

CLARCOR INC.
Form 10-Q
March 20, 2015

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

FORM 10-Q

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

For the quarterly period ended February 28, 2015

OR

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

For the transition period from _____ to _____

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

Delaware (State or other jurisdiction of incorporation or organization)	1-11024 (Commission File Number)	36-0922490 (I.R.S. Employer Identification No.)
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840 Crescent Centre Drive, Suite 600, Franklin, Tennessee 37067
(Address of principal executive offices)

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

No Change
(Former name, former address and former fiscal year, if changed since last report.)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

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

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

As of March 16, 2015, 50,159,596 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	
	February 28, 2015	March 1, 2014
Net sales	\$351,123	\$312,685
Cost of sales	238,148	216,098
Gross profit	112,975	96,587
Selling and administrative expenses	73,782	65,321
Operating profit	39,193	31,266
Other income (expense):		
Interest expense	(1,071	) (400
Interest income	141	107
Other, net	(116	) 3,971
	(1,046	) 3,678
Earnings before income taxes	38,147	34,944
Provision for income taxes	11,410	10,603
Net earnings	26,737	24,341
Net earnings attributable to noncontrolling interests	(28	) (20
Net earnings attributable to CLARCOR Inc.	\$26,709	\$24,321
Net earnings per share attributable to CLARCOR Inc. - Basic	\$0.53	\$0.48
Net earnings per share attributable to CLARCOR Inc. - Diluted	\$0.53	\$0.48
Weighted average number of shares outstanding - Basic	50,255,915	50,463,714
Weighted average number of shares outstanding - Diluted	50,792,483	50,924,445
Dividends paid per share	\$0.2000	\$0.1700

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	
	February 28, 2015	March 1, 2014
Net earnings	\$26,737	\$24,341
Other comprehensive income:		
Pension and other postretirement benefits —		
Pension and other postretirement benefits liability adjustments	861	664
Pension and other postretirement benefits liability adjustments tax amounts	(262)	(267)
Pension and other postretirement benefits liability adjustments, net of tax	599	397
Foreign currency translation —		
Translation adjustments	(16,614)	4,325
Translation adjustments tax amounts	—	—
Translation adjustments, net of tax	(16,614)	4,325
Comprehensive earnings	10,722	29,063
Comprehensive earnings (loss) attributable to non-redeemable noncontrolling interests	32	(51)
Comprehensive earnings attributable to redeemable noncontrolling interests	143	23
Comprehensive earnings attributable to CLARCOR Inc.	\$10,897	\$29,035

See Notes to Consolidated Condensed Financial Statements

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

	February 28, 2015	November 29, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$84,353	\$94,064
Accounts receivable, less allowance for losses of \$10,579 and \$10,811, respectively	277,701	305,580
Inventories	297,867	274,718
Deferred income taxes	34,075	37,749
Prepaid expenses and other current assets	19,110	16,796
Total current assets	713,106	728,907
Property, plant and equipment, at cost, less accumulated depreciation of \$359,955 and \$357,564 respectively	299,404	288,356
Asset held for sale	1,964	—
Goodwill	516,885	507,172
Acquired intangible assets, less accumulated amortization	349,827	347,578
Other noncurrent assets	18,198	16,756
Total assets	\$1,899,384	\$1,888,769
LIABILITIES		
Current liabilities:		
Current portion of long-term debt	\$8,642	\$233
Accounts payable	98,724	97,885
Accrued liabilities	93,083	120,036
Income taxes payable	9,176	6,226
Total current liabilities	209,625	224,380
Long-term debt, less current portion	430,863	411,330
Long-term pension and postretirement healthcare benefits liabilities	32,736	33,266
Deferred income taxes	110,073	104,250
Other long-term liabilities	10,361	8,853
Total liabilities	793,658	782,079
Contingencies (<u>Note 10</u>)		
Redeemable noncontrolling interests	1,444	1,587
SHAREHOLDERS' EQUITY		
Capital stock	50,181	50,204
Capital in excess of par value	9,477	10,644
Accumulated other comprehensive loss	(70,095)	(54,080)
Retained earnings	1,113,914	1,097,292
Total CLARCOR Inc. equity	1,103,477	1,104,060
Noncontrolling interests	805	1,043
Total shareholders' equity	1,104,282	1,105,103
Total liabilities and shareholders' equity	\$1,899,384	\$1,888,769

See Notes to Consolidated Condensed Financial Statements

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

	Three Months Ended	
	February 28, 2015	March 1, 2014
Cash flows from operating activities:		
Net earnings	\$26,737	\$24,341
Depreciation	7,744	7,292
Amortization	6,256	3,282
Other noncash items	79	917
Net loss (gain) on disposition of assets	49	(36)
Bargain purchase gain	—	(2,815)
Stock-based compensation expense	3,147	1,515
Excess tax benefit from stock-based compensation	(600)	(262)
Deferred income taxes	1,451	1,348
Change in assets and liabilities	(26,257)	(17,134)
Net cash provided by operating activities	18,606	18,448
Cash flows from investing activities:		
Restricted cash	—	277
Business acquisitions, net of cash acquired	(20,881)	(262,741)
Additions to plant assets	(21,007)	(14,352)
Proceeds from disposition of plant assets	56	94
Investment in affiliates	—	(473)
Net cash used in investing activities	(41,832)	(277,195)
Cash flows from financing activities:		
Net borrowings (payments) on multicurrency revolving credit facility	28,000	(50,000)
Payments on term loan facility	—	(20,000)
Payments on long-term debt	—	(56)
Sale of capital stock under stock option and employee purchase plans	3,462	1,525
Payments for repurchase of common stock	(7,949)	—
Excess tax benefit from stock-based compensation	600	262
Dividend paid to noncontrolling interests	(206)	(166)
Cash dividends paid	(10,068)	(8,577)
Net cash provided by (used in) financing activities	13,839	(77,012)
Net effect of exchange rate changes on cash	(324)	627
Net change in cash and cash equivalents	(9,711)	(335,132)
Cash and cash equivalents, beginning of period	94,064	411,562
Cash and cash equivalents, end of period	\$84,353	\$76,430
Cash paid during the period for:		
Interest	\$1,201	\$324
Income taxes, net of refunds	\$3,638	\$4,233

See Notes to Consolidated Condensed Financial Statements

CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

(Unaudited)

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

The Consolidated Condensed Statements of Earnings, the Consolidated Condensed Statements of Comprehensive Earnings and the Consolidated Condensed Statements of Cash Flows for the periods ended February 28, 2015 and March 1, 2014 and the Consolidated Condensed Balance Sheet as of February 28, 2015 have been prepared by the Company without audit. The Consolidated Condensed Financial Statements have been prepared on the same basis as those in the Company’s Annual Report on Form 10-K for the fiscal year ended November 29, 2014 (“2014 Form 10-K”). The November 29, 2014 Consolidated Condensed Balance Sheet data was derived from the Company’s year-end audited Consolidated Financial Statements as presented in the 2014 Form 10-K but does not include all disclosures required by accounting principles generally accepted in the United States of America (“U.S. GAAP”). In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows have been made. The results of operations for the period ended February 28, 2015, are not necessarily indicative of the operating results for the full year. The information included in this Form 10-Q should be read in conjunction with the audited Consolidated Financial Statements and accompanying notes included in the 2014 Form 10-K.

Cash and Cash Equivalents and Restricted Cash

Highly liquid investments with an original maturity of three months or less when purchased and that are readily saleable are considered to be cash and cash equivalents. Restricted cash represents funds held in escrow and cash balances held by German banks as collateral for certain guarantees of overseas subsidiaries. Restricted cash classified as current corresponds to funds held in escrow that will be used within one year or guarantees that expire within one year. The Company had \$1,295 and \$1,294 of noncurrent restricted cash recorded in Other noncurrent assets as of February 28, 2015 and November 29, 2014, 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:

	February 28, 2015	November 29, 2014
Raw materials	\$108,196	\$101,848
Work in process	51,158	41,729
Finished products	138,513	131,141

Inventories

\$297,867

\$274,718

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CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

(Unaudited)

Property, Plant and Equipment

Plant assets classified as Assets 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 depreciated. At February 28, 2015, property, plant and equipment of \$1,964 related to one facility were classified as Assets held for sale.

Accumulated Other Comprehensive Loss

Changes in accumulated other comprehensive loss by component for the three months ended February 28, 2015 are as follows:

	Pension Benefits	Foreign Currency Translation Adjustments	Total
Balance at November 29, 2014, net of tax	\$(37,667)	\$(16,413)	\$(54,080)
Other comprehensive loss before reclassifications and tax	(105)	(16,614)	(16,719)
Tax benefit	21	—	21
Other comprehensive loss before reclassifications, net of tax	(84)	(16,614)	(16,698)
Reclassifications, before tax	966	(a) —	966
Tax expense	(283)	—	(283)
Reclassifications, net of tax	683	—	683
Other comprehensive income (loss), net of tax	599	(16,614)	(16,015)
Balance at February 28, 2015, net of tax	\$(37,068)	\$(33,027)	\$(70,095)

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

Derivative Instruments and Hedging Activities

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

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

The Company formally documents all relationships between designated hedging instruments and hedged items as well as its risk management objective and strategy for undertaking hedge transactions. Both at inception and on an ongoing basis the hedging instrument is assessed as to its effectiveness. If and when a derivative is determined not to be highly effective as a hedge, or the underlying hedge transaction is no longer likely to occur, the hedge designation is removed, or the derivative is terminated, the hedge accounting discussed above is discontinued. Further information related to derivatives and hedging activities is included in Note 5 of the Notes to Consolidated Financial Statements.

New Accounting Guidance

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." ASU 2014-09 is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a

CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

(Unaudited)

customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 is effective for annual reporting periods, and interim periods within that period, beginning after December 15, 2016 (fiscal year 2018 for the Company) and early adoption is not permitted. Companies may use either a full retrospective or a modified retrospective approach to adopt ASU 2014-09. The Company has not yet determined the potential effects of the adoption of ASU 2014-09 on its Consolidated Financial Statements.

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

2. BUSINESS ACQUISITIONS, INVESTMENTS AND NONCONTROLLING INTERESTS

Business Acquisitions

Filter Resources

On December 17, 2014, the Company acquired 100% of the outstanding shares of Filter Resources, Inc., Filtration, Inc. and Fabrication Specialties, Inc. (collectively, "Filter Resources"). The purchase price for Filter Resources was approximately \$22,099, which the Company funded with borrowings under the Company's revolving credit agreement.

Filter Resources has operating facilities located in the Texas gulf coast and Louisiana region, with approximately 75 total employees. The business is engaged in the manufacture and distribution of filtration products for petrochemical, refinery, pipeline and other industrial applications. The operations of Filter Resources have been merged into the Company's PECOFacet group of companies, headquartered in Mineral Wells, Texas. Net sales and operating profit for Filter Resources subsequent to the date it was acquired by the Company for the three months ended February 28, 2015 were \$4,047 and \$276, respectively. Its results are included as part of the Company's Industrial/Environmental Filtration segment from the date of acquisition.

A preliminary allocation of the purchase price to the assets acquired and liabilities assumed was made based on available information and incorporating management's best estimates. Assets acquired and liabilities assumed in the transaction were recorded at their estimated acquisition-date fair values. A contingent liability for a potential earn-out payment to the former owners, based on earnings from certain capital projects, was recorded at its estimated fair value of \$1,154, and is included in Other long-term liabilities in the Consolidated Condensed Balance Sheets. The Company assumed long-term debt of the business of \$1,250, which was immediately repaid in connection with the closing. The Company is currently in the process of finalizing the valuations of all assets acquired and liabilities assumed. The Company expects to finalize the purchase price allocation within one year of the purchase date.

CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

(Unaudited)

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

Accounts receivable	\$3,180
Inventories	2,042
Other current assets	111
Property, plant and equipment	574
Goodwill	12,345
Intangible assets	10,580
Total assets acquired	28,832
Current liabilities	2,646
Noncurrent liabilities	4,087
Net assets acquired	\$22,099

Filter Resources was acquired primarily to expand the Company's access to petrochemical and refinery customers, particularly in the U.S. gulf coast region. Goodwill of \$12,345 recorded in connection with the acquisition, which is not deductible for tax purposes, represents the estimated value of such future opportunities. A summary of the intangible assets acquired is shown in the following table:

	Estimated Value	Weighted average Useful life	Amortization Method
Identifiable intangible assets			
Customer relationships	\$10,500	15 years	Straight-line
Trademarks	80	1 year	Straight-line
	\$10,580		

CLARCOR Engine Mobile Solutions

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

A preliminary allocation of the purchase price to the assets acquired and liabilities assumed was made based on available information and incorporating management's best estimates. Assets acquired and liabilities assumed in the transaction were recorded at their estimated acquisition date fair values, while transaction costs associated with the acquisition were expensed as incurred. The Company is currently in the process of finalizing the valuation of the assets acquired and liabilities assumed. The actual allocation of the final purchase price and the resulting effect on income from operations may differ from the unaudited pro forma amounts included herein. The Company expects to finalize the purchase price allocation within one year of the purchase date.

CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

(Unaudited)

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

Accounts receivable	\$ 19,548
Inventories	7,257
Deferred income taxes	4,121
Property, plant and equipment	10,176
Goodwill	194,989
Intangible assets	146,430
Total assets acquired	382,521
Current liabilities	8,963
Other noncurrent liabilities	2,000
Deferred income taxes	43,839
Net assets acquired	\$327,719

The Stanadyne Business was acquired to significantly increase CLARCOR's presence in the design, manufacture and supply of original equipment diesel fuel filtration products and the related original equipment services aftermarket, while also providing enhanced scale and market presence to support growth for CLARCOR's other Engine/Mobile Filtration businesses — including the heavy-duty fuel, oil, hydraulic and air filtration products manufactured and marketed by Baldwin Filters — through original equipment customers and services channels. Goodwill of \$194,989 recorded in connection with the acquisition, which is not deductible for tax purposes, represents the estimated value of such future opportunities. A summary of the intangible assets acquired is shown in the following table:

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

Net sales and operating profit for CLARCOR Engine Mobile Solutions for the three months ended February 28, 2015 were as follows:

	Three Months Ended February 28, 2015
Net sales	\$24,073
Operating profit	4,773
CLARCOR Industrial Air	

On December 16, 2013, the Company acquired the Air Filtration business of General Electric Company's ("GE") Power and Water division through the acquisition of certain assets and the assumption of certain liabilities, as well as the acquisition of the stock of a subsidiary of GE. The business, which now operates as "CLARCOR Industrial Air", was acquired to significantly increase the Company's presence in air inlet filtration products for natural gas turbines and to expand the Company's product offerings, technologies and customer base in industrial air filtration. CLARCOR Industrial Air employs approximately 700 people and is headquartered in Overland Park, Kansas, with manufacturing operations in Missouri and the United Kingdom. Its results are included as part of the Company's Industrial/Environmental Filtration segment from the date of acquisition. The purchase price paid was approximately \$260,312 in cash (cash to GE of \$263,758, net of \$3,446 cash acquired), which the Company funded

CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

(Unaudited)

with cash on hand, a \$100,000 term loan and \$50,000 of cash borrowed under the Company's revolving credit agreement (see [Note 7](#)).

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

An allocation of the purchase price to the assets acquired and liabilities assumed was made based on available information and incorporating management's best estimates. Assets acquired and liabilities assumed in the transaction were recorded at their estimated acquisition date fair values, while transaction costs associated with the acquisition were expensed as incurred. There were no adjustments to these purchase accounting valuation estimates during the three months ended February 28, 2015. The allocation of the purchase price to the assets and liabilities assumed was finalized as of February 28, 2015.

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

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

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

Identifiable intangible assets	Estimated Value	Weighted average Useful life	Amortization Method
Trade names	\$35,100	Indefinite	Not amortized
Customer relationships	77,300	13 years	Straight-line
Developed technology	19,900	13 years	Straight-line
GE Transitional Trademark License	50	Less than 1 Year	Accelerated
Backlog	670	Less than 1 Year	Accelerated
	\$133,020		

Net sales and operating profit for CLARCOR Industrial Air for the three months ended February 28, 2015 and March 1, 2014 (which, in the case of the three-month period ended March 1, 2014, includes the period from December 16, 2013 to March 1, 2014) were as follows:

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CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

(Unaudited)

	Three Months Ended February 28, 2015	Three Months Ended March 1, 2014
Net sales	\$49,551	\$45,378
Operating profit	3,836	(1,048)

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

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

Prior to acquisition by CLARCOR, the business now operated as CLARCOR Industrial Air was a wholly-owned business of GE's Power and Water division, and the business now operated as CLARCOR Engine Mobile Solutions was a wholly-owned business of Stanadyne Corporation. As such, neither business was a stand-alone entity for financial reporting purposes. Accordingly, the historical operating results of CLARCOR Industrial Air and CLARCOR Engine Mobile Solutions may not be indicative of the results that might have been achieved, historically or in the future, if CLARCOR Industrial Air and CLARCOR Engine Mobile Solutions had been stand-alone entities. The unaudited pro forma results for the three-month period ended March 1, 2014 include adjustments to amortization charges for acquired intangible assets, depreciation expense, interest expense, and transaction costs incurred, as well as adjustments to cost of sales related to the step-up of inventory to estimated acquisition-date fair values, other income and related tax effects. The unaudited pro forma results do not give effect to any synergies, operating efficiencies or cost savings that may result from these acquisitions. These pro forma amounts are based on a preliminary allocation of the purchase price to estimates of the fair values of the assets acquired and liabilities assumed. The pro forma amounts include the Company's preliminary determination of purchase accounting adjustments based on available information and certain assumptions that the Company believes are reasonable.

	Three Months Ended March 1, 2014			
	As reported	CLARCOR Engine Mobile Solutions	CLARCOR Industrial Air	Pro forma
Net sales	\$312,685	\$27,056	\$15,422	\$355,163
Operating profit	31,266	7,467	(a) 7,979	(b) 46,712
Net earnings attributable to CLARCOR	24,321	4,013	5,928	34,262
Diluted earnings per share	\$0.48	\$0.08	\$0.12	\$0.68

Includes adjustments to intangible asset amortization, depreciation expense and interest expense. Does not include (a) any transaction costs or cost of sales related to the step-up of inventory to its estimated acquisition-date fair value as such costs were pushed back to the three months ended March 2, 2013 for pro forma presentation.

(b) Includes adjustments to remove transaction costs of \$2,089 and to remove cost of sales related to the step-up of inventory to its estimated acquisition-date fair value of \$4,198, which have been pushed back to the three months ended March 2, 2013 for pro forma presentation. Also includes adjustments to intangible asset amortization, depreciation expense and interest expense.

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Bekaert Business

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

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

An allocation of the purchase price to the assets acquired and liabilities assumed was made based on available information and incorporating management’s best estimates. Assets acquired and liabilities assumed in the transaction were recorded at their estimated acquisition date fair values, while transaction costs associated with the acquisition were expensed as incurred. There were no adjustments to these purchase accounting valuation estimates during the three months ended February 28, 2015. The allocation of the purchase price to the assets and liabilities assumed was finalized as of February 28, 2015.

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

Net sales and operating loss for the Bekaert business (which in the case of the three-month period ended March 1, 2014, includes the period from December 3, 2013 to March 1, 2014) for the three months ended February 28, 2015 and March 1, 2014 were as follows:

	Three Months Ended February 28, 2015	Three Months Ended March 1, 2014
Net sales	\$2,529	\$2,777
Operating loss	(437	) (251
Investments)

The Company owns 30% of BioProcessH2O LLC (“BPH”), a Rhode Island-based manufacturer of industrial waste water and water reuse filtration systems. During the three months ended February 28, 2015 and March 1, 2014, respectively, the Company did not make any additional investments. The investment, with a carrying amount of \$2,836 and \$2,918 at February 28, 2015 and November 29, 2014, respectively, included in Other noncurrent assets in the Consolidated Condensed Balance Sheets, is being accounted for under the equity method of accounting. The carrying amount is adjusted each period to recognize the Company’s share of the earnings or losses of BPH, included in Other, net in the Consolidated Condensed Statements of Earnings, based on the percentage of ownership, as well as the receipt of any dividends. During the three months ended February 28, 2015 and March 1, 2014, the Company did not receive any dividends from BPH.

The Company also owns 14.85% of BioProcess Algae LLC (“Algae”), a Delaware-based company developing technology to grow and harvest algae which can be used to consume carbon dioxide and also be used as a renewable energy source. During the three months ended February 28, 2015 the Company did not make any additional investments into Algae, and during the three months ended March 1, 2014 the Company invested an additional \$473 into Algae. The investment, with a carrying amount of \$3,277 at February 28, 2015 and November 29, 2014, 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

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occurred. During the three months ended February 28, 2015 and March 1, 2014, the Company did not receive any dividends from Algae.

Noncontrolling Interests

Noncontrolling interests changed as follows during the three months ended February 28, 2015 and March 1, 2014:

	Three Months Ended		March 1, 2014		
	February 28, 2015		Redeemable	Non-Redeemable	
	Redeemable	Non-Redeemable	Redeemable	Non-Redeemable	
Noncontrolling interests at beginning of period	\$ 1,587	\$ 1,043	\$ 1,836	\$ 1,025	
Noncontrolling interests (loss) earnings	(24	) 52	(41	) 61
Foreign currency translation	(119) (84) 18	(10)
Dividend	—	(206) —	(166)
Noncontrolling interests at end of period	\$ 1,444	\$ 805	\$ 1,813	\$ 910	

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 February 28, 2015, 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. If the redemption becomes probable, the Redeemable noncontrolling interests will be accreted to the redemption price, through equity. The Company has not recorded any accretion to date.

3. GOODWILL AND ACQUIRED INTANGIBLE ASSETS

All goodwill is stated on a gross basis, as the Company has not recorded any impairment charges against goodwill. The following table reconciles the activity for goodwill by segment for the three months ended February 28, 2015.

	Engine/Mobile Filtration	Industrial/ Environmental Filtration	Packaging	Total	
Goodwill at beginning of year	\$ 216,114	\$ 291,058	\$ —	\$ 507,172	
Acquisition	—	12,345	—	12,345	
Currency translation adjustments	(654) (1,978) —	(2,632)
Goodwill at end of period	\$ 215,460	\$ 301,425	\$ —	\$ 516,885	

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

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	Engine/Mobile Filtration	Industrial/ Environmental Filtration	Packaging	Total
February 28, 2015				
Indefinite Lived Intangibles:				
Trademarks - indefinite lived	\$784	\$75,385	\$—	\$76,169
Finite Lived Intangibles:				
Trademarks, gross - finite lived	\$281	\$568	\$—	\$849
Accumulated amortization	(122)	(366)	—	(488)
Trademarks, net - finite lived	\$159	\$202	\$—	\$361
Customer relationships, gross	\$139,537	\$131,114	\$—	\$270,651
Accumulated amortization	(10,752)	(31,708)	—	(42,460)
Customer relationships, net	\$128,785	\$99,406	\$—	\$228,191
Other acquired intangibles, gross	\$11,244	\$60,815	\$—	\$72,059
Accumulated amortization	(1,160)	(25,793)	—	(26,953)
Other acquired intangibles, net	\$10,084	\$35,022	\$—	\$45,106
Total finite lived intangible assets, net	\$139,028	\$134,630	\$—	\$273,658
Acquired intangible assets, less accumulated amortization	\$139,812	\$210,015	\$—	\$349,827

The following table summarizes estimated amortization expense.

Fiscal year 2015	\$25,056
Fiscal year 2016	24,850
Fiscal year 2017	24,608
Fiscal year 2018	23,945
Fiscal year 2019	23,729

Amortization expense for the three months ended February 28, 2015 and March 1, 2014 was \$6,256 and \$3,282, respectively.

4. FAIR VALUE MEASUREMENTS

Fair Value Measurements

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

assumptions. The Company classifies fair value measurements by the following hierarchy:

Level 1 – Quoted active market prices for identical assets

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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
February 28, 2015				
Restricted trust, included in Other noncurrent assets				
Mutual fund investments - equities	\$420	\$420	\$—	\$—
Mutual fund investments - bonds	419	419	—	—
Cash and equivalents	14	14	—	—
Total restricted trust	\$853	\$853	\$—	\$—
Filter Resources contingent earn-out, included in Other long-term liabilities	\$1,154	\$—	\$—	\$1,154
Foreign exchange contracts, included in Prepaid expenses and other current assets	\$339	\$—	\$339	\$—
Foreign exchange contracts, included in Accrued liabilities	\$31	\$—	\$31	\$—
November 29, 2014				
Restricted trust, included in Other noncurrent assets				
Mutual fund investments - equities	\$437	\$437	\$—	\$—
Mutual fund investments - bonds	442	442	—	—
Cash and equivalents	14	14	—	—
Total restricted trust	\$893	\$893	\$—	\$—
Filter Resources contingent earn-out, included in Other long-term liabilities	\$—	\$—	\$—	\$—
Foreign exchange contracts, included in Prepaid expenses and other current assets	\$362	\$—	\$362	\$—
Foreign exchange contracts, included in Accrued liabilities	\$367	\$—	\$367	\$—

There were no changes in the fair value determination methods or significant assumptions used in those methods during the three months ended February 28, 2015. There were no transfers between Level 1 and Level 2 and there were no transfers into or out of Level 3 during the three months ended February 28, 2015. The Company's policy is to

recognize transfers on the actual date of transfer. The restricted trust, which is used to fund certain payments for the Company's U.S. combined nonqualified pension plans, consists of actively traded equity and bond funds.

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The Company is liable for a contingent earn-out established in connection with the acquisition of Filter Resources on December 17, 2014. This earn-out, which is payable to the former owners of Filter Resources, had an acquisition-date estimated fair-value of \$1,154, and was recorded as an other long-term liability. The contingent liability for the earn-out will continue to be accounted for and measured at fair value until the contingency is settled during fiscal year 2017. The fair value measurement of the earn-out payment is based on estimated earnings from certain capital projects, which represent significant inputs not observed in the market and thus represents a Level 3 measurement.

The Company is liable for a contingent earn-out established in connection with the acquisition of TransWeb on December 29, 2010. This earn-out, which is payable to one of the former owners of TransWeb, had an acquisition-date estimated fair value of \$1,018, which was recorded as an other long-term liability at that time. The contingent liability for the earn-out payment will continue to be accounted for and measured at fair value until the contingency is settled during fiscal year 2016. The fair value measurement of the contingent earn-out payment is based primarily on 2014 and projected 2015 TransWeb adjusted earnings, which represent significant inputs not observed in the market and thus represents a Level 3 measurement. The contingent consideration payment is revalued to its current fair value at each reporting date. The fair value of the TransWeb contingent earn-out payment was \$0 at February 28, 2015 and at November 29, 2014, based on the projected adjusted earnings of TransWeb.

Fair Values of Financial Instruments

The fair values of the Company's financial instruments, which are cash and cash equivalents, restricted cash, accounts receivable, the restricted trust and accounts payable and accrued liabilities, approximated the carrying values of those financial instruments at both February 28, 2015 and November 29, 2014. An expected present value technique is used to estimate the fair value of long-term debt, using a model that discounts future principal and interest payments at interest rates available to the Company at the end of the period for similar debt of the same maturity. Long-term debt had a fair value estimate of \$435,922 and \$408,208 at February 28, 2015 and November 29, 2014, respectively. The Company's fair value estimate of its long-term debt represents a Level 2 measurement as it is based on the current interest rates available to the Company for debt with similar remaining maturities. The carrying value for the long-term debt at February 28, 2015 and November 29, 2014 is \$439,505 and \$411,563, respectively.

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

5. DERIVATIVE INSTRUMENTS AND HEDGING

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

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

All derivatives are recognized on the balance sheet at fair value and classified based on the instrument's maturity date. The total notional amount of derivatives outstanding at February 28, 2015 was \$84,777, which consists of derivative

instruments to manage foreign exchange risk related to inter-company advances, and derivatives to manage the risk of changes in foreign currency exchange rates — principally the Euro and British pound — on certain firm sales commitments expected to be settled at future dates.

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The following table presents the fair values of derivative instruments included within the Consolidated Balance Sheets at February 28, 2015 and November 29, 2014:

	February 28, 2015	November 29, 2014
Prepaid expenses and other current assets		
Designated as hedging instruments:		
Foreign exchange contracts	\$—	\$—
Unrecognized firm sales commitments	61	248
Total designated	\$61	\$248
Not designated as hedging instruments:		
Foreign exchange contracts	339	362
Total not designated	\$339	\$362
Total derivatives	\$400	\$610
Accrued liabilities		
Designated as hedging instruments:		
Foreign exchange contracts	\$60	\$245
Unrecognized firm sales commitments	—	—
Total designated	\$60	\$245
Not designated as hedging instruments:		
Foreign exchange contracts	29	122
Total not designated	\$29	\$122
Total derivatives	\$89	\$367

The following table presents the amounts of income (expense) from derivative instruments affecting the Consolidated Statements of Earnings for the three months ended February 28, 2015 and March 1, 2014:

	February 28, 2015	March 1, 2014
Fair value hedges		
Foreign exchange contracts - Selling and administrative expenses	\$(8)	\$—
Unrecognized firm sales commitments - Selling and administrative expenses	14	—
Total designated	\$6	\$—
Not designated as hedges		
Foreign exchange contracts - Selling and administrative expenses	\$(66)	\$—
Foreign exchange contracts - Other, net income (expense)	(325)	—
Total not designated	\$(391)	\$—

Fair Value Hedges

The Company is exposed to changes in foreign currency exchange rates on certain unrecognized firm sales commitments expected to be settled at future dates. The Company may use foreign currency forward contracts to manage certain such risks. The Company designates each such contract as a fair value hedge from the date the firm

sales commitment and derivative contract are entered into through the date the related sale occurs, at which point the foreign currency forward contract is de-designated as a fair value hedging instrument. All realized and unrealized gains or losses on such foreign currency forward contracts are recognized in income as incurred. Changes in the fair value of the related unrecognized firm sales commitments that arise due to

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fluctuations in foreign currency exchange rates are also reflected in income and as an asset or liability on the Consolidated Balance Sheets.

The total notional amount of foreign currency contracts designated as fair value hedges outstanding at February 28, 2015 was \$1,094. There were no such fair value hedges entered into during the three months ended March 1, 2014. The cash flows associated with the periodic settlement of the Company's fair value hedges are reflected as a component of Cash flows from operating activities in the Consolidated Statements of Cash Flows.

Undesignated Derivative Instruments

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

The total notional amount of such foreign currency contracts not designated as hedging instruments outstanding as of February 28, 2015 was \$82,599. Additionally, the total notional amount of foreign currency contracts de-designated as fair value hedges outstanding at February 28, 2015 was \$1,084. There were no such foreign currency contracts during the three months ended March 1, 2014. The cash flows associated with the periodic settlement of the Company's undesignated derivative instruments are reflected as a component of Cash flows from operating activities in the Consolidated Statements of Cash Flows.

Counterparty credit risk

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

6. ACCRUED LIABILITIES

Accrued liabilities at February 28, 2015 and November 29, 2014 were as follows:

	February 28, 2015	November 29, 2014
Accrued salaries, wages and commissions	\$11,946	\$29,621
Compensated absences	9,558	9,967
Accrued insurance liabilities	10,706	11,358
Warranties	9,145	9,405

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Customer deposits	26,092	23,045
Other accrued liabilities	25,636	36,640
Accrued liabilities	\$93,083	\$120,036

The Company had letters of credit totaling \$32,206 and \$33,359 as of February 28, 2015 and November 29, 2014, respectively, issued to various government agencies, primarily related to industrial revenue bonds, and to insurance companies and other commercial entities in support of its obligations. The Company believes that no payments will be required resulting from these obligations.

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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

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:

	Three Months Ended	
	February 28, 2015	March 1, 2014
Warranty accrual at beginning of period	\$9,405	\$1,599
Warranty accrual added through business acquisitions	100	10,677
Accruals for warranties issued during the period	154	28
Adjustments related to pre-existing warranties	(48	) 44
Settlements made during the period	(373	) (664
Other adjustments, including currency translation	(93	) (6
Warranty accrual at end of period	\$9,145	\$11,678

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

7. LONG-TERM DEBT

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

customary events of default.

At February 28, 2015, there was \$395,000 outstanding on the Term Loan Facility with a weighted average interest rate of approximately 1.07% and there was \$28,000 outstanding on the Credit Facility with a weighted average interest rate of approximately 0.87% and a remaining borrowing capacity of \$105,988 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 February 28, 2015 and November 29, 2014.

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8. PENSION AND OTHER POSTRETIREMENT BENEFITS

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

	Quarter Ended	
	February 28, 2015	March 1, 2014
Pension Benefits:		
Components of net periodic benefit cost (income):		
Service cost	\$535	\$498
Interest cost	1,876	1,931
Expected return on plan assets	(2,926	) (2,831
Amortization of unrecognized:		
Prior service cost	(2	) (3
Net actuarial loss	968	721
Net periodic benefit cost	\$451	\$316
Cash contributions	\$64	\$65
Postretirement Healthcare Benefits:		
Components of net periodic benefit cost (income):		
Interest cost	\$2	\$2
Amortization of unrecognized:		
Prior service cost	(31	) (31
Net actuarial gain	(37	) (37
Net periodic benefit income	\$(66	) \$(66
Cash contributions	\$15	\$16

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

The Company expects to contribute up to the following amounts to its various plans to pay benefits during 2015:

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

During the three months ended February 28, 2015, the Company contributed \$79 to its various plans. In addition to the plan assets related to its qualified plans, the Company has also funded \$853 and \$893 at February 28, 2015 and November 29, 2014, respectively, into a restricted trust for its U.S. combined nonqualified plans (see Note 4). This trust is included in Other noncurrent assets in the Consolidated Condensed Balance Sheets.

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9. INCOME TAXES

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

	Three Months Ended	
	February 28, 2015	March 1, 2014
Unrecognized tax benefits at beginning of year	\$2,487	\$2,155
Additions for current period tax positions	175	79
Changes in interest and penalties	19	33
Unrecognized tax benefits at end of period	\$2,681	\$2,267

At February 28, 2015, the amount of unrecognized tax benefit that would impact the effective tax rate, if recognized, was \$1,678. The Company recognizes interest and penalties related to unrecognized benefits in income tax expense. At February 28, 2015, the Company had \$289 accrued for the payment of interest and penalties.

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

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

As part of the purchase of the Stanadyne Business on May 1, 2014, the Company acquired approximately \$45,500 of federal net operating loss carryforwards and \$1,700 of general business credits, which are subject to certain annual restrictions on utilization. These balances are estimated pending the completion and filing of the pre-acquisition federal return of the Stanadyne Business. The Company expects to finalize the purchase price allocation with respect to these attributes within one year of the purchase date.

10. CONTINGENCIES

Legal Contingencies

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

identified below, will materially affect its financial position, results of operation or liquidity.

TransWeb/3M

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

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invalid and that the products in question do not infringe. 3M withdrew its Minnesota action, and the parties litigated the matter in New Jersey. The litigation in question was filed and underway before the Company acquired TransWeb in December 2010, but the Company assumed the risk of this litigation as a result of the acquisition.

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

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

Other

The Company is party to various proceedings relating to environmental issues. The U.S. Environmental Protection Agency and/or other responsible state agencies have designated the Company as a potentially responsible party, along with other companies, in remedial activities for the cleanup of waste sites under the Comprehensive Environmental Response, Compensation, and Liability Act (commonly referred to as the federal Superfund statute). Additionally, the North Carolina Department of Environmental Protection has identified the property on which one of the Company's subsidiaries, CLARCOR Engine Mobile Solutions, LLC, currently operates as having concentrations of certain chemicals in groundwater that are above regulatory action levels.

Although it is not certain what future environmental claims, if any, may be asserted in connection with these known environmental matters, the Company currently believes that its potential liability for known environmental matters is not material and that it has adequately reserved for any probable and reasonably estimable liabilities based on the information available to the Company. However, environmental and related remediation costs are difficult to quantify for a number of reasons, including the number of parties involved, the difficulty in determining the nature and extent of the contamination at issue, the length of time remediation may require, the complexity of the environmental regulation, the continuing advancement of remediation technology, and the potential imposition of joint and several liability on each potentially responsible party for the cleanup.

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

Other Contingencies

In the event of a change in control of the Company, termination benefits are likely to be required for certain executive officers and other employees.

11. INCENTIVE PLANS AND STOCK-BASED COMPENSATION

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

Stock Options

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

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CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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(Unaudited)

general, options granted to key employees vest 25% per year beginning at the end of the first year; therefore, they become fully exercisable at the end of four years. Vesting may be accelerated in the event of retirement, disability or death of a participant or change in control of the Company. Options granted to non-employee directors vest immediately, however, beginning in 2013 stock-based compensation for the Company's Board of Directors has been in the form of restricted stock, rather than stock options. All options expire ten years from the date of grant unless otherwise terminated.

The following table summarizes information related to stock options and stock option exercises during the three months ended February 28, 2015 and March 1, 2014.

	Quarter Ended	
	February 28, 2015	March 1, 2014
Pre-tax compensation expense	\$1,848	\$1,111
Deferred tax benefits	(672	) (395
Excess tax benefits associated with tax deductions over the amount of compensation expense recognized in the consolidated condensed financial statements	392	161
Fair value of stock options on date of grant	3,196	4,554
Total intrinsic value of stock options exercised	1,751	758
Cash received upon exercise of stock options	3,111	1,242
Addition to capital in excess of par value due to exercise of stock options	3,418	1,363

The following table summarizes activity for the three months ended February 28, 2015 with respect to stock options granted by the Company and includes options granted under the 1994 Incentive Plan, the 2004 Incentive Plan, the 2009 Incentive Plan and the 2014 Incentive Plan.

	Options Granted Under Incentive Plans	Weighted Average Exercise Price
Outstanding at beginning of year	2,310,720	\$45.71
Granted	311,500	\$63.22
Exercised	(74,079)	\$42.00
Surrendered	(2,500)	\$37.92
Outstanding at end of period	2,545,641	\$47.97
Exercisable at end of period	1,661,021	\$42.68

At February 28, 2015, there was \$6,080 of unrecognized compensation cost related to option awards which the Company expects to recognize over a weighted-average period of 2.07 years.

CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

(Unaudited)

The following table summarizes information about the Company's outstanding and exercisable options at February 28, 2015.

Range of Exercise Prices	Options Outstanding				Options Exercisable			
	Number	Weighted Average Exercise Price	Intrinsic Value	Weighted Average Remaining Life in Years	Number	Weighted Average Exercise Price	Intrinsic Value	Weighted Average Remaining Life in Years
\$25.31 - \$28.79	61,750	\$26.51	\$2,427	2.53	61,750	\$26.51	\$2,427	2.53
\$31.96 - \$38.46	500,009	\$33.64	16,085	3.44	500,009	\$33.64	16,085	3.44
\$42.86 - \$49.91	1,234,119	\$46.21	24,194	6.92	986,313	\$46.12	19,421	6.71
\$55.01 - \$63.22	749,763	\$62.19	2,712	9.25	112,949	\$61.57	479	8.79
	2,545,641	\$47.97	\$45,418	6.81	1,661,021	\$42.68	\$38,412	5.71

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.

	Three Months Ended			
	February 28, 2015	March 1, 2014		
Weighted average fair value per option at the date of grant for options granted	\$10.26	\$11.53		
Risk-free interest rate	1.31	% 1.55	%	
Expected dividend yield	1.27	% 1.10	%	
Expected volatility factor	19.50	% 21.40	%	
Expected option term in years	5.0	5.0		

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

Restricted Stock Unit Awards

The Company's restricted stock unit awards are considered nonvested share awards. The restricted stock unit awards require no payment from the employee. Compensation cost is recorded based on the market price of the stock on the grant date and is recorded equally over the vesting period of four years. During the vesting period, officers and key employees receive compensation equal to the amount of dividends declared on common shares they would have been entitled to receive had the shares been issued. Upon vesting, employees may elect to defer receipt of their shares. There were 8,489 and 19,457 vested and deferred shares at February 28, 2015 and November 29, 2014, respectively.

The following table summarizes information related to restricted stock unit awards during the three months ended February 28, 2015 and March 1, 2014.

Quarter Ended

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	February 28, 2015	March 1, 2014
Pre-tax compensation expense	\$835	\$404
Deferred tax benefits	(304) (144
Excess tax benefits associated with tax deductions over the amount of compensation expense recognized in the consolidated condensed financial statements	208	101
Fair value of restricted stock unit awards on date of grant	3,180	1,466
Fair value of restricted stock unit awards vested	979	765

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CLARCOR Inc.

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(Dollars in thousands except share data)

(Unaudited)

The following table summarizes activity for the three months ended February 28, 2015 with respect to the restricted stock unit awards.

	Units	Weighted Average Grant Date Fair Value
Nonvested at beginning of year	51,012	\$53.12
Granted	50,295	\$63.22
Vested	(19,223)	\$50.91
Nonvested at end of period	82,084	\$59.83

As of February 28, 2015, there was \$2,287 of total unrecognized compensation cost related to restricted stock unit awards which the Company expects to recognize over a weighted-average period of 3.20 years.

Restricted Stock Unit Awards with Performance Conditions

Beginning in 2015, performance awards were issued to officers and certain key employees as an incentive to achieve revenue growth and operating profit margin goals over a three-year period. The awards are in the form of restricted stock units, which vest at the end of the three-year period if the specified sales growth and operating margin goals are achieved. These restricted stock unit awards are considered nonvested share awards. The restricted stock unit awards require no payment from the employee. Fair value of the restricted stock units is determined based on the market price of the stock on the grant date. Compensation cost is recorded equally over the three-year period in which the stock units are earned, based on a periodic determination of the probable performance outcome. There were no vested shares at February 28, 2015 and November 29, 2014, respectively.

The following table summarizes information related to restricted stock unit awards with performance conditions during the three months ended February 28, 2015 and March 1, 2014.

	Quarter Ended	
	February 28, 2015	March 1, 2014
Pre-tax compensation expense	\$464	\$—
Deferred tax benefits	(169)) —
Excess tax benefits associated with tax deductions over the amount of compensation expense recognized in the consolidated condensed financial statements	—	—
Fair value of restricted stock unit awards on date of grant	5,857	—
Fair value of restricted stock unit awards vested	—	—

The following table summarizes activity for the three months ended February 28, 2015 with respect to the restricted stock unit awards with performance conditions.

	Units	Weighted Average Grant Date Fair Value
Nonvested at beginning of year	—	\$—
Granted	92,650	\$63.22

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Vested	—	\$—
Nonvested at end of period	92,650	\$63.22

As of February 28, 2015, there was \$5,101 of total unrecognized compensation cost related to restricted stock unit awards with performance conditions, which the Company expects to recognize over a weighted-average period of 2.75 years.

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CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

(Unaudited)

Directors' Restricted Stock Compensation

The incentive plans provide for grants of shares of common stock to all non-employee directors for annual incentive awards, and for grants of shares of common stock to all non-employee directors equal to a one-year annual retainer in lieu of cash at the directors' option. The directors' rights to the shares vest immediately on the date of grant; however, shares issued on annual retainer fees cannot be sold for a six-month period from the date of grant. No shares of common stock were issued to non-employee directors during the three months ended February 28, 2015 and March 1, 2014, respectively.

12. EARNINGS PER SHARE AND STOCK REPURCHASE ACTIVITY

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

	Quarter Ended	
	February 28, 2015	March 1, 2014
Weighted average number of shares outstanding - Basic	50,255,915	50,463,714
Dilutive effect of stock-based arrangements	536,568	460,731
Weighted average number of shares outstanding - Diluted	50,792,483	50,924,445
Net earnings attributable to CLARCOR Inc.	\$26,709	\$24,321
Net earnings per share attributable to CLARCOR Inc. - Basic	\$0.53	\$0.48
Net earnings per share attributable to CLARCOR Inc. - Diluted	\$0.53	\$0.48

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

	Quarter Ended	
	February 28, 2015	March 1, 2014
Number of antidilutive options with exercise prices greater than the average market price excluded from the computation of dilutive earnings per share	—	441,450
Common stock repurchased and retired pursuant to the Company's stock repurchase program	\$7,949	\$—
Number of shares repurchased and retired pursuant to the Company's stock repurchase program	122,000	—

At February 28, 2015, there remained \$200,511 authorized for future purchases under the Company's \$250,000 stock repurchase program that was approved by the Company's Board of Directors on June 25, 2013.

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	
	February 28, 2015	March 1, 2014
Net sales:		
Engine/Mobile Filtration	\$ 144,458	\$ 122,497
Industrial/Environmental Filtration	190,916	174,863
Packaging	15,749	15,325
	\$ 351,123	\$ 312,685
Operating profit:		
Engine/Mobile Filtration	\$ 24,746	\$ 22,874
Industrial/Environmental Filtration	14,008	8,146
Packaging	439	246
	39,193	31,266
Other income (expense), net	(1,046	) 3,678
Earnings before income taxes	\$ 38,147	\$ 34,944
	February 28, 2015	November 29, 2014
Identifiable assets:		
Engine/Mobile Filtration	\$ 788,591	\$ 781,204
Industrial/Environmental Filtration	1,040,329	1,022,996
Packaging	38,881	41,817
Corporate	31,583	42,752
	\$ 1,899,384	\$ 1,888,769

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information presented in this discussion should be read in conjunction with other financial information provided in the Consolidated Condensed Financial Statements and accompanying notes and with the audited Consolidated Financial Statements and accompanying notes included in the 2014 Form 10-K. Except as otherwise set forth herein, references to particular years or quarters refer to our applicable fiscal year or quarter. The analysis of operating results focuses on our three reportable business segments: Engine/Mobile Filtration, Industrial/Environmental Filtration and Packaging. All references in this Management's Discussion and Analysis of Financial Condition and Results of Operations to "organic" financial results, at the consolidated or reporting segment level, refer to our consolidated or segment results without giving effect to the three fiscal year 2014 acquisitions and the December 2014 acquisition of Filter Resources.

EXECUTIVE SUMMARY

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

	First Quarter		Change			
	2015	2014	\$	%		
Net sales	\$351,123	\$312,685	\$38,438	12	%	
Cost of sales	238,148	216,098	22,050	10	%	
Gross profit	112,975	96,587	16,388	17	%	
Selling and administrative expenses	73,782	65,321	8,461	13	%	
Operating profit	39,193	31,266	7,927	25	%	
Other income (expense)	(1,046)	3,678	(4,724)			
Provision for income taxes	11,410	10,603	807	8	%	
Net earnings attributable to CLARCOR	26,709	24,321	2,388	10	%	
Weighted average diluted shares	50,792	50,924	(132)	—	%	
Diluted earnings per share attributable to CLARCOR	\$0.53	\$0.48	\$0.05	10	%	
Percentages:						
Gross margin	32.2	% 30.9	%	1.3	pt	
Selling and administrative percentage	21.0	% 20.9	%	0.1	pt	
Operating margin	11.2	% 10.0	%	1.2	pt	
Effective tax rate	29.9	% 30.3	%	(0.4)	pt	
Net earnings margin	7.6	% 7.8	%	(0.2)	pt	

First Quarter

Net Sales

Net sales increased \$38.4 million, or 12%, in the first quarter of 2015 from the first quarter of 2014. Estimated components of this 12% increase in net sales are as follows:

Business acquisitions	9	%
Organic volume	5	%
Pricing	1	%
Foreign exchange	(3))%
	12	%

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

Increased net sales of \$24.1 million due to the May 2014 acquisition of the Stanadyne Business (now operated as CLARCOR Engine Mobile Solutions), which is included in the Company's Engine/Mobile Filtration segment from the date of acquisition. Net sales for this business in the first quarter decreased approximately 11% in comparison to the prior year period in which the business was owned by Stanadyne Corporation, reflecting declines in sales of first-fit fuel filter assemblies and aftermarket filter elements due to lower demand from off-highway original equipment manufacturers and dealers.

Increased net sales of \$4.0 million due to the December 2014 acquisition of Filter Resources, which is included in the Company's Industrial/Environmental Filtration segment from the date of acquisition.

Increased organic net sales volume of \$16.6 million, or 10%, at our Industrial/Environmental Filtration segment. This net sales growth resulted from a \$9.9 million, or 9%, increase in sales within the U.S. and a \$6.8 million, or 11%, increase in foreign net sales, excluding the impact of changes in foreign currency exchange rates. The 9% increase in sales volume within the U.S. resulted primarily from increased sales of industrial air filtration products, gas turbine air intake replacement filters, natural gas filtration vessels and aftermarket elements, HVAC air filter sales and filter sales through our Total Filtration Services ("TFS") distribution business, partly offset by lower sales of gas turbine air intake filtration systems and dust collector systems. The 11% increase in foreign net sales primarily resulted from increased sales of natural gas filtration vessels and replacement filter elements in Europe and the Middle East.

Decreased organic net sales volume of \$0.8 million, or 1%, at our Engine/Mobile Filtration segment. This net sales decrease resulted from a \$5.8 million, or 13%, decrease in foreign net sales, excluding the impact of changes in foreign currency exchange rates, partly offset by a \$5.0 million, or 6%, increase in sales within the U.S. The 13% decrease in foreign net sales volume in this segment primarily resulted from lower export sales to customers in Southeast Asia, South America and the Middle East, as well as lower sales volume in China due to lower demand from original equipment manufacturers. The increase in sales volume within the U.S. resulted primarily from a 9% increase in sales of heavy-duty engine filters to the U.S. aftermarket, which included growth from sales to a significant new customer, and a 7% increase in sales of locomotive filters.

Net sales at our Packaging segment increased \$0.4 million, or 3%, due primarily to higher sales of smokeless tobacco packaging products and higher sales of battery jackets.

Cost of Sales

Cost of sales increased \$22.1 million, or 10%, in the first quarter of 2015 from the first quarter of 2014. This 10% increase in cost of sales was less than the 12% increase in net sales. As a result, our gross margin increased to 32.2% in the first quarter of 2015 from 30.9% in the first quarter of 2014. This 1.3 percentage point increase in gross margin primarily reflects a 1.0 percentage point increase due to the impact of \$3.6 million of increased cost of sales in the first quarter of 2014, resulting from the step-up of inventory values to reflect their estimated fair values as of the date of acquisition of GE's air filtration business, which did not recur in the first quarter of 2015. Gross margin was also favorably impacted in the first quarter of 2015 by approximately 0.8 percentage points due to the favorable impact of the fiscal 2014 acquisition of the Stanadyne Business, and by

0.5 percentage points due to increases in the selling prices of our products. These favorable effects were partly offset by an approximately 1.2 percentage point decrease in gross margin due to lower fixed cost leverage at certain of our businesses, as well as increased freight costs and unfavorable sales mix at certain businesses.

Selling and Administrative Expenses

Selling and administrative expenses increased \$8.5 million, or 13%, in the first quarter of 2015 from the first quarter of 2014. This increase was primarily the result of \$6.4 million of costs due to the May 2014 acquisition of the Stanadyne Business (including \$2.9 million of intangible asset amortization in the first quarter of 2015). Other selling and administrative expense increases in the first quarter of 2015 compared to the first quarter of 2014 include \$2.0 million of increased employee salaries and related benefits (including new headcount related to strategic growth initiatives), \$1.6 million of increased costs related to stock-based compensation (including the impact of accelerated vesting of awards granted to retirement-eligible employees) and \$1.5 million of other net increases, including professional services, research & development and advertising costs. These increases were partly offset by a \$3.1 million decrease in professional services costs, including legal, investment advisory and integration consulting, incurred in the first quarter of last year related to the December 2013 acquisition of GE's air filtration business. Since selling and administrative expenses increased 13% while net sales increased 12%, our selling and administrative expenses as a percentage of net sales increased to 21.0% in the first quarter of 2015 from 20.9% in last year's first quarter.

Other Items

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

Significant Acquisitions

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

(Dollars in thousands)	First Quarter		
	2015	2014	Change
Net sales	\$49,551	\$45,378	\$4,173
Operating profit	3,836	(1,048)	4,884

The net sales and operating profit for CLARCOR Industrial Air in the first three months of fiscal 2014 reflect results from December 16, 2013, the date of acquisition, through March 1, 2014. Operating profit for the first three months of 2014 included approximately \$3.6 million of cost of sales related to the recording of inventory acquired in the transaction at estimated acquisition date fair values, as well as approximately \$3.1 million of selling and administrative expenses related to the acquisition execution and integration. These costs did not recur in the first three months of fiscal 2015.

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

(Dollars in thousands)	First Quarter		
	2015	2014	Change
Net sales	\$24,073	\$—	\$24,073

Operating profit	4,773	—	4,773
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Foreign Exchange

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

(Dollars in thousands)	First Quarter
Net sales	\$(7,820)
Operating profit (loss)	(922)

Other income (expense)

Interest expense

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

(Dollars in thousands)	First Quarter
2015	\$(930)
2014	(293)

Net interest expense in the first quarter of 2015 was driven by \$1.1 million of interest expense related to borrowings on the Term Loan Facility and on the Credit Facility, which borrowings were undertaken to fund a portion of the cost of our acquisitions of the GE Air Filtration business and the Stanadyne Business in 2014. At the end of the first quarter of 2015, we had \$395.0 million outstanding on the Term Loan Facility -- including \$315.0 million outstanding in connection with the Stanadyne Business acquisition and \$80.0 million outstanding in connection with the GE Air Filtration acquisition -- and we had \$28.0 million outstanding on the Credit Facility.

Foreign currency gains and (losses)

We recognized foreign currency gains (losses) in other income (expense) as follows:

(Dollars in thousands)	First Quarter
2015	\$(152)
2014	958

Foreign currency gains (losses) in the first quarter of 2015 and in the first quarter of 2014 primarily reflect the translation of inter-company loans -- in cases where such loans are expected to be settled in cash at some point in the future -- at certain foreign subsidiaries denominated in currencies other than their functional currencies, as well as the translation of cash accounts at certain foreign subsidiaries denominated in currencies other than their functional currencies.

Other income (expense)

There was no significant other income (expense) in the first quarter of 2015.

Other income of approximately \$3.0 million in the first quarter of 2014 primarily reflected a \$2.8 million bargain purchase gain that resulted from the Company's acquisition of the Bekaert Business in the first quarter of 2014. As the Company maintains a permanent reinvestment strategy for all foreign operations, this gain was not subject to tax.

Provisions for income taxes

Our effective tax rate decreased 0.4 percentage points to 29.9% in the first quarter of 2015 from 30.3% in the first quarter of 2014. Our effective tax rate in the first quarter of 2015 reflected a 2.1 percentage point favorable impact related to the extension of the research and development tax credit in December 2014, as well as 0.9 percentage points of favorable rate impacts from various other items, including a higher domestic production activities deduction. These favorable impacts were partially

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offset by a 2.6 percentage point favorable impact in the prior year, resulting from the \$2.8 million bargain purchase gain recognized in the first quarter of 2014 which was not subject to tax, which did not recur in the first quarter of 2015.

Our effective tax rate in the first quarter of 2014 reflected reductions due to the \$2.8 million bargain purchase gain recognized in the first quarter of 2014 which, as described above, was not subject to tax.

Shares outstanding

Average diluted shares outstanding decreased by approximately 0.1 million shares in the first quarter of 2015 from the first quarter of 2014, as our repurchases of common stock offset the amount of incremental dilutive shares related to stock option exercises and the issuance of stock options.

SEGMENT ANALYSIS

(Dollars in thousands)	First Quarter			
	2015	% Total	2014	% Total
Net sales:				
Engine/Mobile Filtration	\$144,458	41 %	\$122,497	39 %
Industrial/Environmental Filtration	190,916	54 %	174,863	56 %
Packaging	15,749	5 %	15,325	5 %
	\$351,123	100 %	\$312,685	100 %
Gross profit:				
Engine/Mobile Filtration	\$50,400	45 %	\$40,974	42 %
Industrial/Environmental Filtration	60,248	53 %	53,521	55 %
Packaging	2,327	2 %	2,092	3 %
	\$112,975	100 %	\$96,587	100 %
Operating profit:				
Engine/Mobile Filtration	\$24,746	63 %	\$22,874	73 %
Industrial/Environmental Filtration	14,008	36 %	8,146	26 %
Packaging	439	1 %	246	1 %
	\$39,193	100 %	\$31,266	100 %
Gross margin:				
Engine/Mobile Filtration	34.9	%	33.4	%
Industrial/Environmental Filtration	31.6	%	30.6	%
Packaging	14.8	%	13.7	%
	32.2	%	30.9	%
Operating margin:				
Engine/Mobile Filtration	17.1	%	18.7	%
Industrial/Environmental Filtration	7.3	%	4.7	%
Packaging	2.8	%	1.6	%
	11.2	%	10.0	%

Engine/Mobile Filtration Segment

(Dollars in thousands)	First Quarter		Change		
	2015	2014	\$	%	
Net sales	\$144,458	\$122,497	\$21,961	18	%
Cost of sales	94,058	81,523	12,535	15	%
Gross profit	50,400	40,974	9,426	23	%
Selling and administrative expenses	25,654	18,100	7,554	42	%
Operating profit	24,746	22,874	1,872	8	%
Gross margin	34.9%	33.4%		1.5	pt
Selling and administrative percentage	17.8%	14.8%		3.0	pt
Operating margin	17.1%	18.7%		(1.6)	pt

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

Net Sales

The change in net sales for our Engine/Mobile Filtration segment in the first quarter of 2015 from the first quarter of 2014 is detailed in the following tables:

	First Quarter	
Stanadyne Business acquisition	20	%
Pricing	1	%
Organic volume	(1)%
Foreign exchange	(2)%
	18	%
(Dollars in millions)	First Quarter	
2014	\$122.5	
U.S. net sales	19.3	
Foreign net sales (including export)	5.4	
Foreign exchange	(2.7)
Net increase	22.0	
2015	\$144.5	

The net increase in U.S. net sales for our Engine/Mobile Filtration segment in the first quarter of 2015 from the first quarter of 2014 is detailed as follows:

(Dollars in millions)	First Quarter
Stanadyne Business acquisition	\$13.3
Heavy-duty engine filtration aftermarket	4.1
Locomotive filters	2.0
Other	(0.1)
Increase in U.S. net sales	\$19.3

Our U.S. net sales increased 25% in the first quarter of 2015 compared with the first quarter of 2014. The acquisition of Stanadyne's diesel fuel filtration business (now operated as CLARCOR Engine Mobile Solutions) in May 2014 resulted in \$13.3 million of increased U.S. net sales in the first quarter of 2015. The remaining increase in sales of \$5.9 million was primarily the result of a 9% increase in heavy-duty engine filter aftermarket sales. This growth was partly driven by improved year-over-year demand from our U.S. national distribution and fleet services customers, which we believe was positively impacted by the 4% year-over-year increase in heavy-duty truck tonnage for the preceding three months (September 2014 through November 2014) as measured by the American Trucking Associations, which we believe is usually a leading indicator of heavy-duty engine filter aftermarket demand in the U.S. This 9% aftermarket sales growth in the first quarter also reflects initial sales to a significant new customer, with whom we have contracted to supply a full line of private-branded aftermarket products for sale through this customer's national retail network. We also experienced growth of approximately 7% in locomotive filter sales in the first quarter of 2015 compared with the first quarter of 2014, reflecting the impact of new products and increased railroad activity leading to increased replacement filter sales.

The net change in foreign net sales (including export sales and adjusted for changes in foreign currencies) for our Engine/Mobile Filtration segment in the first quarter of 2015 from the first quarter of 2014 is detailed as follows:

(Dollars in millions)	First Quarter
Stanadyne Business acquisition	\$10.7
Heavy-duty engine filter sales in China	(1.8)
Export sales primarily to the Middle East, Southeast Asia and Latin America	(4.2)
Other	0.7
Increase in foreign net sales	\$5.4

Our foreign net sales increased 12% in the first quarter of 2015 compared with the first quarter of 2014, adjusted for changes in foreign currencies. The acquisition of Stanadyne's diesel fuel filtration business (now operated as CLARCOR Engine Mobile Solutions) in May 2014 resulted in \$10.7 million of increased foreign net sales in the first quarter of 2015. This increase was partly offset by a \$4.2 million decrease in export sales of heavy-duty engine filters to the Middle East, Southeast Asia and Latin America, as well as a decrease of \$1.8 million in heavy-duty engine filter sales in China primarily due to lower demand from a significant diesel engine and truck original equipment manufacturer.

Cost of Sales

Cost of sales increased \$12.5 million, or 15%, in the first quarter of 2015 from the first quarter of 2014. This increase was less than the 18% increase in net sales. As a result, our gross margin increased to 34.9% in the first quarter of 2015 from 33.4% in the first quarter of 2014. This 1.5 percentage point increase in gross margin primarily reflects a 1.6 percentage point increase due to the accretive mix impact of the Stanadyne Business acquisition and a 1.0 percentage point increase in gross margin resulting from a customer price increase that we executed at the end of the first quarter of 2014. Those impacts were partly offset by a 0.5 percentage point decrease resulting from lower fixed cost leverage (including costs related to new customers, new products and expanded capacity brought into service to

support expected future growth) and 0.5 percentage point decrease in gross margin resulting from higher material costs.

Selling and Administrative Expenses

Selling and administrative expenses increased \$7.6 million, or 42%, in the first quarter of 2015 from the first quarter of 2014. This increase was primarily the result of \$6.4 million of selling and administrative expenses at the CLARCOR Engine Mobile

Solutions business, including approximately \$2.9 million of intangible asset amortization. The remaining increase of approximately \$1.2 million was primarily the result of higher compensation expense related to our company-wide profit sharing program and higher allocated corporate costs, including costs to support growth initiatives. With selling and administrative expenses in this segment increasing 42% while segment net sales increased 18%, our selling and administrative expenses as a percentage of net sales increased to 17.8% in the first quarter of 2015 from 14.8% in the first quarter of 2014.

Industrial/Environmental Filtration Segment

(Dollars in thousands)	First Quarter		Change		
	2015	2014	\$	%	
Net sales	\$190,916	\$174,863	\$16,053	9	%
Cost of sales	130,668	121,342	9,326	8	%
Gross profit	60,248	53,521	6,727	13	%
Selling and administrative expenses	46,240	45,375	865	2	%
Operating profit	14,008	8,146	5,862	72	%
Gross margin	31.6%	30.6%		1.0	pt
Selling and administrative percentage	24.2%	25.9%		(1.7)	pt
Operating margin	7.3%	4.7%		2.6	pt

Our Industrial/Environmental Filtration segment sells a variety of filtration products to various end-markets. Included in these markets are HVAC filters, natural gas filtration vessels and aftermarket filters, aviation fuel filters and filter systems, filtration systems and replacement filters for gas turbine air intake applications, industrial air filters, and other markets including oil drilling, aerospace, fibers and resins and dust collector systems.

Net Sales

The changes in net sales for our Industrial/Environmental Filtration segment in the first quarter of 2015 from the first quarter of 2014 are detailed in the following tables:

Organic volume	10	%
Filter Resources acquisition	2	%
Pricing	—	%
Foreign exchange	(3))%
	9	%
(Dollars in millions)	First Quarter	
2014	\$174.9	
U.S. net sales	14.4	
Foreign net sales (including export)	6.8	
Foreign exchange	(5.2)
Net increase	16.0	
2015	\$190.9	

The net increase in U.S. net sales for our Industrial/Environmental Filtration segment in the first quarter of 2015 from the first quarter of 2014 is detailed as follows:

(Dollars in millions)	First Quarter
Industrial air filtration aftermarket products	\$7.8
Natural gas filtration vessels and aftermarket elements	4.4
Filter Resources acquisition	4.0
Filter sales through Total Filtration Services ("TFS")	1.1
Gas turbine air intake filtration systems	(3.3)
All other, net	0.4
Increase in U.S. net sales	\$14.4

Higher sales of industrial air filtration products in the first quarter of 2015 from the comparable period in 2014 was driven primarily by increased sales through our CLARCOR Industrial Air subsidiary, including increased sales of BHA pleated filters, bag filters and other industrial air replacement filters, and increased sales of ClearCurrent® filters and replacement cartridge filters for gas turbine air intake applications.

Higher sales in the natural gas market in the first quarter of 2015 from the first quarter of 2014 was driven primarily by an approximately 19% increase in natural gas filtration aftermarket element sales, as well as growth of natural gas filtration vessel sales, resulting from increased activity in extraction, transportation and processing of natural gas and natural gas liquids (such as ethane, propane and butane).

The acquisition of Filter Resources in December 2014, whose operations have been merged into the Company's PECOFacet group of companies, resulted in approximately \$4.0 million of increased U.S. net sales in the first quarter of 2015, reflecting sales of filtration vessels and replacement elements primarily for use in petrochemical, refining, pipeline and other industrial applications.

Higher sales through our TFS distribution subsidiary in the first quarter of 2015 from the first quarter of 2014 was primarily the result of higher liquid and air filter sales to a variety of customers, including those in the general industrial, chemical and aerospace industries.

Lower sales of gas turbine air intake filtration systems at our CLARCOR Industrial Air subsidiary in the first quarter of 2015 from the first quarter of 2014 was driven by relatively strong sales in the first quarter of 2014, coupled with the timing of several large system sales which are expected to occur later in the year in 2015.

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 first quarter of 2015 from the first quarter of 2014 are detailed as follows:

(Dollars in millions)	First Quarter
Natural gas filtration vessels and aftermarket filters	\$2.8
Industrial air filtration aftermarket products	2.1
Industrial liquid filtration products	1.7
Gas turbine air intake filtration systems	(0.8)
All other, net	1.0
Increase in foreign net sales	\$6.8

Higher foreign net sales of natural gas vessels and aftermarket filters in the first quarter of 2015 from the first quarter of 2014 reflects continued global growth in the extraction, transportation and processing of natural gas and natural gas liquids (such as ethane, propane and butane).

Higher sales of industrial air filtration products in the first quarter of 2015 from the first quarter of 2014 was driven primarily by increased sales through our CLARCOR Industrial Air subsidiary, including increased sales of BHA pleated filters, bag filters and other industrial air filters, and increased sales of ClearCurrent® filters and replacement cartridge

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filters for gas turbine air intake applications, as well as higher sales by our United Air Specialists subsidiary due to increased sales of industrial dust, fume and oil mist collectors in China and Europe.

Higher sales of industrial liquid filtration products reflects global growth in sales of porous metal filters, mesh screen filters and other metal-based filtration products and systems for use in polymer processing and other industrial applications.

Lower sales of gas turbine air intake filtration systems by our CLARCOR Industrial Air subsidiary in the first quarter of 2015 from the first quarter of 2014 was driven by relatively strong sales in the first quarter of 2014, coupled with the timing of several large system sales which are expected to occur later in the year in 2015.

Cost of Sales

Cost of sales increased \$9.3 million, or 8%, in the first quarter of 2015 from the first quarter of 2014. This increase was less than the 9% increase in net sales. As a result, our gross margin increased to 31.6% in the first quarter of 2015 from 30.6% in the first quarter of 2014. This 1.0 percentage point increase in gross margin primarily reflects a 1.9 percentage point increase in gross margin due to the impact of \$3.6 million of increased cost of sales in the first quarter of 2014 resulting from the step-up of inventory values at the GE air filtration business to reflect their estimated fair value as of the purchase date, as well as a 0.6 percentage point increase due to approximately \$1.2 million of restructuring costs incurred in the first quarter of 2014 in our HVAC air filtration business, which did not recur in the first quarter of 2015. Gross margin in this reporting segment was also favorably impacted by 0.3 percentage points in the first quarter of 2015 due to customer price increases on certain of our products. These favorable impacts were partially offset by a 0.6 percentage point reduction in gross margin due to increased shipping and freight costs on certain of our products, and an approximately 1.1 percentage point reduction due to unfavorable changes in sales mix across various businesses.

Selling and Administrative Expenses

Selling and administrative expenses increased \$0.9 million, or 2%, in the first quarter of 2015 from the first quarter of 2014. This increase was primarily the result of \$1.6 million of higher employee costs, \$1.0 million of higher allocated corporate costs -- including costs related to strategic growth initiatives -- and \$1.4 million of other selling and administrative expense increases including facility costs, travel and compensation expense related to our company-wide profit sharing program. These increases were partially offset by a \$3.1 million decrease resulting from legal, investment advisory and consulting costs related to the acquisition of the CLARCOR Industrial Air business in the first quarter of 2014, which costs did not recur in the first quarter of 2015. With selling and administrative expenses increasing 2% while our net sales increased 9%, our selling and administrative expenses as a percentage of net sales decreased to 24.2% in the first quarter of 2015 from 25.9% in last year's first quarter.

Packaging Segment

(Dollars in thousands)	First Quarter		Change		
	2015	2014	\$	%	
Net sales	\$ 15,749	\$ 15,325	\$ 424	3	%
Cost of sales	13,422	13,233	189	1	%
Gross profit	2,327	2,092	235	11	%
Selling and administrative expenses	1,888	1,846	42	2	%
Operating profit	439	246	193	78	%

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Gross margin	14.8%	13.7%	1.1	pt
Selling and administrative percentage	12.0%	12.0%	—	pt
Operating margin	2.8%	1.6%	1.2	pt

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

Net Sales

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The changes in net sales in the first quarter of 2015 at our Packaging segment from the first quarter of 2014 are detailed in the following table:

(Dollars in millions)	First Quarter
Smokeless tobacco packaging	\$0.5
Battery jackets	0.2
Confection packaging	(0.4)
Other, net	0.1
Increase in net sales	\$0.4

Higher sales of smokeless tobacco packaging products in the first quarter of 2015 from the first quarter of 2014 reflects growth of new smokeless tobacco products and sales of premium packaging products such as embossed metal lids. The changes in sales of battery jackets and confection packaging products primarily reflects normal variability in the timing of customer order patterns within the year.

Cost of Sales

Cost of sales increased \$0.2 million, or 1%, in the first quarter of 2015 from the first quarter of 2014. This increase was less than the 3% increase in net sales. As a result, our gross margin increased to 14.8% in the first quarter of 2015 from 13.7% in the first quarter of 2014. This 1.1 percentage point increase in gross margin was primarily driven by reduced variable manufacturing expenses, including lower utility costs and repair costs, improved absorption of fixed manufacturing costs due to higher sales volume, and lower production scrap costs.

Selling and Administrative Expenses

Selling and administrative expenses increased less than \$0.1 million, or 2%, in the first quarter of 2015 from the first quarter of 2014. There were no individually significant changes in selling and administrative expenses in the first quarter of 2015 in comparison to the prior year. With selling and administrative expenses increasing 2% while our net sales increased 3%, our selling and administrative expenses as a percentage of net sales was flat at approximately 12.0% in both the first quarter of 2015 and the first quarter of 2014.

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 agreement, including our five-year multicurrency revolving credit facility ("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 fund potential repurchases of our common stock. We completed two acquisitions in December 2013, the acquisitions of the GE Air Filtration business and the Bekaert Advanced Filtration business, we acquired Stanadyne Corporation's diesel fuel filtration business in May 2014, and we acquired Filter Resources in December 2014, and we intend to 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. In addition, capital market disruptions may affect the cost or availability of future borrowings.

We had cash, cash equivalents and restricted cash of \$84.4 million at the end of the first quarter of 2015. Approximately \$81.8 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 3.4 at the end of the first quarter of 2015 increased from 3.2 at year-end 2014. This increase reflects a \$23.1 million increase in inventories, due primarily to production build schedules in anticipation of sales growth as we progress through the fiscal year, as well as a \$17.7 million decrease in accrued salaries, wages and commissions, due primarily to the annual

payment of awards earned under our company-wide profit sharing program in the first quarter of the year, and an \$11.0 million decrease in other current liabilities, due primarily to a \$4.1 million decrease in accrued employer matching contributions related to employee 401(k) contributions, which are funded by the Company annually, and a \$3.6 million decrease in accrued rebates payable. These effects were partially offset by a \$27.9 million reduction in accounts receivable, partly due to seasonal trends in sales in the first quarter of the year and partly due to company-wide efforts to improve collection of past due receivables, as well as a \$9.7 million decrease in cash, cash equivalents and restricted cash, due primarily to our acquisition of Filter Resources, whose operations have been merged into the Company's PECOFacet group of companies, in December 2014 for approximately \$22.1 million (\$20.8 million of which was paid in cash at closing).

We entered into the Credit Facility in April 2012, under which we may borrow up to \$150.0 million under a selection of currencies and rate formulas. The 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 the Company to increase the Credit Facility by a total of up to \$100.0 million, subject to securing additional commitments from existing lenders or new lending institutions. In November 2013, we entered into a credit amendment to include a \$100.0 million term loan facility (the "Term Loan Facility") and in May 2014, we entered into a second credit agreement amendment to include an additional \$315.0 million to the Term Loan Facility, whose maturity date is April 2017. We believe the financial institutions that are party to this agreement have adequate capital resources and will be able to fund future borrowings under the Credit Facility and Term Loan Facility. At our election, the interest rate under the Credit Facility and Term Loan 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 and Term Loan Facility are unsecured, but are guaranteed by substantially all of the Company's material domestic subsidiaries. The Credit Facility and Term Loan Facility also contain certain covenants customary to such agreements, as well as customary events of default.

At the end of the first quarter of 2015, we had \$395.0 million outstanding on the Term Loan Facility with a weighted average interest rate including margin of approximately 1.07% and we had \$28.0 million outstanding on the Credit Facility with a weighted average interest rate including margin of approximately 0.87%. We borrowed \$100.0 million under the Term Loan Facility in November 2013 to fund a portion of the cost of the acquisition of the GE Air Filtration business, now operated as CLARCOR Industrial Air, of which \$80.0 million was outstanding at the end of the first quarter of 2015. We borrowed \$315.0 million under the Term Loan Facility in April 2014 to fund the majority of the cost of the acquisition of Stanadyne Corporation's diesel fuel filtration business, now operated as CLARCOR Engine Mobile Solutions, of which \$315.0 million was outstanding at the end of the first quarter of 2015. At February 28, 2015, we also had approximately \$16.0 million outstanding on a \$50.0 million letter of credit sub-facility. Accordingly, we had \$106.0 million available for further borrowing at the end of the first quarter of 2015. Our Term Loan Facility expires in April 2017.

Total long-term debt of \$439.5 million at the end of the first quarter of 2015 included \$395.0 million outstanding on the Term Loan Facility, \$28.0 million outstanding on the Credit Facility, \$15.8 million outstanding on industrial revenue bonds and \$0.7 million of other long-term debt. At the end of the first quarter of 2015, we were in compliance with all financial covenants as included in our Credit Facility and Term Loan Facility. The ratio of total debt to total capitalization (defined as long-term debt plus total shareholders' equity) was 28.5% at the end of the first quarter of 2015 compared to 27.1% at year-end 2014, with the increase attributable to the \$28.0 million of borrowings on the Credit Facility during the quarter, primarily pursuant to the acquisition of Filter Resources.

We had 50.2 million shares of common stock outstanding at the end of the first quarter of 2015 and we also had 50.2 million shares outstanding at year-end 2014. This number was unchanged, as a 0.1 million increase due to shares issued pursuant to stock incentive plans in the first three months of 2015 was offset by the repurchase of 0.1 million shares during the same period. Shareholders' equity decreased to \$1,104.3 million at the end of the first quarter of

2015 from \$1,105.1 million at year-end 2014. This \$0.8 million decrease resulted mainly from currency translation adjustments of \$16.6 million, dividend payments \$10.1 million and our repurchase of common stock of \$7.9 million, partially offset by additional net earnings of \$26.7 million and items related to stock compensation and option activity pursuant to incentive plans of \$6.7 million.

Cash Flow

Net cash provided by operating activities increased \$0.2 million to \$18.6 million in the first three months of 2015 from \$18.4 million in the first three months of 2014. This increase was primarily due to a \$2.4 million increase in net earnings.

Net cash used in investing activities decreased \$235.4 million in the first three months of 2015 from the first three months of 2014 primarily due to a \$241.9 million decrease in payments related to business acquisitions as \$260.3 million of net cash was paid in the first quarter of 2014 for the acquisition of the GE Air Filtration business (now operated as CLARCOR Industrial Air) and \$7.3 million of net cash was paid in the first quarter of 2014 for the acquisition of the Bekaert Business, in comparison to

\$20.9 million of net cash payments related to the Filter Resources acquisition in the first quarter of 2015. This decrease was partially offset by an increase of \$6.7 million in capital expenditures in the first quarter of 2015 in comparison to the first quarter of 2014.

Net cash provided by financing activities increased \$90.9 million in the first three months of 2015 from the first three months of 2014 primarily as the result of \$28.0 million of borrowings under the Credit Facility in the first quarter of 2015, in comparison to \$50.0 million of net repayments on the Credit Facility and \$20.0 million of repayments on the Term Loan Facility in the first quarter of 2014, respectively. This increase in net cash provided by financing activities was partially offset by an increase of \$7.9 million in payments for the repurchase of common stock in the first quarter of 2015 in comparison to the prior year period.

We intend to continue to assess repurchases of our common stock. In June 2013, 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 three months of 2015 we repurchased and retired 0.1 million shares of our common stock for \$7.9 million at an approximate average price of \$65.15. At the end of the first quarter of 2015, there was approximately \$200.5 million available for repurchase under the current authorization. Future repurchases of our common stock may be made after considering cash flow requirements for further repayment of outstanding borrowings on the Term Loan Facility and Credit Facility, 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 first three months of 2015 we have incurred approximately \$35.8 million in costs related to this project.

At the end of the first quarter of 2015, our gross liability for uncertain income tax provisions was \$2.7 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 I to the Consolidated Financial Statements in our 2014 Form 10-K. We had no variable interest entity or special purpose entity agreements during the first three months of 2015 or 2014.

OTHER MATTERS

Critical Accounting Policies

Our critical accounting policies, including the assumptions and judgments underlying them, are disclosed in our 2014 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 2014 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 known environmental matters involving 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.

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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 First Quarter 2015 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 words such as “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, future cash flows and other financial performance measures;
- statements regarding management's short-term and long-term performance goals;
- statements regarding anticipated order patterns from our customers and our backlog 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 the acquisitions of Filter Resources, the Stanadyne Business, the GE Air Filtration business and the Bekaert Business and potential future acquisition opportunities;
- statements regarding our current cost structure positions and ability to capitalize on anticipated development and growth initiatives, including the expansion of facilities and other planned capital expenditures;
- 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 and borrowing capacity under the Credit Facility and the Term Loan Facility;
- statements regarding anticipated payments pursuant to our pension plans and for other post-retirement benefits;
- statements related to potential liability for environmental matters;
- statements related to pending claims or litigation, including the anticipated outcome of the 3M lawsuit referenced in Note 10; and
- statements relating to the availability of raw materials and other supplies; 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) the health of the markets we serve, including the oil & gas market, (5) customer concentration issues in certain geographic locations and in respect of certain of our businesses, (6) our ability to integrate the businesses we have acquired, (7) currency fluctuations, particularly increases or decreases in the U.S. dollar against other currencies, (8) commodity price increases and/or limited availability of raw materials and component products, including steel, (9) compliance costs associated with environmental laws and regulations, (10) political factors, (11) our international

operations, (12) highly competitive markets, (13) governmental laws and regulations, (14) potential information systems interruptions and intrusions, (15) 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, (16) changes in accounting standards or adoption of new accounting standards, (17) adverse effects of natural disasters, (18) legal challenges with respect to intellectual property, (19) product liability exposure, (20) changes in tax rates or exposure to additional income tax liabilities, (21) potential labor disruptions, and (22) other factors described in more detail in the "Risk Factors" section of our 2014 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 First Quarter 2015 Form 10-Q. Except as otherwise required by applicable laws, we undertake no obligation to publicly update or revise any forward-looking statements, the risks described in this First Quarter 2015 Form 10-Q, or any other information in this First Quarter 2015 Form 10-Q, whether as a result of new information, future events, changed circumstances or any other reason after the date of this First Quarter 2015 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 2014 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 2014 Form 10-K.

Item 4. Controls and Procedures

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

We have established disclosure controls and procedures, as defined under Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 ("Exchange Act"). Our management, with the supervision and 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 February 28, 2015.

Based on such evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures pursuant to Rules 13a-15(e) and 15d-15(e) of the Exchange Act were effective as of February 28, 2015.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

No change in our internal control over financial reporting occurred during our most recent fiscal quarter ended February 28, 2015, 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 10 included in Part I, Item 1 of this First Quarter 2015 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 2014 Form 10-K.

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

On June 25, 2013, 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 25, 2016. 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 122,000 shares of our common stock during the fiscal quarter ended February 28, 2015. The Company had remaining authorization of approximately \$200.5 million to repurchase shares as of February 28, 2015 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
November 30, 2014 through January 3, 2015	46,000	\$66.55	46,000	\$ 205,398,847
January 4, 2015 through January 31, 2015	38,000	\$63.16	38,000	\$ 202,998,689
February 1, 2015 through February 28, 2015	38,000	\$65.46	38,000	\$ 200,511,378
Total	122,000		122,000	

Item 6. Exhibits

a. Exhibits:

- *10.7(e) Form of Agreement for the Issuance of Performance-Based Restricted Stock Units used by Company for executive officers and certain other senior members of Company management receiving performance-based restricted stock units, made under the 2014 Incentive Plan. + Certification of Christopher L. Conway pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- * 31.1 Certification of David J. Fallon pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- * 31.2 Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- ** 32 XBRL Instance Document
- *** 101.INS

*** 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 2014 Quarterly Report on Form 10-Q.
- + Management contract or compensatory plan or arrangement.

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)

March 20, 2015
(Date)

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

March 20, 2015
(Date)

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