

CLARCOR INC.
Form 10-Q
September 16, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended August 27, 2016

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 1-11024 36-0922490
(State or other jurisdiction of (Commission File Number) (I.R.S. Employer
incorporation or organization)

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 September 12, 2016, 48,615,388 common shares with a par value of \$1 per share were outstanding.

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

CLARCOR Inc.

CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS

(Dollars in thousands, except share data)

(Unaudited)

	Quarter Ended		Nine Months Ended	
	August 27, 2016	August 29, 2015	August 27, 2016	August 29, 2015
Net sales	\$331,387	\$357,557	\$1,012,627	\$1,108,479
Cost of sales	216,986	237,802	675,464	742,139
Gross profit	114,401	119,755	337,163	366,340
Selling and administrative expenses	63,703	69,333	200,722	217,782
Operating profit	50,698	50,422	136,441	148,558
Other income (expense):				
Interest expense	(1,763)	(1,338)	(5,744)	(3,965)
Interest income	136	108	395	339
Other, net	574	5,649	28,022	5,111
	(1,053)	4,419	22,673	1,485
Earnings before income taxes	49,645	54,841	159,114	150,043
Provision for income taxes	13,861	18,332	48,769	48,224
Net earnings	35,784	36,509	110,345	101,819
Net earnings attributable to noncontrolling interests	(35)	(64)	(79)	(168)
Net earnings attributable to CLARCOR Inc.	\$35,749	\$36,445	\$110,266	\$101,651
Net earnings per share attributable to CLARCOR Inc. - Basic	\$0.73	\$0.73	\$2.26	\$2.03
Net earnings per share attributable to CLARCOR Inc. - Diluted	\$0.73	\$0.72	\$2.25	\$2.00
Weighted average number of shares outstanding - Basic	48,653,220	50,099,852	48,723,459	50,188,327
Weighted average number of shares outstanding - Diluted	49,055,047	50,525,049	49,103,211	50,701,490
Dividends paid per share	\$0.2200	\$0.2000	\$0.6600	\$0.6000

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		Nine Months Ended	
	August 27, 2016	August 29, 2015	August 27, 2016	August 29, 2015
Net earnings	\$35,784	\$36,509	\$110,345	\$101,819
Other comprehensive income:				
Pension and other postretirement benefits liability adjustments, net of deferred taxes of \$(334), \$(1,873), \$(971) and \$(2,470), respectively	526	2,900	1,530	4,024
Foreign currency translation loss	(10,525)	(5,118)	(13,649)	(27,452)
Net gain on hedging derivatives	43	—	43	—
Comprehensive earnings	25,828	34,291	98,269	78,391
Comprehensive earnings attributable to non-redeemable noncontrolling interests	(46)	23	(5)	5
Comprehensive earnings attributable to redeemable noncontrolling interests	—	—	—	155
Comprehensive earnings attributable to CLARCOR Inc.	\$25,782	\$34,314	\$98,264	\$78,551

See Notes to Consolidated Condensed Financial Statements

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

	August 27, 2016	November 28, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 119,839	\$ 101,529
Accounts receivable, less allowance for losses of \$10,473 and \$14,765, respectively	234,566	258,280
Inventories	250,781	274,825
Income taxes receivable	7,822	3,781
Prepaid expenses and other current assets	21,106	26,380
Total current assets	634,114	664,795
Property, plant and equipment, at cost, less accumulated depreciation of \$302,993 and \$286,335, respectively	293,659	301,019
Asset held for sale	533	533
Goodwill	506,236	506,265
Acquired intangible assets, less accumulated amortization	311,946	329,155
Deferred income taxes	3,046	3,651
Other noncurrent assets	10,257	13,038
Total assets	\$ 1,759,791	\$ 1,818,456
LIABILITIES		
Current liabilities:		
Current portion of long-term debt	\$ 15,243	\$ 7,788
Accounts payable	84,071	87,546
Accrued liabilities	84,532	106,410
Income taxes payable	697	1,956
Total current liabilities	184,543	203,700
Long-term debt, less current portion	302,789	397,368
Long-term pension and postretirement healthcare benefits liabilities	29,703	31,577
Deferred income taxes	77,899	64,908
Other long-term liabilities	14,520	10,438
Total liabilities	609,454	707,991
SHAREHOLDERS' EQUITY		
Capital stock	48,622	49,111
Capital in excess of par value	903	—
Accumulated other comprehensive loss	(100,128)	(88,052)
Retained earnings	1,200,221	1,148,510
Total CLARCOR Inc. equity	1,149,618	1,109,569
Noncontrolling interests	719	896
Total shareholders' equity	1,150,337	1,110,465
Total liabilities and shareholders' equity	\$ 1,759,791	\$ 1,818,456

See Notes to Consolidated Condensed Financial Statements
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CLARCOR Inc.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	Nine Months Ended	
	August 27, 2016	August 29, 2015
Cash flows from operating activities:		
Net earnings	\$ 110,345	\$ 101,819
Depreciation	25,503	23,133
Amortization	18,465	19,282
Other noncash items	(4,533)	(304)
Net loss (gain) on disposition of assets	754	(2,132)
Net gain on disposal of J.L. Clark	—	(12,132)
Impairment of investments	—	6,729
Stock-based compensation expense	5,126	7,722
Excess tax benefit from stock-based compensation	(1,919)	(1,138)
Change in assets and liabilities	54,829	(41,716)
Net cash provided by operating activities	208,570	101,263
Cash flows from investing activities:		
Restricted cash	(217)	—
Business acquisitions, net of cash acquired	(19,299)	(20,881)
J.L. Clark disposition, net of cash divested	—	47,103
Additions to plant assets	(18,104)	(51,273)
Proceeds from disposition of plant assets	775	7,322
Investment in affiliates	—	(525)
Net cash used in investing activities	(36,845)	(18,254)
Cash flows from financing activities:		
Net payments on revolving credit facility	(82,000)	—
Payments on term loan facility	(5,000)	—
Payments on long-term debt	(226)	(8,600)
Sale of capital stock under stock option and employee purchase plans	30,202	6,441
Acquisition of noncontrolling interest	—	(1,239)
Payments for repurchase of common stock	(65,402)	(30,196)
Excess tax benefit from stock-based compensation	1,919	1,138
Dividend paid to noncontrolling interests	(172)	(206)
Cash dividends paid	(32,201)	(30,141)
Net cash used in financing activities	(152,880)	(62,803)
Net effect of exchange rate changes on cash	(535)	(2,090)
Net change in cash and cash equivalents	18,310	18,116
Cash and cash equivalents, beginning of period	101,529	94,064
Cash and cash equivalents, end of period	\$ 119,839	\$ 112,180
Cash paid during the period for:		
Interest	\$ 5,055	\$ 3,738
Income taxes, net of refunds	\$ 37,576	\$ 48,380

See Notes to Consolidated Condensed Financial Statements
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CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

(Unaudited)

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

CLARCOR Inc. and its subsidiaries (collectively, the “Company” or “CLARCOR”) is a global provider of filtration products, filtration systems and services, and consumer and industrial packaging products. As discussed further in Note 15, the Company had three reportable segments: Engine/Mobile Filtration, Industrial/Environmental Filtration and Packaging. On June 27, 2015, the Company completed the disposition of J.L. Clark, Inc. (“J.L. Clark”), which was the sole operating company within the Company's Packaging segment. 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 Company's fiscal year-end is the Saturday closest to November 30, typically resulting in a fifty-two week year, but occasionally giving rise to an additional week, resulting in a fifty-three week year. The Consolidated Condensed Statements of Earnings, the Consolidated Condensed Statements of Comprehensive Earnings and the Consolidated Condensed Statements of Cash Flows for the periods ended August 27, 2016 and August 29, 2015 and the Consolidated Condensed Balance Sheet as of August 27, 2016 prepared by the Company are unaudited. The Consolidated Condensed Financial Statements have been prepared on the same basis as those in the Company's Annual Report on Form 10-K for the fiscal year ended November 28, 2015 (“2015 Form 10-K”). The November 28, 2015 Consolidated Condensed Balance Sheet data was derived from the Company's year-end audited Consolidated Financial Statements as presented in the 2015 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 for a fair statement of financial position, results of operations and cash flows have been made. The results of operations for the period ended August 27, 2016, 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 2015 Form 10-K.

Cash and Cash Equivalents and Restricted Cash

Highly liquid investments with an original maturity of three months or less when purchased and that are readily saleable are considered to be cash and cash equivalents. Restricted cash represents funds held in escrow and cash balances held by German banks as collateral for certain guarantees of overseas subsidiaries. Restricted cash classified as current corresponds to funds held in escrow that will be used within one year or guarantees that expire within one year. The Company had \$1,362 and \$1,294 of noncurrent restricted cash recorded in Other noncurrent assets as of August 27, 2016 and November 28, 2015, 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:

August 27, 2016	November 28, 2015
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Raw materials	\$ 93,715	\$ 99,129
Work in process	34,735	43,907
Finished products	122,331	131,789
Inventories	\$ 250,781	\$ 274,825

Property, Plant and Equipment

Plant assets classified as held for sale are initially measured at the lesser of the assets' carrying amount or the fair value less costs to sell. Gains or losses are recognized for any subsequent changes in the fair value less cost to sell; however, gains are only recognized to the extent of cumulative losses previously recognized. Plant assets classified as Assets held for sale are not

CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

(Unaudited)

depreciated. At August 27, 2016 and November 28, 2015, property, plant and equipment of \$533 related to property held in Rockford, Illinois was classified as an Asset held for sale.

Accumulated Other Comprehensive Loss

Changes in accumulated other comprehensive loss by component for the three and nine months ended August 27, 2016 are as follows:

	Pension Benefits	Foreign Currency Translation Adjustments	Derivative Financial Instruments	Total
Balance at May 28, 2016, net of tax	\$(34,999)	\$ (55,173)	\$ —	\$(90,172)
Other comprehensive income (loss) before reclassifications and tax	(39)	(10,511)	67	(10,483)
Tax benefit (expense)	14	(14)	(24)	(24)
Other comprehensive income (loss) before reclassifications, net of tax	(25)	(10,525)	43	(10,507)
Reclassifications, before tax	899	(a)—	—	899
Tax expense	(348)	—	—	(348)
Reclassifications, net of tax	551	—	—	551
Other comprehensive income (loss), net of tax	526	(10,525)	43	(9,956)
Balance at August 27, 2016, net of tax	\$(34,473)	\$ (65,698)	\$ 43	\$(100,128)
Balance at November 28, 2015, net of tax	\$(36,003)	\$ (52,049)	\$ —	\$(88,052)
Other comprehensive income (loss) before reclassifications and tax	(202)	(13,635)	67	(13,770)
Tax benefit (expense)	73	(14)	(24)	35
Other comprehensive income (loss) before reclassifications, net of tax	(129)	(13,649)	43	(13,735)
Reclassifications, before tax	2,703	(a)—	—	2,703
Tax expense	(1,044)	—	—	(1,044)
Reclassifications, net of tax	1,659	—	—	1,659
Other comprehensive income (loss), net of tax	1,530	(13,649)	43	(12,076)
Balance at August 27, 2016, net of tax	\$(34,473)	\$ (65,698)	\$ 43	\$(100,128)

(a) Includes amortization of prior service cost and net actuarial loss included in net periodic benefit cost (see [Note 10](#)) that were reclassified from accumulated other comprehensive loss to selling and administrative expenses.

Derivative Instruments and Hedging Activities

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

All derivatives are recorded at fair value in the Consolidated Balance Sheets. Each derivative is designated as either a fair value hedge, cash flow hedge or remains undesignated. Changes in the fair value of derivatives that are designated and effective as fair value hedges are recognized currently in net income. These changes are offset in net income to the extent the hedge was effective by fair value changes related to the risk being hedged on the hedged item. For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings. Changes in fair value of undesignated hedges are recognized currently in net income. All ineffective changes in derivative fair values are recognized currently in net income.

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CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

(Unaudited)