Weighted average number of shares outstanding - Diluted	50,428,875	50,980,347	50,419,170	51,037,366
Net earnings attributable to CLARCOR Inc.	\$33,051	\$32,927	\$56,513	\$56,406
Net earnings per share attributable to CLARCOR Inc. - Basic	\$0.66	\$0.65	\$1.13	\$1.12
Net earnings per share attributable to CLARCOR Inc. - Diluted	\$0.66	\$0.65	\$1.12	\$1.11

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

	Quarter Ended		Six Months Ended	
	June 1, 2013	June 2, 2012	June 1, 2013	June 2, 2012

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Number of antidilutive options with exercise prices greater than the average market price excluded from the computation of dilutive earnings per share	—	510,850	249,019	510,850
Common stock repurchased and retired pursuant to the Company's stock repurchase program	\$ 11,400	\$ 7,748	\$ 17,364	\$ 11,383
Number of shares repurchased and retired pursuant to the Company's stock repurchase program	224,100	157,500	346,100	227,500

At June 1, 2013, there remained \$149,722 authorized for future purchases under the Company's \$250,000 stock repurchase program.

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CLARCOR Inc.

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

(Unaudited)

## 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	
	June 1, 2013	June 2, 2012	June 1, 2013	June 2, 2012
Net sales:				
Engine/Mobile Filtration	\$ 132,372	\$ 130,677	\$ 250,047	\$ 250,960
Industrial/Environmental Filtration	136,660	134,629	259,286	255,743
Packaging	18,551	19,549	34,521	35,416
	\$ 287,583	\$ 284,855	\$ 543,854	\$ 542,119
Operating profit:				
Engine/Mobile Filtration	\$ 29,096	\$ 29,628	\$ 52,545	\$ 52,925
Industrial/Environmental Filtration	18,411	17,747	28,089	28,452
Packaging	1,894	1,736	2,582	2,046
	49,401	49,111	83,216	83,423
Other income (expense), net	(217	) (36	) (228	) 610
Earnings before income taxes	\$ 49,184	\$ 49,075	\$ 82,988	\$ 84,033
			June 1, 2013	December 1, 2012
Identifiable assets:				
Engine/Mobile Filtration			\$ 377,557	\$ 372,011
Industrial/Environmental Filtration			706,979	706,610
Packaging			48,541	36,350
Corporate			71,359	90,531
			\$ 1,204,436	\$ 1,205,502

## 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 2012 Form 10-K. Except as otherwise set forth herein, references to particular years refer to our applicable fiscal year. The analysis of operating results focuses on our three reportable business segments: Engine/Mobile Filtration, Industrial/Environmental Filtration and Packaging.

## EXECUTIVE SUMMARY

Management Discussion Snapshot  
(In thousands except per share data)

	Second Quarter				First Six Months				
	2013	2012	Change		2013	2012	Change		
			\$	%			\$	%	
Net sales	\$287,583	\$284,855	\$2,728	1 %	\$543,854	\$542,119	\$1,735	— %	
Cost of sales	189,369	186,670	2,699	1 %	364,154	357,719	6,435	2 %	
Gross profit	98,214	98,185	29	— %	179,700	184,400	(4,700 )	(3 )%	
Selling and administrative expenses	48,813	49,074	(261 )	(1 )%	96,484	100,977	(4,493 )	(4 )%	
Operating profit	49,401	49,111	290	1 %	83,216	83,423	(207 )	— %	
Other income (expense)	(217 )	(36 )	(181 )		(228 )	610	(838 )		
Provision for income taxes	16,031	15,996	35	— %	26,307	27,462	(1,155 )	(4 )%	
Net earnings attributable to CLARCOR	33,051	32,927	124	— %	56,513	56,406	107	— %	
Weighted average diluted shares	50,429	50,980	(551 )	(1 )%	50,419	51,037	(618 )	(1 )%	
Diluted earnings per share attributable to CLARCOR	\$0.66	\$0.65	\$0.01	2 %	\$1.12	\$1.11	\$0.01	1 %	
Percentages:									
Gross margin	34.2 %	34.5 %		(0.3 ) pt	33.0 %	34.0 %		(1.0 ) pt	
Selling and administrative percentage	17.0 %	17.2 %		(0.2 ) pt	17.7 %	18.6 %		(0.9 ) pt	
Operating margin	17.2 %	17.2 %		— pt	15.3 %	15.4 %		(0.1 ) pt	
Effective tax rate	32.6 %	32.6 %		— pt	31.7 %	32.7 %		(1.0 ) pt	
Net earnings margin	11.5 %	11.6 %		(0.1 ) pt	10.4 %	10.4 %		— pt	



## Second Quarter

## Net Sales

Net sales increased \$2.7 million, or 1%, in the second quarter of 2013 from the second quarter of 2012. Estimated components of this 1% increase in net sales are as follows:

Volume	—	%
Pricing	—	%
Modular acquisition	1	%
Foreign exchange	—	%
	1	%

Our \$2.7 million, or 1%, increase in net sales in the second quarter of 2013 from the second quarter of 2012 was driven by a \$2.0 million, or 2%, increase in net sales at our Industrial/Environmental Filtration segment and a \$1.7 million, or 1%, increase in net sales at our Engine/Mobile Filtration segment, partially offset by a \$1.0 million, or 5%, decrease in net sales at our Packaging segment.

The \$2.0 million, or 2%, increase in net sales at our Industrial/Environmental Filtration segment was driven by \$2.3 million in higher sales arising from our acquisition of Modular Engineering Pty Ltd in Australia in the second quarter of 2012. Excluding the impact of the Modular acquisition, net sales at our Industrial/Environmental Filtration segment declined \$0.3 million, or less than one percent, due to lower oil and gas filtration sales in Europe, lower sales of commercial and industrial air filters in the U.S. and lower sales of filtration media at TransWeb. Lower oil and gas filtration sales in Europe were driven by a decline in military aviation and marine filtration sales as a result of government budget constraints, and the timing of several large natural gas and petrochemical system orders in the second quarter of 2012 that did not repeat this year. These lower sales were partly offset by growth in natural gas vessels and aftermarket filter sales in the U.S. and Brazil, as well as growth in aviation, aerospace and off-shore oil drilling filtration sales.

The \$1.7 million, or 1%, increase in net sales at our Engine/Mobile Filtration segment was driven by \$1.7 million, or 2%, higher sales within the U.S. and \$0.4 million, or 1%, higher foreign sales, partly offset by a \$0.4 million decrease due to changes in foreign currency exchange rates. The 2% increase in U.S. sales in this segment was driven by a 4% increase in sales of heavy-duty engine filters to the U.S. aftermarket, partially offset by lower sales to original equipment customers. The slight increase in foreign sales was driven by a 19% increase in sales of heavy-duty engine filters in China, partially offset by a 13% decline in sales of heavy-duty engine filters in Europe.

The \$1.0 million, or 5%, decrease in net sales at our Packaging segment was driven primarily by lower sales of confection packaging products and film packaging products, partially offset by higher sales of spice containers and packaging sales to customers in the health & beauty and pharmaceutical markets.

## Cost of Sales

Cost of sales increased \$2.7 million, or 1%, in the second quarter of 2013 from the second quarter of 2012. This increase was slightly greater than the 1% increase in net sales. As a result, our cost of sales as a percentage of net sales increased to 65.8% in the second quarter of 2013 from 65.5% in the second quarter of 2012. This increase was driven by lower fixed cost absorption due to costs related to increased capacity to support expected future growth, including the expansion of our heavy-duty engine filtration manufacturing facility in Yankton, South Dakota, as well as lower



sales at our TransWeb filtration media business. Partly offsetting these effects, our material purchase costs decreased approximately 1% from the second quarter of 2012, reflecting our continuous focus on cost reduction initiatives.

#### Selling and Administrative Expenses

Selling and administrative expenses declined \$0.3 million, or 1%, in the second quarter of 2013 from the second quarter of 2012. This reduction was primarily the result of lower expense related to our pension and postretirement benefits plans. Since selling and administrative expenses decreased 1% while sales increased 1%, our selling and administrative expenses as a percentage of net sales decreased to 17.0% in the second quarter of 2013 from 17.2% in last year's second quarter.

## First Six Months

## Net Sales

Net sales increased \$1.7 million, or less than one percent, in the first six months of 2013 from the first six months of 2012. Estimated components of this less than one percent increase in net sales are as follows:

Volume	(1	)%
Pricing	—	%
Modular acquisition	1	%
Foreign exchange	—	%
	—	%

Our \$1.7 million, or less than one percent, increase in net sales in the first six months of 2013 from the first six months of 2012 was driven by a \$3.5 million, or 1%, increase in net sales at our Industrial/Environmental Filtration segment partially offset by a \$0.9 million, or less than one percent, decrease in net sales at our Engine/Mobile Filtration segment and a \$0.9 million, or 3%, decrease in net sales at our Packaging segment.

The \$3.5 million, or 1%, increase in net sales at our Industrial/Environmental Filtration segment was driven by \$3.1 million in higher sales arising from our acquisition of Modular Engineering Pty Ltd in Australia in the second quarter of 2012. Excluding the impact of the Modular acquisition, net sales at our Industrial/Environmental Filtration segment increased \$0.4 million, or less than one percent, as strong growth in natural gas vessels and aftermarket filter sales in the U.S. and Latin America, as well as growth in aviation filter sales and filter sales through our Total Filtration Services ("TFS") distribution business were partially offset by lower sales of military aviation and marine filters and dust collection systems in Europe, lower sales of commercial and industrial air filters in the U.S. and lower filtration media sales at TransWeb.

The \$0.9 million, or less than one percent, decline in net sales at our Engine/Mobile Filtration segment was driven by a 1% reduction in foreign sales. This reduction in foreign sales was due primarily to a 10% decline in heavy-duty engine filter sales in Europe, partially offset by a 6% increase in sales of heavy-duty engine filters in China.

The \$0.9 million, or 3%, decrease in net sales at our Packaging segment was driven primarily by lower sales of confection packaging products and film packaging products, partly offset by growth in packaging sales to the smokeless tobacco market.

## Cost of Sales

Cost of sales increased \$6.4 million, or 2%, in the first six months of 2013 from the first six months of 2012. This increase was greater than the less than one percent increase in net sales. As a result, our cost of sales as a percentage of net sales increased to 67.0% from 66.0% in the first six months of 2012. Our material purchase costs decreased approximately 1% from the first six months of 2012. However, we experienced lower fixed cost absorption due to lower sales at our air filtration, heavy-duty engine/mobile filtration, filtration media and packaging businesses as well as due to costs related to increased capacity and infrastructure to support expected future growth, including the expansion of our manufacturing facility in Yankton, South Dakota. As a result, our gross margin percentage in the first six months of 2013 declined to 33.0% from 34.0% in the comparable period last year.

## Selling and Administrative Expenses

Selling and administrative expenses declined \$4.5 million, or 4%, in the first six months of 2013 from the first six months of 2012. This reduction was primarily the result of \$1.7 million lower pension and postretirement benefits plan expense, \$1.6 million lower expense related to stock-based compensation, \$0.8 million lower compensation expense related to our company-wide profit sharing program and \$0.4 million lower other discretionary expenses. Since selling and administrative expenses decreased 4% while sales increased less than one percent, our selling and administrative expenses as a percentage of net sales decreased to 17.7% in the first six months of 2013 from 18.6% in last year's first six months.

## Other Items

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

## Acquisitions

The acquisition of Modular Engineering Company Pty Ltd. ("Modular") in the second quarter of 2012 impacted our net sales and operating profit (loss) in the second quarter and first six months of 2013 compared to the second quarter and first six months of 2012 as follows:

(Dollars in thousands)	Second Quarter	First Six Months
Net sales	\$2,339	\$3,055
Operating loss	(287	) (999

The operating results at this acquired company in the second quarter and first six months of 2013 reflect planned investments in product development and engineering capabilities, the addition of selling and administrative resources to support our long-term growth initiatives, as well as the impact of \$0.2 million of bad debt expense relating to a customer bankruptcy during the first quarter of 2013.

## Foreign Exchange

The average exchange rates for foreign currencies versus the U.S. dollar favorably unfavorably impacted our 2013 translated U.S. dollar value of net sales and operating profit compared to the same periods in 2012 as follows:

(Dollars in thousands)	Second Quarter	First Six Months
Net sales	\$(680	) \$(394
Operating loss	(179	) (187

## Other income (expense)

## Interest expense

Net interest expense in the second quarter and first six months of each of 2013 and 2012 was not significant.

## Foreign currency gains and (losses)

We recognized foreign currency losses in other income (expense) primarily from the translation of cash accounts at certain foreign subsidiaries denominated in currencies other than their functional currencies as follows:

(Dollars in thousands)	Second Quarter	First Six Months
2013	\$(188	) \$(232
2012	(16	) (517

## Other income (expense)

There was no significant other income (expense) in the second quarter of 2013 or in the second quarter of 2012. There was no significant other income (expense) in the first six months of 2013. Other income (expense) in the first six months of 2012 included the receipt of a \$1.2 million dividend pursuant to our investment in BioProcess Algae LLC.



Provisions for income taxes

Our effective tax rate was 32.6% in the second quarter of 2013 and the second quarter of 2012. Our effective tax rate decreased 1.0 percentage points in the first six months of 2013 from the first six months of 2012 primarily from a \$0.9 million benefit in the first six months of 2013 related to the extension of the research and development tax credit in December 2012.

Shares outstanding

Average diluted shares outstanding decreased by 0.6 million shares in the second quarter and first six months of 2013 from the comparable prior year periods of 2012 as our repurchases of common stock were only partially offset by incremental dilutive shares related to the issuance of stock options and restricted shares.

SEGMENT ANALYSIS

(Dollars in thousands)	Second Quarter				First Six Months			
	2013	% Total	2012	% Total	2013	% Total	2012	% Total
Net sales:								
Engine/Mobile Filtration	\$132,372	46 %	\$130,677	46 %	\$250,047	46 %	\$250,960	46 %
Industrial/Environmental Filtration	136,660	48 %	134,629	47 %	259,286	48 %	255,743	47 %
Packaging	18,551	6 %	19,549	7 %	34,521	6 %	35,416	7 %
	\$287,583	100 %	\$284,855	100 %	\$543,854	100 %	\$542,119	100 %
Gross profit:								
Engine/Mobile Filtration	\$47,316	48 %	\$47,755	49 %	\$88,339	49 %	\$91,735	50 %
Industrial/Environmental Filtration	47,084	48 %	46,550	47 %	84,972	47 %	86,168	47 %
Packaging	3,814	4 %	3,880	4 %	6,389	4 %	6,497	3 %
	\$98,214	100 %	\$98,185	100 %	\$179,700	100 %	\$184,400	100 %
Operating profit:								
Engine/Mobile Filtration	\$29,096	59 %	\$29,628	60 %	\$52,545	63 %	\$52,925	63 %
Industrial/Environmental Filtration	18,411	37 %	17,747	36 %	28,089	34 %	28,452	34 %
Packaging	1,894	4 %	1,736	4 %	2,582	3 %	2,046	3 %
	\$49,401	100 %	\$49,111	100 %	\$83,216	100 %	\$83,423	100 %
Gross margin:								
Engine/Mobile Filtration	35.7	%	36.5	%	35.3	%	36.6	%
Industrial/Environmental Filtration	34.5	%	34.6	%	32.8	%	33.7	%
Packaging	20.6	%	19.8	%	18.5	%	18.3	%
	34.2	%	34.5	%	33.0	%	34.0	%

Operating margin:

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Engine/Mobile Filtration	22.0	%	22.7	%	21.0	%	21.1	%
Industrial/Environmental Filtration	13.5	%	13.2	%	10.8	%	11.1	%
Packaging	10.2	%	8.9	%	7.5	%	5.8	%
	17.2	%	17.2	%	15.3	%	15.4	%

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Engine/Mobile Filtration Segment

(Dollars in thousands)	Second Quarter				First Six Months			
	2013	2012	Change		2013	2012	Change	
			\$	%			\$	%
Net sales	\$132,372	\$130,677	\$1,695	1 %	\$250,047	\$250,960	\$(913)	— %
Cost of sales	85,056	82,922	2,134	3 %	161,708	159,225	2,483	2 %
Gross profit	47,316	47,755	(439)	(1) %	88,339	91,735	(3,396)	(4) %
Selling and administrative expenses	18,220	18,127	93	1 %	35,794	38,810	(3,016)	(8) %
Operating profit	29,096	29,628	(532)	(2) %	52,545	52,925	(380)	(1) %
Gross margin	35.7%	36.5%		(0.8) pt	35.3%	36.6%		(1.3) pt
Selling and administrative percentage	13.8%	13.9%		(0.1) pt	14.3%	15.5%		(1.2) pt
Operating margin	22.0%	22.7%		(0.7) pt	21.0%	21.1%		(0.1) pt

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

Net Sales

The changes in net sales for our Engine/Mobile Filtration segment in the second quarter and first six months of 2013 from the comparable periods of 2012 are detailed in the following tables:

	Second Quarter		First Six Months	
	2013	2012	2013	2012
Volume	2	%	—	%
Pricing	—	%	—	%
Foreign exchange	(1)	)%	—	%
	1	%	—	%
(Dollars in thousands)	Second Quarter	First Six Months		
2012	\$130,677	\$250,960		
U.S. net sales	1,756	136		
Foreign net sales (including export)	372	(731)	)	
Foreign exchange	(433)	(319)	)	
Net increase (decrease)	1,695	(913)	)	
2013	\$132,372	\$250,047		





The net changes in U.S. net sales for our Engine/Mobile Filtration segment in the second quarter and first six months of 2013 from the comparable periods in 2012 are detailed as follows:

(Dollars in thousands)	Second Quarter	First Six Months
Heavy-duty engine filters	\$1,374	\$(524 )
Locomotive filters	188	165
Other	194	495
Increase in U.S. net sales	\$1,756	\$136

Our U.S. net sales increased 2% in the second quarter of 2013 compared with the same period in 2012. This growth rate improved from the 2% year-over-year decline in U.S. net sales we experienced in the first quarter of 2013. The increased second quarter growth rate was primarily the result of a 4% increase in heavy-duty engine filter aftermarket sales, which was driven by improved year-over-year demand from our U.S. independent distributors and our larger, national account customers, partially offset by lower sales to our OE customers. We also experienced growth of approximately 2% in locomotive filter sales in the second quarter of 2013 compared with the same period in 2012, as well as growth in dust collection cartridge filter sales.

The net changes in foreign net sales (adjusted for changes in foreign currencies) for our Engine/Mobile Filtration segment in the second quarter and first six months of 2013 from the comparable periods in 2012 are detailed as follows:

(Dollars in thousands)	Second Quarter	First Six Months
Heavy-duty engine filter sales in China	\$1,222	\$701
Export sales primarily to Southeast Asia, South America and the Middle East	562	338
Heavy-duty engine filter sales in Europe	(1,324 )	(2,090 )
Other	(88 )	320
Increase (decrease) in foreign net sales	\$372	\$(731 )

Our foreign net sales increased 1% in the second quarter of 2013 compared with the same period in 2012. This growth rate improved from the 2% year-over-year decline in foreign net sales we experienced in the first quarter of 2013. The increased second quarter growth was primarily the result of a 17% increase, adjusted for changes in foreign currency exchange rates, in heavy-duty engine filter sales in China and increased export sales from the U.S. into several international markets. Higher sales in our China business were driven by the continued expansion of our sales of aftermarket OE heavy-duty engine filters -- as we continue to introduce new part numbers and add new points of distribution in China -- and improved order patterns from several of our larger first-fit diesel engine manufacturing customers. These increases in foreign net sales were partially offset by decreased sales in Europe, where our sales of heavy-duty engine filters declined 11% in the second quarter of 2013 and 9% in the first six months of 2013 from the comparable periods in 2012, adjusted for changes in foreign currency exchange rates, which we believe was primarily driven by lingering macroeconomic conditions in Europe.

#### Cost of Sales

Cost of sales increased \$2.1 million, or 3%, in the second quarter of 2013 from the second quarter of 2012. This increase was greater than the 1% increase in net sales. As a result, our cost of sales as a percentage of net sales increased to 64.3% in the second quarter of 2013 from 63.5% in the second quarter of 2012. Our material costs and our pricing remained flat compared with the second quarter of 2012, as we were able to offset material cost increases

related to changes in product mix and commodity prices with cost savings generated from our continuous cost reduction initiatives. The increase in cost of sales as a percentage of net sales was driven by a 4% increase in manufacturing overhead, primarily reflecting lower absorption of fixed manufacturing costs due to the impact of additional capacity brought into service to support expected future growth.

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Cost of sales increased \$2.5 million, or 2%, in the first six months of 2013 from the first six months of 2012, despite a less than one percent reduction in net sales. As a result, our cost of sales as a percentage of net sales increased to 64.7% in the first six months of 2013 from 63.4% in the first six months of 2012. Our material costs and our pricing remained flat compared with the first six months of 2012, as we were able to offset material cost increases related to changes in product mix and commodity prices with material cost savings of approximately 1% generated from our continuous cost reduction initiatives. The increase in cost of sales as a percentage of net sales was driven by a 4% increase in other components of cost of sales, including direct labor and manufacturing overhead, primarily reflecting lower absorption of fixed manufacturing costs due to lower net sales and the impact of additional capacity brought into service to support expected future growth

#### Selling and Administrative Expenses

Selling and administrative expenses increased \$0.1 million, or 1%, in the second quarter of 2013 from the second quarter of 2012. This increase was primarily the result of \$0.4 million higher legal and other professional services expenses, partially offset by \$0.3 million lower employee costs related to stock-based compensation and pension and postretirement benefits. With selling and administrative expenses in this segment increasing 1% while our net sales also increased 1%, our selling and administrative expenses as a percentage of net sales was relatively flat at 13.8% in the second quarter of 2013 from 13.9% in the second quarter of 2012.

Selling and administrative expenses decreased \$3.0 million, or 8%, in the first six months of 2013 from the first six months of 2012. This reduction was primarily the result of \$1.5 million lower employee costs related to stock-based compensation and pension and postretirement benefits, \$0.8 million lower legal and other professional services expenses, \$0.5 million decline in compensation related to our profit sharing plan and \$0.3 million lower bad debt expense. With selling and administrative expenses in this segment declining 8% while our net sales declined less than one percent, our selling and administrative expenses as a percentage of net sales declined to 14.3% in the first six months of 2013 from 15.5% in the first six months of 2012.

#### Industrial/Environmental Filtration Segment

	Second Quarter				First Six Months			
	2013	2012	Change		2013	2012	Change	
(Dollars in thousands)			\$	%			\$	%
Net sales	\$ 136,660	\$ 134,629	\$ 2,031	2 %	\$ 259,286	\$ 255,743	\$ 3,543	1 %
Cost of sales	89,576	88,079	1,497	2 %	174,314	169,575	4,739	3 %
Gross profit	47,084	46,550	534	1 %	84,972	86,168	(1,196 )	(1 )%
Selling and administrative expenses	28,673	28,803	(130 )	— %	56,883	57,716	(833 )	(1 )%
Operating profit	18,411	17,747	664	4 %	28,089	28,452	(363 )	(1 )%
Gross margin	34.5%	34.6%		(0.1) pt	32.8%	33.7%		(0.9) pt
Selling and administrative percentage	21.0%	21.4%		(0.4) pt	21.9%	22.6%		(0.7) pt
Operating margin	13.5%	13.2%		0.3 pt	10.8%	11.1%		(0.3) pt

Our Industrial/Environmental Filtration segment sells a variety of filtration products to various end-markets. Included in this market are HVAC filters, natural gas vessels and aftermarket filters, aviation fuel filters and filter systems, and

other markets including oil drilling, aerospace, fibers and resins and dust collector systems.

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## Net Sales

The changes in net sales for our Industrial/Environmental Filtration segment in the second quarter and first six months of 2013 from the comparable periods in 2012 are detailed in the following tables:

	Second Quarter	First Six Months	
Volume	—	% (1	)%
Pricing	—	% 1	%
Modular acquisition	2	% 1	%
Foreign exchange	—	% —	%
	2	% 1	%
(Dollars in thousands)	Second Quarter	First Six Months	
2012	\$ 134,629	\$ 255,743	
U.S. net sales	(28	) 1,724	
Foreign net sales (including export)	2,306	1,895	
Foreign exchange	(247	) (76	)
Net increase	2,031	3,543	
2013	\$ 136,660	\$ 259,286	

The net changes in U.S. net sales for our Industrial/Environmental Filtration segment in the second quarter and first six months of 2013 from the comparable periods of 2012 are detailed as follows:

(Dollars in thousands)	Second Quarter	First Six Months	
Natural gas - vessels and aftermarket filters	\$ 1,069	\$ 5,141	
Aviation - vessels and aftermarket filters	1,440	1,539	
Dust collection systems	613	166	
Filter sales through Total Filtration Services (TFS)	(82	) 1,055	
Filtration media sales through TransWeb	(927	) (2,716	)
Air filtration	(1,817	) (3,161	)
Other	(324	) (300	)
(Decrease) increase in U.S. net sales	\$(28	) \$ 1,724	

Higher sales in the natural gas market in the second quarter and first six months of 2013 from the comparable periods of 2012 were driven by an increase in natural gas vessel and replacement element sales arising from increased natural gas extraction and transportation activity throughout the U.S., including at various shale gas basins.

Higher sales in the aviation market in the second quarter and first six months of 2013 from the comparable periods of 2012 were driven by increased sales of commercial and military aviation filtration products, including filter separators, coalescers, and replacement cartridges used at various filtration points related to the storage, transportation and dispensing of aviation fuel.

Higher dust collection system sales in the second quarter of 2013 from the comparable period in 2012 were primarily the result of higher sales of kitchen emission ventilation systems and Dust Hog<sup>®</sup> weld fume collection systems by our United Air Specialists subsidiary.

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Sales through our TFS distribution subsidiary were roughly flat in the second quarter of 2013 compared to the second quarter of 2012. Higher sales at TFS in the first six months of 2013 from the comparable period in 2012 were the result of higher liquid and air filter sales to a variety of customers, including those in the automotive, food and beverage and power generation markets.

Lower sales of filtration media at TransWeb in the second quarter and first six months of 2013 from the comparable periods of 2012 were primarily the result of lower order volume from a significant customer, which we believe was influenced by slower industry demand in the end-markets it serves, as well as uncertainty surrounding the TransWeb/3M litigation.

Lower sales of air filtration products in the second quarter and first six months of 2013 from the comparable periods of 2012 were driven by lower sales of heating, ventilation and air conditioning filters to various commercial and industrial customers.

The net changes in foreign net sales (including export sales and excluding the impact of changes in foreign currency exchange rates) for the Industrial/Environmental Filtration segment in the second quarter and first six months of 2013 from the comparable periods of 2012 are detailed as follows:

(Dollars in thousands)	Second Quarter	First Six Months
Acquisition of Modular Engineering (Australia)	\$2,375	\$3,096
Natural gas vessels and aftermarket filters (Middle East, Asia, South America, Canada)	2,945	2,360
Aerospace, oil drilling and other industrial filter export sales (Europe, Asia)	1,861	580
Petrochemical vessels and aftermarket filters (Europe)	(2,060)	) 417
Dust collector systems (Europe)	(746)	) (1,220)
Military aviation and marine filters (Europe)	(2,853)	) (3,886)
Other	784	548
Increase in foreign net sales	\$2,306	\$1,895

Higher sales of natural gas vessels and aftermarket filters in the second quarter and first six months of 2013 from the comparable prior year periods were driven by increased natural gas extraction, processing and transportation activity in Brazil, partially offset by lower sales in Canada, where oversupply conditions in the natural gas market have led to decreased customer activity.

Higher export sales of aerospace, off-shore oil drilling and other industrial filters in the second quarter of 2013 from the comparable prior year period were driven by higher sales of sand control screen filters to the oil and gas drilling industry and higher sales of cabin air, hydraulic and waste tank filters to the aerospace industry.

Lower sales of petrochemical vessels and aftermarket filters in the second quarter of 2013 compared to the same period last year were driven by the timing of several large petrochemical system orders in last year's second quarter that did not repeat in the second quarter of 2013.

Lower sales of dust collector systems in the second quarter and first six months of 2013 from the comparable prior year periods were driven by lower demand for industrial dust, fume and oil mist collectors which we believe was primarily due to weak macroeconomic conditions in Europe.

Lower sales of military aviation and marine filtration products in the second quarter and first six months of 2013 compared to the same periods last year were driven by lower government military spending in Europe, which we



believe was primarily driven by lingering macroeconomic conditions in Europe.

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### Cost of Sales

Cost of sales increased \$1.5 million, or 2%, in the second quarter of 2013 from the second quarter of 2012 and net sales also increased 2%. As a result, our cost of sales as a percentage of net sales remained roughly flat at 65.5% in the second quarter of 2013 compared to 65.4% in the second quarter of 2012. Our major components of cost of sales, including raw material, direct labor and manufacturing overhead all remained roughly flat as a percentage of net sales in the second quarter of 2013 from the comparable period in 2012.

Cost of sales increased \$4.7 million, or 3%, in the first six months of 2013 from the comparable period of 2012, while net sales increased 1%. As a result, our cost of sales as a percentage of net sales increased to 67.2% in the first six months of 2013 from 66.3% in the first six months of 2012. Although we realized some reductions in direct material and labor costs through our continuous improvement initiatives in the first six months of 2013, our material and overhead costs as a percentage of net sales increased approximately 2% in the first six months of 2013 from the comparable prior year period, due primarily to an increased sales mix of natural gas vessels, which carry higher material content in comparison to filter elements and other replacement filters, and lower absorption of fixed manufacturing overhead due to lower sales of air filtration products and lower sales of filtration media.

### Selling and Administrative Expenses

Selling and administrative expenses decreased \$0.1 million, or less than one percent, in the second quarter of 2013 from the second quarter of 2012. This decrease was primarily the result of lower employee costs related to stock-based compensation and pension and postretirement benefits. With selling and administrative expenses decreasing less than one percent while our net sales increased 2%, we reduced our selling and administrative expenses as a percentage of net sales to 21.0% in the second quarter of 2013 from 21.4% in last year's second quarter.

Selling and administrative expenses decreased \$0.8 million, or 1%, in the first six months of 2013 from the comparable period of 2012. This decrease was primarily the result of lower employee costs related to stock-based compensation and pension and postretirement benefits. With selling and administrative expenses decreasing 1% while our net sales increased 1%, we reduced our selling and administrative expenses as a percentage of net sales to 21.9% in the first six months of 2013 from 22.6% in the comparable period of 2012.

### Packaging Segment

(Dollars in thousands)	Second Quarter				First Six Months			
	2013	2012	Change		2013	2012	Change	
			\$	%			\$	%
Net sales	\$18,551	\$19,549	\$(998)	(5)%	\$34,521	\$35,416	\$(895)	(3)%
Cost of sales	14,737	15,669	(932)	(6)%	28,132	28,919	(787)	(3)%
Gross profit	3,814	3,880	(66)	(2)%	6,389	6,497	(108)	(2)%
Selling and administrative expenses	1,920	2,144	(224)	(10)%	3,807	4,451	(644)	(14)%
Operating profit	1,894	1,736	158	9%	2,582	2,046	536	26%
Gross margin	20.6%	19.8%	0.8	pt	18.5%	18.3%	0.2	pt
Selling and administrative percentage	10.4%	11.0%	(0.6)	pt	11.0%	12.6%	(1.6)	pt
Operating margin	10.2%	8.9%	1.3	pt	7.5%	5.8%	1.7	pt

Our Packaging segment manufactures and sells consumer and industrial packaging products.

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## Net Sales

The \$1.0 million, or 5%, reduction in net sales in the second quarter and the \$0.9 million, or 3%, reduction in net sales in the first six months of 2013 at our Packaging segment from the comparable periods last year are detailed in the following table:

(Dollars in thousands)	Second Quarter	First Six Months
Confection packaging	\$(1,463	) \$(1,353 )
Film packaging	(595	) (1,142 )
Health & beauty and pharmaceutical packaging	315	465
Spice packaging	718	1,655
Other	27	(520 )
Decrease in U.S. net sales	\$(998	) \$(895 )

Lower sales of confection packaging in the second quarter and first six months of 2013 from the comparable periods of 2012 were primarily due to the loss of a significant customer in 2012, while lower film packaging sales during these periods were driven by lower sales of metal lithography film cannisters due to a continued migration within the film industry from analog to digital technologies. The increase in spice packaging sales in the second quarter and first six months of 2013 compared to the prior year was due to increased order volume from both branded and private label customers.

## Cost of Sales

Cost of sales decreased \$0.9 million, or 6%, in the second quarter of 2013 from the second quarter of 2012. This decrease was primarily driven by the 5% decrease in net sales. Cost of sales as a percentage of net sales decreased to 79.4% in the second quarter of 2013 from 80.2% in the second quarter of 2012. This decrease was primarily related to improved absorption of fixed manufacturing costs as production volumes increased to provide inventory in support of targeted customer service levels.

Cost of sales decreased \$0.8 million, or 3%, in the first six months of 2013 from the first six months of 2012. This decrease was primarily driven by the 3% decrease in net sales. Cost of sales as a percentage of net sales decreased to 81.5% in the first six months of 2013 from 81.7% in the first six months of 2012. This decrease was primarily related to improved absorption of fixed manufacturing costs as production volumes increased to provide inventory in support of targeted customer service levels.

## Selling and Administrative Expenses

Selling and administrative expenses declined \$0.2 million, or 10%, in the second quarter of 2013 from the second quarter of 2012. This decrease was primarily the result of lower administrative spending, driven by our continuous commitment to cost control efforts. With selling and administrative expenses decreasing 10% while our net sales decreased 5%, we reduced our selling and administrative expenses as a percentage of net sales to 10.4% in the second quarter of 2013 from 11.0% in last year's second quarter.

Selling and administrative expenses declined \$0.6 million, or 14%, in the first six months of 2013 from the first six months of 2012. This decrease was driven by \$0.2 million of bad debt expense recognized in the first six months of 2012 pursuant to the Kodak bankruptcy, which did not recur in 2013, as well as lower employee costs related to stock-based compensation and pension and postretirement benefits and lower administrative spending, driven by our

continuous commitment to cost control efforts. With selling and administrative expenses decreasing 14% while our net sales decreased 3%, we reduced our selling and administrative expenses as a percentage of net sales to 11.0% in the first six months of 2013 from 12.6% in the first six months of 2012.

## FINANCIAL CONDITION

### Liquidity and Capital Resources

We believe that our operations will continue to generate cash and that sufficient cash, cash equivalents and borrowings under our Credit Facility will be available to fund operating needs, pay dividends, invest in the development of new products and filter media, fund planned capital expenditures, including the expansion of facilities, provide for interest and principal payments related to debt agreements, fund pension contributions and repurchase our common stock. We also continue to assess acquisition opportunities in related filtration businesses. Any such acquisitions could affect operating cash flows and require changes in our debt and capitalization.

We had cash, cash equivalents and restricted cash of \$190.8 million at the end of the second quarter of 2013. Approximately \$98.2 million of this cash was held at entities outside the U.S. Although we plan to use this cash at our non-U.S. entities, if we repatriated this cash to the U.S., we could incur significant tax expense since most of this cash is considered permanently invested for U.S. tax purposes. Cash and cash equivalents are held by financial institutions throughout the world. We regularly review the credit worthiness of these institutions and believe our funds are not at significant risk.

Our current ratio of 4.6 at the end of the second quarter of 2013 increased from 3.7 at year-end 2012. This increase was primarily due to a \$30.6 million reduction in accounts payable and accrued liabilities due in part to \$16.5 million of pension benefit payments made in the first six months of fiscal 2013, including \$13.5 million related to pension benefits paid under our U.S. combined nonqualified pension plan to our former Executive Chairman who retired from the Company at the end of 2012, as well as a \$5.9 million reduction in accrued incentive compensation from amounts paid in 2013 related to the 2012 company-wide profit sharing program, \$4.0 million in payments made in fiscal 2013 related to the funding of matching contributions to the Company's defined contribution benefit plans and a \$1.8 million reduction in trade accounts payable.

We entered into our Credit Facility in April 2012 under which we may borrow up to \$150.0 million under a selection of currencies and rate formulas. Our Credit Facility also includes a \$10.0 million swing line sub-facility and a \$50.0 million letter of credit sub-facility, as well as an accordion feature that allows us to increase the Credit Facility by up to \$100.0 million, subject to securing additional commitments from existing lenders or new lending institutions. We believe the financial institutions that are party to this arrangement have adequate capital resources and will be able to fund future borrowings under our Credit Facility. At our election, the interest rate under our Credit Facility is based upon either a defined base rate or LIBOR plus an applicable margin. Commitment fees and letter of credit fees are also payable under the Credit Facility. Borrowings under the Credit Facility are unsecured, but are guaranteed by substantially all of the Company's material domestic subsidiaries. The Credit Facility also contains certain covenants customary to such agreements, as well as customary events of default. At the end of the second quarter of 2013, the LIBOR interest rate on our Credit Facility including margin was 0.7%. At the end of the second quarter of 2013, there were no borrowings outstanding on our Credit Facility, but we had approximately \$16.0 million outstanding on a \$50.0 million letter of credit sub-facility. Accordingly, we had \$134.0 million available for further borrowing at the end of the second quarter of 2013. Our Credit Facility expires in April 2017.

Total long-term debt of \$16.7 million at the end of the second quarter of 2013 included \$15.8 million outstanding on industrial revenue bonds and \$0.9 million of other long-term debt. At the end of the second quarter of 2013, we were in compliance with all financial covenants as included in our Credit Facility. We expect to be in compliance with these covenants in the foreseeable future. The ratio of total debt to total capitalization (defined as long-term debt plus total shareholders' equity) was 1.7% at the end of the second quarter of 2013 compared to 1.8% at year-end 2012.

We had 49.7 million shares of common stock outstanding at the end of the second quarter of 2013, consistent with the amount outstanding at year-end 2012. Shares issued pursuant to stock incentive plans were primarily offset by shares repurchased in the first six months of 2013. Shareholders' equity increased to \$939.9 million at the end of the second quarter of 2013 from \$901.8 million at year-end 2012. This \$38.0 million increase resulted mainly from additional net earnings of \$56.7 million and items related to stock compensation and option activity pursuant to incentive plans of \$14.4 million, partially offset by dividend payments of \$13.5 million, stock repurchases of \$17.4 million and currency translation adjustments of \$3.9 million.

## Cash Flow

Net cash provided by operating activities increased \$9.8 million to \$43.2 million in the first six months of 2013 from \$33.4 million in the first six months of 2012. This increase was primarily due to a \$13.9 million decrease in cash used for changes in working capital, which was driven primarily by improved accounts receivable and accounts payable management of \$17.0 million, partly offset by a \$4.9 million increase in inventory.

Net cash used in investing activities decreased \$11.6 million in the first six months of 2013 from the first six months of 2012 primarily due to a \$6.7 million decline in payments related to business acquisitions and a \$2.5 million increase in proceeds from disposition of plant assets, including the sale of our manufacturing facility in Jeffersontown, Kentucky which had been classified within assets held for sale.

Net cash used in financing activities increased \$1.1 million in the first six months of 2013 from the first six months of 2012 primarily as the result of a \$6.0 million increase in cash paid for the repurchase of common stock and a \$1.4 million increase in dividends paid, partially offset by an increase of \$3.9 million in cash received from the sale of capital stock under stock option and employee purchase plans.

We will continue to assess repurchases of our common stock. In June 2010, our Board of Directors authorized a \$250.0 million stock repurchase program of our common stock in the open market and through private transactions over a three-year period. During the first six months of 2013, we repurchased and retired 0.3 million shares of our common stock for \$17.4 million at an approximate average price of \$50.17. At the end of the second quarter of 2013, there was approximately \$149.7 million available for repurchase under the current authorization. Future repurchases of our common stock may be made after considering cash flow requirements for internal growth, capital expenditures, acquisitions, interest rates and the market price of our common stock.

In January 2013 we announced that we intend to invest approximately \$40.0 million in our Engine/Mobile Filtration segment to build a new warehouse and distribution center adjacent to our manufacturing facility in Kearney, Nebraska. The project is anticipated to take approximately two years to complete. Through the second quarter of 2013 we have not yet incurred significant costs related to this project.

In the third quarter of 2013 we expect to make a contribution of \$7.6 million to our U.S. combined nonqualified pension plans related to pension benefits payable to our former Executive Chairman, who retired from the Company at the end of 2012, which is included in accounts payable and accrued liabilities at June 1, 2013.

At the end of the second quarter of 2013, our gross liability for uncertain income tax provisions was \$1.8 million including interest and penalties. Due to the high degree of uncertainty regarding the timing of potential future cash outflows associated with these liabilities, we were unable to make a reasonably reliable estimate of the amount and period in which these remaining liabilities might be paid.

## Off-Balance Sheet Arrangements

Our off-balance sheet arrangements relate to various operating leases as discussed in Note H to the Consolidated Financial Statements in our 2012 Form 10-K. We had no variable interest entity or special purpose entity agreements during the first six months of 2013 or 2012.

## OTHER MATTERS



Critical Accounting Policies

Our critical accounting policies, including the assumptions and judgments underlying them, are disclosed in our 2012 Form 10-K in Management's Discussion and Analysis of Financial Condition and Results of Operations. There have been no material changes in our critical accounting policies set forth in our 2012 Form 10-K. These policies have been consistently applied in all material respects. While the estimates and judgments associated with the application of these policies may be affected by different assumptions or conditions, we believe the estimates and judgments associated with the reported amounts are appropriate in the circumstances.

## Environmental Matters and Climate Change and Energy Legislation and Regulation

Our operations are subject to U.S. and non-U.S. environmental laws and regulations governing emissions to air; discharges to water; the generation, handling, storage, transportation, treatment and disposal of waste materials; and the cleanup of contaminated properties. Currently, we believe that any potential environmental liabilities with respect to our former or existing operations are not material, but there is no assurance that we will not be adversely impacted by such liabilities, costs or claims in the future, either under present laws and regulations or those that may be adopted or imposed in the future.

Foreign, federal, state and local regulatory and legislative bodies have proposed various legislative and regulatory measures relating to climate change, regulating greenhouse gas emissions and energy policies. Due to the uncertainty in the regulatory and legislative processes, as well as the scope of such requirements and initiatives, we cannot currently determine the effect such legislation and regulation may have on our operations.

The potential physical impacts of climate change on our operations are also highly uncertain and would vary depending on type of physical impact and geographic location. Climate change physical impacts could include changing temperatures, water shortages, changes in weather and rainfall patterns, and changing storm patterns and intensities. The occurrence of one or more natural disasters, whether due to climate change or naturally occurring, such as tornadoes, hurricanes, earthquakes and other forms of severe weather in the U.S. or in a country in which we operate or in which our suppliers or customers are located could adversely impact our operations and financial performance. Such events could result in:

- physical damage to and complete or partial closure of one or more of our manufacturing facilities
- temporary or long-term disruption in the supply of raw materials from our suppliers
- disruption in the transport of our products to customers and end users
- delay in the delivery of our products to our customers

## Recent Relevant Accounting Pronouncements

A discussion of recent relevant accounting pronouncements is included in [Note 1](#) to the Consolidated Condensed Financial Statements.

## Forward-Looking Information is Subject to Risk and Uncertainty

This Second Quarter 2013 Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements made in this Form 10-Q, other than statements of historical fact, are forward-looking statements. You can identify these statements from use of the words “may,” “should,” “could,” “potential,” “continue,” “plan,” “forecast,” “estimate,” “project,” “believe,” “intent,” “anticipate,” “expect,” “target,” “is likely,” “will,” or the negative of these terms, and similar expressions. These statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may include, among other things:

- statements and assumptions relating to anticipated future growth, earnings, earnings per share and other financial performance measures;
- statements regarding management's short-term and long-term performance goals;
- statements regarding anticipated order patterns from our customers or the anticipated economic conditions of the industries and markets that we serve;
- statements related to the performance of the U.S., European and other economies generally;
- statements relating to the anticipated effects on results of operations or financial condition from recent and expected developments or events, including acquisitions;
- statements regarding our current cost structure positions and ability to capitalize on anticipated growth initiatives, including the expansion of facilities;
- statements related to future dividends or repurchases of our common stock;
- statements related to tax positions and unrecognized tax benefits;
- statements related to our cash resources, borrowing capacity and compliance with financial covenants under the Credit Facility;
- statements regarding anticipated payments pursuant to our pension plans and for other post-retirement benefits;
- statements related to potential liability for environmental matters; and
- any other statements or assumptions that are not historical facts.

We believe that our expectations are based on reasonable assumptions. However, these forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause our actual results, performance or achievements, or industry results, to differ materially from our expectations of future results, performance or achievements expressed or implied by these forward-looking statements. These factors include, but are not only limited to, risks associated with: (1) world economic factors and the ongoing economic uncertainty impacting many regions of the world, (2) reductions in sales volume and orders, (3) our customers' financial condition, (4) currency fluctuations, particularly increases or decreases in the U.S. dollar against other currencies, (5) commodity price increases and/or limited availability of raw materials and component products, including steel, (6) compliance costs associated with environmental laws and regulations, (7) political factors, (8) our international operations, (9) highly competitive markets, (10) governmental laws and regulations, including the impact of the economic stimulus and financial reform measures being implemented by governments around the world, (11) the implementation of new information systems, (12) potential global events resulting in instability and unpredictability in the world's markets, including financial bailouts of sovereign nations, political changes, military and terrorist activities, health outbreaks and other factors, (13) changes in accounting standards or adoption of new accounting standards, (14) adverse effects of natural disasters, (15) legal challenges with respect to intellectual property, and (16) other factors described in more detail in the “Risk Factors” section of our 2012 Form 10-K. In addition, our past results of operations do not necessarily indicate our future results. Our future results may differ materially from our past results as a result of various risks and uncertainties, including these and other risk factors detailed from time to time in our filings with the Securities and Exchange Commission.

You should not place undue reliance on any forward-looking statements. These statements speak only as of the date of this Second Quarter 2013 Form 10-Q. Except as otherwise required by applicable laws, we undertake no obligation to publicly update or revise any forward-looking statements or the risks described in this Second Quarter 2013 Form 10-Q, whether as a result of new information, future events, changed circumstances or any other reason after the date of this Second Quarter 2013 Form 10-Q.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our interest expense on long-term debt is sensitive to changes in interest rates. In addition, changes in foreign currency exchange rates may affect assets, liabilities and commitments that are to be settled in cash and are denominated in foreign currencies. Market risks are also discussed in our 2012 Form 10-K in “Item 7A. Quantitative and Qualitative Disclosures about Market Risk.” There have been no material changes to the disclosure regarding market risk set forth in our 2012 Form 10-K.

### Item 4. Controls and Procedures

#### EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

We have established disclosure controls and procedures, which are designed to ensure that information required to be disclosed in reports filed or submitted under the Securities Exchange Act of 1934 (“Exchange Act”) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms. Our management, with the participation of Christopher L. Conway, President and Chief Executive Officer, and David J. Fallon, Chief Financial Officer and Chief Accounting Officer, evaluated the effectiveness of our disclosure controls and procedures as of June 1, 2013.

Based on their evaluation, such officers concluded that our disclosure controls and procedures pursuant to Rules 13a–15(e) of the Exchange Act were effective as of June 1, 2013, in achieving the objectives for which they were designed.

#### CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

No change in our internal control over financial reporting occurred during our most recent fiscal quarter ended June 1, 2013, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## Part II. OTHER INFORMATION

### Item 1. Legal Proceedings

The information required by this Item is incorporated by reference from Note 11 included in Part I, Item 1 of this Second Quarter 2013 Form 10-Q.

### Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in “Item 1A. Risk Factors” in our 2012 Form 10-K.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On June 22, 2010, our Board of Directors approved a three-year, \$250 million stock repurchase program. Pursuant to the authorization, we may purchase shares from time to time in the open market or through privately negotiated transactions through June 22, 2013. We have no obligation to repurchase shares under the authorization, and the timing, actual number and values of shares to be purchased will depend on our stock price and market conditions. As set forth in the table below, we repurchased 224,100 shares of our common stock during the fiscal quarter ended June 1, 2013. The Company had remaining authorization of approximately \$149.7 million to repurchase shares as of June 1, 2013 under its stock repurchase program.

## COMPANY PURCHASES OF EQUITY SECURITIES

Period	(a) Total number of shares purchased	(b) Average price paid per share	(c) Total number of shares purchased as part of the Company's publicly announced plan	(d) Maximum approximate dollar value of shares that may yet be purchased under the Plan
March 3, 2013 through April 6, 2013	48,000	\$52.35	48,000	\$158,609,120
April 7, 2013 through May 4, 2013	138,100	\$49.45	138,100	\$151,779,616
May 5, 2013 through June 1, 2013	38,000	\$54.15	38,000	\$149,721,868
Total	224,100		224,100	

## Item 6. Exhibits

## a. Exhibits:

- \* 31.1 Certification of Christopher L. Conway pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- \* 31.2 Certification of David J. Fallon pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- \*\* 32 Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- \*\*\* 101.INS XBRL Instance Document
- \*\*\* 101.SCH XBRL Taxonomy Extension Schema Document
- \*\*\* 101.CAL XBRL Taxonomy Extension Calculation Linkbase
- \*\*\* 101.DEF XBRL Taxonomy Extension Definition Linkbase
- \*\*\* 101.LAB XBRL Taxonomy Extension Label Linkbase
- \*\*\* 101.PRE XBRL Taxonomy Extension Presentation Linkbase

\* Filed herewith.

\*\* Furnished herewith.

\*\*\* Submitted electronically with this 2013 Quarterly Report on Form 10-Q.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CLARCOR Inc.  
(Registrant)

June 21, 2013  
(Date)

By /s/ Christopher L. Conway  
Christopher L. Conway  
President and Chief Executive Officer

June 21, 2013  
(Date)

By /s/ David J. Fallon  
David J. Fallon  
Chief Financial Officer and Chief Accounting Officer