

CLARCOR INC
Form 10-Q
March 24, 2006

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SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q
QUARTERLY REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

For the quarter ended March 4, 2006

REGISTRANT: CLARCOR Inc. (Delaware)

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-Q**

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

For the quarterly period ended March 4, 2006
OR

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

For the transition period from ___ to ___
Commission File Number 1-11024
CLARCOR Inc.

(Exact name of registrant as specified in its charter)

DELAWARE

36-0922490

(State or other jurisdiction of
incorporation or organization)

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

840 Crescent Centre Drive, Suite 600, Franklin, TN

37067

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code

615-771-3100

No Change

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2) Yes No

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the close of the period covered by this report.

51,781,566 common shares outstanding

Part I Item

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

| | March 4, 2006 (unaudited) | December 3, 2005 |
|---|---------------------------------|------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 21,420 | \$ 18,502 |
| Short-term investments | 16,835 | 10,400 |
| Accounts receivable, less allowance for losses of \$9,891 for 2006 and \$9,775 for 2005 | 149,812 | 152,755 |
| Inventories: | | |
| Raw materials | 44,178 | 42,205 |
| Work in process | 19,365 | 17,057 |
| Finished products | 61,769 | 58,246 |
| Total inventories | 125,312 | 117,508 |
| Prepaid expenses and other current assets | 6,743 | 7,253 |
| Deferred income taxes | 18,630 | 18,515 |
| Total current assets | 338,752 | 324,933 |
| Plant assets at cost, less accumulated depreciation | 357,815 (210,834) | 355,216 (205,711) |
| | 146,981 | 149,505 |
| Acquired intangibles, less accumulated amortization | 167,929 | 168,176 |
| Pension assets | 22,235 | 22,069 |
| Deferred income taxes | 513 | 521 |
| Other noncurrent assets | 10,641 | 10,068 |
| | \$ 687,051 | \$ 675,272 |
| LIABILITIES | | |
| Current liabilities: | | |
| Current portion of long-term debt | \$ 237 | \$ 233 |
| Accounts payable | 48,464 | 49,239 |
| Income taxes | 14,674 | 12,544 |
| Accrued employee compensation | 15,730 | 24,281 |

| | | |
|--------------------------------------|---------|---------|
| Other accrued liabilities | 35,464 | 35,173 |
| Total current liabilities | 114,569 | 121,470 |
| Long-term debt, less current portion | 15,999 | 16,009 |
| Postretirement health care benefits | 4,203 | 4,239 |
| Long-term pension liabilities | 17,433 | 16,287 |
| Deferred income taxes | 25,888 | 26,184 |
| Other long-term liabilities | 6,633 | 6,267 |
| Minority interests | 2,186 | 1,983 |
| Contingencies | | |

SHAREHOLDERS EQUITY

| | | |
|--|------------|------------|
| Capital stock | 51,782 | 51,595 |
| Capital in excess of par value | 25,071 | 21,458 |
| Accumulated other comprehensive earnings | (3,832) | (4,637) |
| Retained earnings | 427,119 | 414,417 |
| | 500,140 | 482,833 |
| | \$ 687,051 | \$ 675,272 |

See Notes to Consolidated Condensed Financial Statements

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

| | Three Months Ended | |
|---|--------------------|----------------------|
| | March 4, 2006 | February 26, 2005 |
| Net sales | \$ 213,183 | \$ 196,261 |
| Cost of sales | 149,409 | 139,242 |
| | | |
| Gross profit | 63,774 | 57,019 |
| Selling and administrative expenses | 37,901 | 35,939 |
| | | |
| Operating profit | 25,873 | 21,080 |
| | | |
| Other income (expense): | | |
| Interest expense | (188) | (143) |
| Interest income | 300 | 114 |
| Other, net | (153) | (283) |
| | (41) | (312) |
| | | |
| Earnings before income taxes and minority interests | 25,832 | 20,768 |
| Provision for income taxes | 9,520 | 7,536 |
| | | |
| Earnings before minority interests | 16,312 | 13,232 |
| Minority interests in earnings of subsidiaries | (111) | (78) |
| | | |
| Net earnings | \$ 16,201 | \$ 13,154 |
| | | |
| Net earnings per common share: | | |
| Basic | \$ 0.31 | \$ 0.26 |
| Diluted | \$ 0.31 | \$ 0.25 |

Average number of common shares outstanding:

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| | | |
|--------------------------|------------|------------|
| Basic | 51,792,245 | 51,444,416 |
| Diluted | 52,498,939 | 52,321,798 |
| Dividends paid per share | \$ 0.0675 | \$ 0.0638 |

See Notes to Consolidated Condensed Financial Statements

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

| | Three Months Ended | |
|--|--------------------|----------------------|
| | March 4, 2006 | February 26, 2005 |
| Cash flows from operating activities: | | |
| Net earnings | \$ 16,201 | \$ 13,154 |
| Depreciation | 5,483 | 5,214 |
| Amortization | 538 | 315 |
| Stock-based compensation expense | 632 | 229 |
| Excess tax benefits from stock-based compensation | (903) | |
| Changes in assets and liabilities | (16,347) | (2,566) |
| Other, net | 116 | 75 |
| Net cash provided by operating activities | 5,720 | 16,421 |
| Cash flows from investing activities: | | |
| Business acquisitions, net of cash acquired | (206) | |
| Additions to plant assets | (2,906) | (3,575) |
| Other, net | 8 | 39 |
| Net cash used in investing activities | (3,104) | (3,536) |
| Cash flows from financing activities: | | |
| Net payments under line of credit | | (7,500) |
| Payments on long-term debt | (18) | (702) |
| Sale of capital stock under stock option and employee purchase plans | 2,649 | 3,003 |
| Excess tax benefits from stock-based compensation | 903 | |
| Cash dividends paid | (3,499) | (3,281) |
| Other, net | | (5,790) |
| Net cash provided by (used in) financing activities | 35 | (14,270) |
| Net effect of exchange rate changes on cash | 267 | 146 |
| Net change in cash and cash equivalents | 2,918 | (1,239) |
| Cash and cash equivalents, beginning of period | 18,502 | 17,420 |

| | | |
|--|-----------|-----------|
| Cash and cash equivalents, end of period | \$ 21,420 | \$ 16,181 |
| Cash paid during the period for: | | |
| Interest | \$ 184 | \$ 156 |
| Income taxes | \$ 7,067 | \$ 3,509 |

See Notes to Consolidated Condensed Financial Statements

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CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

(Unaudited)

1. CONSOLIDATED FINANCIAL STATEMENTS

The consolidated condensed balance sheet as of March 4, 2006, the consolidated condensed statements of earnings and the consolidated condensed statements of cash flows for the periods ended March 4, 2006, and February 26, 2005, have been prepared by the Company without audit. The financial statements have been prepared on the same basis as those in the Company's December 3, 2005 annual report on Form 10-K (2005 Form 10-K). The November 30, 2005 consolidated balance sheet data was derived from CLARCOR's year-end audited financial statements as presented in the 2005 Form 10-K. 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 March 4, 2006 are not necessarily indicative of the operating results for the full year.

As discussed in the 2005 Form 10-K, at year end 2005 the Company revised its presentation of short-term investments on its Consolidated Balance Sheets and Consolidated Statements of Cash Flows, which were previously presented as cash and cash equivalents in previous years, to present them in accordance with their contractual maturities. The amount revised in the Consolidated Condensed Statement of Cash Flows totaled \$5,100 for first quarter 2005. The purchases and sales related to the investments held have been presented on the Consolidated Statements of Cash Flows in the operating activities section. This revision had no impact on the Consolidated Statements of Earnings.

2. STOCK-BASED COMPENSATION

Effective December 4, 2005, the Company adopted Statement of Financial Accounting Standards No. 123R, Share-Based Payment (SFAS No. 123R), using the modified prospective transition method. Under this method, stock-based compensation expense is recognized using the fair-value based method for all awards granted on or after the date of adoption. Compensation expense for unvested stock options and awards that were outstanding on December 4, 2005 will be recognized over the requisite service period based on the grant-date fair value of those options and awards as previously calculated under the pro forma disclosures under SFAS No. 123. The Company determined the fair value of these awards using the Black-Scholes option pricing model. The Company also adopted the non-substantive vesting period approach for attributing stock compensation to individual periods for awards with retirement eligibility options, which requires recognition of compensation expense immediately for grants to retirement eligible employees or over the period from the grant date to the date retirement eligibility is achieved. This change will not affect the overall amount of compensation expense recognized and had an immaterial effect on the amount recorded in the three months ended March 4, 2006. Prior to adoption, the Company used the intrinsic value method under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations and provided the disclosure-only provisions of SFAS No. 123 applying the nominal vesting period approach. Therefore, the Company did not recognize compensation expense in association with options granted.

As a result of adopting the standard, the Company recorded pretax compensation expense related to stock options of \$411 and tax benefits of \$146. This reduced net earnings by \$265 and diluted earnings per share (EPS) by less than \$0.01 for the first quarter 2006. The Company also recorded \$221 in pretax compensation expense related to its restricted share

CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

(Unaudited) Continued

2. STOCK-BASED COMPENSATION (Continued)

units. The tax benefits associated with tax deductions that exceed the amount of compensation expense recognized in the financial statements was \$903 for the three months ended March 4, 2006. This reduced cash flows from operating activities and increased cash flows from financing activities compared to amounts that would have been reported if the standard had not been adopted.

On November 18, 2005, the Board of Directors approved a grant of 386,375 options that were fully vested on the date of grant. Approximately \$3,000 of pretax compensation expense was included in the determination of pro forma earnings during 2005 that otherwise would have been recorded as stock option expense in accordance with SFAS No. 123R over future years had the options been granted with a four-year vesting period similar to prior grants. On March 22, 2005, the Compensation Committee of the Board of Directors approved accelerating the vesting of nonqualified stock options granted on December 12, 2004 to current employees, including executive officers. All of these options had an exercise price greater than the then-market price per share and provided for vesting at the rate of 25% per year beginning on the first anniversary of the date of grant. Approximately \$3,000 of pretax compensation expense was included in the determination of pro forma earnings during 2005 that otherwise would have been recorded as stock option expense in accordance with SFAS No. 123R over future years. Together these events reduced the amount of pre-tax compensation that would have been recorded related to these two grants in the three months ended March 4, 2006 by approximately \$375.

If the Company had determined compensation expense for its stock-based compensation plans based on the fair value at the grant dates for the prior fiscal year, the Company's pro forma net earnings and basic and diluted EPS would have been as follows:

| | Three Months Ended February 26, 2005 |
|---|--|
| Net earnings, as reported | \$ 13,154 |
| Add stock-based compensation expense, net of tax, included in net earnings | 145 |
| Less total stock-based compensation expense under the fair value-based method, net of tax | (709) |
| Pro forma net earnings | \$ 12,590 |
| Basic EPS, as reported | \$ 0.26 |
| Pro forma basic EPS | \$ 0.24 |
| Diluted EPS, as reported | \$ 0.25 |
| Pro forma diluted EPS | \$ 0.24 |

The following is a description and summary of the key provisions of the stock-based compensation plans.

On March 24, 2003, the shareholders of CLARCOR approved the 2004 Incentive Plan, which replaced the 1994 Incentive Plan on its termination date of December 14, 2003. The 2004 Incentive Plan allows the Company to grant stock options, restricted stock and performance awards to officers, directors and key employees of up to 3,000,000 shares. Upon share option

CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

(Unaudited) Continued

2. STOCK-BASED COMPENSATION (Continued)

exercise or restricted share unit conversion, the Company issues new shares unless treasury shares are available.

Stock Options

Under the 2004 Incentive Plan, nonqualified stock options may only be granted at the fair market value at the date of grant. All outstanding stock options have been granted at the fair market value on the date of grant. The Company's Board of Directors determines the vesting requirements for stock options at the time of grant and may accelerate vesting as occurred during 2005. Excluding the grants awarded in fiscal 2005, 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 options granted in fiscal 2005 are fully vested as discussed above.

The following table summarizes the activity for the three months ended March 4, 2006 under the nonqualified stock option plans and includes options granted under both the 1994 Incentive Plan and the 2004 Incentive Plan.

| | Shares Granted under Incentive Plans | Weighted Average Exercise Price |
|--------------------------------------|--|---------------------------------------|
| Outstanding at beginning of year | 3,885,915 | \$ 20.63 |
| Granted | 5,050 | 34.16 |
| Exercised | (147,425) | 12.38 |
| Surrendered | (17,700) | 20.15 |
| Outstanding at end of year | 3,725,840 | \$ 20.97 |
| Options exercisable at March 4, 2006 | 3,371,816 | \$ 20.99 |

At March 4, 2006, there was \$1,836 of unrecognized compensation cost related to nonvested option awards which the Company expects to recognize over a weighted-average period of 1.5 years.

The total intrinsic value of options exercised during the three months ended March 4, 2006 and February 26, 2005 was \$3,007 and \$4,724, respectively. Cash received upon exercises of stock options was \$1,506 and \$1,898 and the related tax benefits realized were \$849 and \$1,737 during the three months ended March 4, 2006 and February 26, 2005, respectively. The fair value of options exercised during first quarter 2006 and 2005 was \$518 and \$820, respectively.

CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

(Unaudited) Continued

2. STOCK-BASED COMPENSATION (Continued)

The following table summarizes information about the options at March 4, 2006.

| Range of <u>Exercise Prices</u> | Options Outstanding | | | Options Exercisable | |
|------------------------------------|---------------------|--|--|---------------------|--|
| | Number | Weighted Average Exercise Price | Weighted Average Remaining Life in Years | Number | Weighted Average Exercise Price |
| \$7.21 - \$9.79 | 430,126 | \$ 9.11 | 3.61 | 430,126 | \$ 9.11 |
| \$10.53 - \$15.15 | 318,395 | \$ 13.31 | 5.46 | 318,395 | \$ 13.31 |
| \$16.01 - \$22.80 | 1,631,354 | \$ 20.08 | 5.79 | 1,281,130 | \$ 19.94 |
| \$25.89 - \$34.40 | 1,345,965 | \$ 27.66 | 8.05 | 1,342,165 | \$ 27.64 |
| | 3,725,840 | \$ 20.97 | 6.33 | 3,371,816 | \$ 20.99 |

At March 4, 2006, the aggregate intrinsic value of options outstanding and exercisable was \$47,979 and \$43,345, respectively.

The weighted average fair value per option at the date of grant for options granted in first quarter 2006 and 2005 was \$9.32 and \$6.77, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions. The expected life selected for options granted during the quarter 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 was selected based on yields from U.S. Treasury zero-coupon issues with a remaining term equal to the expected term of the options being valued.

| | Three Months Ended March 4, 2006 | Year Ended December 3, 2005 |
|-------------------------------------|--|-----------------------------------|
| Risk-free interest rate | 4.50% | 4.05% |
| Expected dividend yield | 0.96% | 1.06% |
| Expected volatility factor | 20.70% | 21.48% |
| Expected option term (in years): | | |
| Original grants without reloads | 6.0 | 6.4 |
| Original grants with reloads | n/a | 5.0 |
| <u>Restricted Share Unit Awards</u> | | |

The Company's restricted share unit awards are considered nonvested share awards as defined under SFAS No. 123R. No restricted share units were granted during the three months ended March 4, 2006. During the three months ended February 26, 2005, the Company granted 32,144 restricted units of Company common stock with a

fair value of \$26.08 per unit, the respective market price of the stock at the date granted. The restricted share units require no payment from the employee and compensation cost is recorded based on the market price

CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

(Unaudited) Continued

2. STOCK-BASED COMPENSATION (Continued)

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 dividends declared on common shares. Upon vesting, the employee may elect to defer receipt of their shares. Compensation expense related to vesting of restricted stock awards totaled \$221 and \$229 for the three months ended March 4, 2006 and February 26, 2005, respectively. The following table summarizes the restricted share unit awards.

| | Units | Weighted Average Grant Date Fair Value |
|--------------------------------|----------|--|
| Nonvested at beginning of year | 110,441 | \$ 23.32 |
| Granted | | |
| Vested | (37,158) | 19.56 |
| Surrendered | | |
| Nonvested at March 4, 2006 | 73,283 | \$ 25.22 |

The total fair value of shares vested during the three months ended March 4, 2006 and February 26, 2005 was \$727 and \$689, respectively. As of March 4, 2006, there was \$1,591 of total unrecognized compensation cost related to nonvested share-based compensation arrangements. Of this nonvested cost, \$542 is expected to be recognized during the remainder of fiscal 2006 and the remaining \$1,049 during fiscal years 2007, 2008 and 2009.

Employee Stock Purchase Plan

The Company sponsors an employee stock purchase plan which allows employees to purchase stock at a discount. Effective January 1, 2006, the plan was amended to be in compliance with the safe harbor rules of SFAS No. 123R so that the plan is not compensatory under the new standard and no expense will be recognized. The company received \$1,143 and \$1,108, for the issuance of stock under this plan during first quarter 2006 and 2005, respectively.

3. EARNINGS PER SHARE

Diluted earnings per share reflects the impact of outstanding stock options and restricted share units as if exercised during the periods presented using the treasury stock method. The following table provides a reconciliation of the numerators and denominators utilized in the calculation of basic and diluted earnings per share:

CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

(Unaudited) Continued

3. EARNINGS PER SHARE (Continued)

| | Three Months Ended | |
|--|--------------------|----------------------|
| | March 4, 2006 | February 26, 2005 |
| Basic weighted average number of common shares outstanding | 51,792,245 | 51,444,416 |
| Dilutive effect of stock options and restricted share units | 706,694 | 877,382 |
| Diluted weighted average number of common shares outstanding | 52,498,939 | 52,321,798 |
| Net Earnings | \$ 16,201 | \$ 13,154 |
| Basic per share amount | \$ 0.31 | \$ 0.26 |
| Diluted per share amount | \$ 0.31 | \$ 0.25 |

Options with exercise prices greater than the average market price of the common shares during the respective quarter were not included in the computation of diluted earnings per share. For the three months ended March 4, 2006, 5,050 options with a weighted average exercise price of \$34.16 were excluded from the computation. For the three months ended February 26, 2005, there were no options excluded.

For the three months ended March 4, 2006, exercises of stock options added \$1,969 to capital in excess of par value.

4. COMPREHENSIVE EARNINGS

The Company's total comprehensive earnings and its components are as follows:

| | Three Months Ended | |
|---|---------------------|----------------------|
| | March 4, 2006 | February 26, 2005 |
| Net earnings | \$ 16,201 | \$ 13,154 |
| Other comprehensive earnings, net of tax: | | |
| Foreign currency translation adjustments | 805 | 496 |
| Total comprehensive earnings | \$ 17,006 | \$ 13,650 |

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

| | March 4, 2006 | December 3, 2005 |
|---|------------------|------------------------|
| Minimum pension liability, net of \$2,373 tax | \$ (3,944) | \$ (3,944) |
| Translation adjustments, net of \$155 tax | 112 | (693) |

| | | |
|--------------------------------------|------------|------------|
| Accumulated other comprehensive loss | \$ (3,832) | \$ (4,637) |
|--------------------------------------|------------|------------|

CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

(Unaudited) Continued