CLARCOR INC
Form 10-K
January 22, 2010

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

FORM 10-K

(Mark One)

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

For the fiscal year ended November 28, 2009

OR

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

For the transition period from to

Commission File Number 1-11024

CLARCOR Inc.

(Exact name of registrant as specified in its charter)

DELAWARE	36-0922490
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

840 Crescent Centre Drive, Suite 600, Franklin, TN	37067
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $1.00 per share	New York Stock Exchange

Preferred Stock Purchase Rights	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

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 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 þ No o

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. Yes o No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The aggregate market value of the Common Stock held by non-affiliates computed by reference to the price at which the Common Stock was last sold as of the last business day of registrant s most recently completed second fiscal quarter was $1,247,744,167.

There were 50,415,958 shares of Common Stock outstanding as of January 15, 2010.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the registrant s Proxy Statement for the 2010 Annual Meeting of Shareholders (Proxy Statement), currently anticipated to be held on March 23, 2010, are incorporated by reference in Part III of this Annual Report on Form 10-K. Such Proxy Statement will be filed with the Securities and Exchange Commission not later than 120 days after the conclusion of the registrant s fiscal year ended November 28, 2009.

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PART I

Item 1. Business.

(a) General Development of Business

CLARCOR Inc. (CLARCOR) was organized in 1904 as an Illinois corporation and in 1969 was reincorporated in the State of Delaware. As used herein, the Company and terms such as we or our refers to CLARCOR and its subsidiaries unless the context otherwise requires.

The Company s fiscal year ends on the Saturday closest to November 30. For fiscal year 2009, the year ended on November 28, 2009 and included 52 weeks. For fiscal year 2008, the year ended on November 29, 2008 and included 52 weeks. For fiscal year 2007, the year ended December 1, 2007 and included 52 weeks. In this 2009 Annual Report on Form 10-K (2009 Form 10-K), all references to fiscal years are shown to begin on December 1 and end on November 30 for clarity of presentation.

Certain Significant Developments

Acquisitions

As reported in our previous SEC filings, the Company completed the following six acquisitions during fiscal year 2009.

On December 29, 2008 (which is part of fiscal year 2009), the Company purchased the Keddeg Company, a manufacturer of aerospace filtration products based in Lenexa, Kansas. The purchase price was approximately $5,570,000 excluding cash acquired and including acquisition costs. The business is included in the Industrial/Environmental Filtration segment from the date of acquisition.

On January 16, 2009, the Company purchased certain assets of Meggitt (UK) Limited (Meggitt), for approximately $578,000. The Company expects to make an additional payment in 2010 of approximately $146,000 to the former owner of the Meggitt assets contingent upon the renewal of a contract with a customer. This business was acquired to expand the Company s product range of aerospace filters sold primarily to European aircraft manufacturers and aerospace parts distributors. The business is included in the Industrial/Environmental Filtration segment from the date of acquisition.

On February 1, 2009, the Company purchased an 85% ownership interest in Pujiang Novaeastern International Mesh Co., Ltd. (Pujiang) and Quzhou Chinagrace Filter Co., Ltd. (Quzhou). Both companies are based in China and were under common ownership. Pujiang and Quzhou are manufacturers of wire mesh filtration products sold primarily to the fibers, resin and aerospace industries. The combined purchase price for the ownership interests in both companies was approximately $618,000. The Company has the right, but not the obligation, to purchase the remaining 15% ownership interest using a formula based on the combined companies future operating results. The businesses are included in the Industrial/Environmental Filtration segment from the date of acquisition.

On April 6, 2009, the Company purchased Weifang Yuhua Filters Ltd. (Yuhua), based in Weifang, China for approximately $643,000. Yuhua manufactures heavy-duty engine filters. The business is included in the Engine/Mobile Filtration segment from the date of acquisition.

On April 20, 2009, the Company purchased the remaining 20% minority interest in its consolidated subsidiary based in Weifang, China for approximately $4,592,000. This subsidiary is part of the Company s Engine/Mobile Filtration segment and manufactures heavy-duty engine filters, certain lines of environmental filters and filter systems and filters used in off-shore oil drilling.

HVAC Production Restructuring (CLC Air)

In July 2006, the Company announced a major restructuring of its heating, ventilating and air conditioning (HVAC) production at CLARCOR Air Filtration Products, Inc. (CLC Air) within its Industrial/Environmental Filtration segment. This restructuring was substantially completed in fiscal year 2009. This restructuring is anticipated to cost approximately $26 million in capital investment and expense over four years, (substantially all of which had been incurred by the end of fiscal year 2009) and result in a $14 million annual increase in operating profits of the Company s Industrial/Environmental Filtration segment by the end of fiscal year 2010. The Company hopes to achieve these profit increases by the end of 2010 by more fully

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automating its HVAC filter production processes and more rationally locating its production facilities throughout the United States. As part of this restructuring, the Company closed one CLC Air plant in North Carolina and one plant in Iowa during fiscal year 2008 and in fiscal year 2009 closed a small plant in Clover, South Carolina and consolidated four Louisville, Kentucky area facilities into one location in Jeffersonville, Indiana. The Company expects continued progress in executing the restructuring program as the CLC Air facilities receive and install new equipment, improve production processes and train their employees.

Residential HVAC

As disclosed in our quarterly report on Form 10-Q filed on September 18, 2009, we ceased supplying residential HVAC filters to 3M Company (3M) during fiscal year 2009 and launched our own retail initiative for residential HVAC filters under our Purolator® brand. In early 2009, a large national retailer agreed to offer our products in approximately 120 of its stores in the Southeastern United States on a trial basis. Although we believe the test went well and that we exceeded all applicable targets for price, delivery and quality, we were ultimately unable to displace the incumbent supplier. Nonetheless, we are continuing to develop our retail HVAC business and are optimistic about our prospects in this area.

(b) Financial Information About Industry Segments

During fiscal year 2009, the Company conducted business in three principal industry segments: (1) Engine/Mobile Filtration, (2) Industrial/Environmental Filtration and (3) Packaging. These segments are discussed in greater detail below. Financial information for each of the Company s business segments for the fiscal years 2007 through 2009 is included in Note P to Notes to Consolidated Financial Statements. See pages F-34 through F-36 in this 2009 Form 10-K.

(c) Narrative Description of the Business

Engine/Mobile Filtration

The Company s Engine/Mobile Filtration segment sells filtration products used on engines and in mobile equipment applications, including trucks, automobiles, buses and locomotives, and marine, construction, industrial, mining and agricultural equipment. The segment s filters are sold throughout the world, primarily in the replacement market. In addition, some first-fit filters are sold to original equipment manufacturers. At one of the Engine/Mobile Filtration segment plants, the Company also manufactures dust collection cartridges, including cartridges incorporating the Company s Protura® nanofiber filtration media. These cartridges are used in environmental filtration applications.

The products in the Engine/Mobile Filtration segment include a full line of oil, air, fuel, coolant, transmission and hydraulic fluid filters which are used in a wide variety of applications and in processes where filter efficiency, reliability and durability are essential. Most of these applications involve a process where impure air or fluid flows through semi-porous paper, corrugated paper, cotton, synthetic, chemical or membrane filter media with varying filtration efficiency characteristics. The impurities contained on the media are disposed of when the filter is changed.

The Company s sale of filtration products for use in automobiles occurs exclusively in the replacement market (i.e., the Company does not sell first-fit automotive filters to automobile manufacturers). The Company does provide filtration products and services directly to automobile manufacturers for use in their manufacturing facilities but not for use in the vehicles that are manufactured in these facilities. A decrease or complete loss of the Company s sales directly to automobile manufacturers for use in their manufacturing facilities would not be expected to have a material effect on the Company s financial performance.

Industrial/Environmental Filtration

The Company s Industrial/Environmental Filtration segment centers around the manufacturing and marketing of filtration products used in industrial and commercial processes, and in buildings and infrastructures of various types. The segment s products are sold throughout the world, and include liquid process filtration products and air filtration products and systems used to maintain high interior air quality and to control exterior pollution.

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The segment s liquid process filtration products include specialty industrial process liquid filters; filters for pharmaceutical processes and beverages; filtration systems, filters and coalescers for the oil and natural gas industry; filtration systems for aircraft refueling, anti-pollution, sewage treatment and water recycling; bilge water separators; sand control filters for oil and gas drilling; and woven wire and metallic products for filtration of plastics and polymer fibers. These filters use a variety of string wound, meltblown, and porous and sintered and non-sintered metal media, woven wire, and absorbent media.

The segment s air filtration products represent a complete line of air filters and cleaners, including antimicrobial treated filters and high efficiency electronic air cleaners. These products are used in commercial buildings, hospitals, factories, residential buildings, paint spray booths, gas turbine systems, medical facilities, motor vehicle cabins, aircraft cabins, clean rooms, compressors and dust collector systems.

Packaging

The Company s consumer and industrial packaging products business is conducted by a wholly-owned subsidiary, J.L. Clark, Inc. (J.L. Clark).

J.L. Clark manufactures a wide variety of different types and sizes of containers and packaging specialties. Metal, plastic and combination metal/plastic containers and closures manufactured by the Company are used in packaging a wide variety of dry and paste form products, such as food specialties (e.g., tea, coffee, spices, cookies, candy, mints and other confections); tobacco products; toiletries; playing cards; cosmetics and pharmaceuticals. Other packaging products include shells for dry batteries, canisters for film and candles, spools for insulated and fine wire, and custom decorated flat metal sheets.

Containers and packaging specialties are manufactured only upon orders received from customers, and individualized containers and packaging specialties are designed and manufactured, usually with distinctive decoration, to meet each customer s marketing and packaging requirements and specifications.

Distribution

Products in both the Engine/Mobile Filtration and Industrial/Environmental Filtration segments are sold primarily through a combination of independent distributors, dealers for original equipment manufacturers, retail stores and directly to end-use customers such as truck and equipment fleet users, manufacturing companies and contractors. In addition, both segments distribute products worldwide through their respective foreign subsidiaries and through export sales from the United States to end-use customers.

In the Packaging segment, J.L. Clark uses an internal sales force and sells its products directly to customers for containers and packaging specialties. Each salesperson is trained in J.L. Clark s manufacturing processes with respect to the products sold and to consult with customers and prospective customers concerning the details of their particular requirements. In addition, salespersons with expertise in specific areas, such as flat-sheet decorating, are focused on specific customers and markets.

Financial information related to the geographic areas in which the Company operates and sells its products is included in Note P to Notes to Consolidated Financial Statements. See pages F-34 through F-36 in this 2009 Form 10-K.

Class of Products

No class of similar products accounted for 10% or more of the total sales of the Company in any of the Company s last three fiscal years.

Raw Materials

The primary raw materials the Company uses to manufacture its products include various types of steel, adhesives, plastic and paper products and filter medias made from materials such as wood pulps, metals, polyester and other synthetic fibers, fiberglass and cotton. All of these are purchased and are available from a variety of sources. The Company experienced price volatility again in fiscal year 2009, although the volatility was not as severe as fiscal year 2008. During the first quarter of fiscal year 2009, many raw material prices were lower than at any time in fiscal year 2008. However, raw material prices increased significantly beginning in the third and fourth quarter of fiscal year 2009. The Company was able to procure adequate supplies of raw materials throughout fiscal year 2009 and does not anticipate procurement problems in 2010.

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Patents, Trademarks and Trade names

Certain features of some of the Company s products are covered by domestic and, in some cases, foreign patents or patent applications. While these patents are valuable and important for certain products, the Company does not believe that its competitive position is dependent upon patent protection, although as discussed under the heading of Risk Factors , the Company believes that patent-related litigation may become more commonplace across all of its business segments, particularly with respect to its engine aftermarket business.

With respect to trademarks and trade names, the Company believes that the trademarks and trade names it uses in connection with certain products (such as Baldwin , Purolator, Peco and Facet) are valuable and significant to its business.

Seasonality

In general, the Company s products and service offerings are not seasonal in nature, although certain of our operating companies in all our segments experience modest seasonal increases and decreases with respect to products and services supplied to particular end-use customers or industries. These shifts are normally not material to the Company on a consolidated basis.

Customers

The largest 10 customers of the Engine/Mobile Filtration segment accounted for 25% of the approximately $373,295,000 of fiscal year 2009 sales of such segment.

The largest 10 customers of the Industrial/Environmental Filtration segment accounted for 10% of the approximately $461,000,000 of fiscal year 2009 sales of such segment.

The largest 10 customers of the Packaging segment accounted for 73% of the approximately $73,453,000 of fiscal year 2009 sales of such segment.

No single customer accounted for 10% or more of the Company s consolidated fiscal year 2009 sales.

Backlog

At November 30, 2009, the Company had a backlog of firm orders for products of approximately $109,653,000. The backlog figure for November 30, 2008 was approximately $116,972,000. Substantially all of the orders on hand at November 30, 2009 are expected to be filled during fiscal year 2010. The Company does not view its backlog as being insufficient, excessive or problematic, or a significant indication of fiscal year 2010 sales.

Competition

The Company encounters strong competition in the sale of all of its products. The Company competes in a number of filtration markets against a variety of competitors. The Company is unable to state its relative competitive position in all of these markets due to a lack of reliable industry-wide data. However, in the replacement market for heavy-duty liquid and air filters used in internal combustion engines, the Company believes that it is among the top five companies worldwide measured by annual sales. In addition, the Company believes that it is a leading manufacturer of liquid and air filters for diesel locomotives. The Company believes that for industrial and environmental filtration products, it is among the top ten companies worldwide measured by annual sales, and is a market leader with respect to filtration products used in the oil and gas industries.

In the Packaging segment, the Company s principal competitors include several manufacturers that often compete on a regional basis only and whose specialty packaging segments are smaller than the Company s. Strong competition is also presented by manufacturers of paper, plastic and glass containers. The Company s competitors generally manufacture and sell a wide variety of products in addition to packaging products of the type produced by the Company and do not publish separate sales figures relative to these competitive products. Consequently, the Company is unable to state its relative competitive position in those markets.

The Company believes that it is able to maintain its competitive position because of the quality and breadth of its products and services and the broad geographic scope of its operations. The Company s products primarily compete on the basis of price, performance, speed of delivery, quality and customer support.

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Product Development

The Company develops products on its own and in consultation or partnership with its customers. In addition to product testing and development that occurs at the Company s various subsidiaries, the Company maintains the CLARCOR Filtration Research Center, a standalone research and development center in Forrest Park, Ohio (CFRC). The Company s laboratories, including the CFRC, test product components and completed products to insure high-quality manufacturing results, evaluate competitive products, aid suppliers in the development of product components, and conduct controlled tests of newly designed filters, filtration systems and packaging products for particular uses. Product development is concerned with the improvement and creation of new filters and filtration media, filtration systems, containers and packaging products in order to increase their performance characteristics, broaden their respective uses and counteract obsolescence.

In fiscal year 2009, the Company employed approximately 89 professional employees, including 4 at the CFRC, on either a full-time or part-time basis on research activities relating to the development of new products or the improvement or redesign of its existing products. During this period the Company spent approximately $9,595,000 on such activities as compared with $9,343,000 for fiscal year 2008 and $8,996,000 for fiscal year 2007.

Environmental Factors

The Company is not aware of any facts which would cause it to believe that it is in material violation of existing applicable standards with respect to emissions to the atmosphere, discharges to waters, or treatment, storage and disposal of solid or hazardous wastes.

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 (PRP), along with other companies, in remedial activities for the cleanup of waste sites under the federal Superfund statute.

Although it is not certain what future environmental claims, if any, may be asserted, the Company currently believes that its potential liability for known environmental matters does not exceed its present accrual of $50,000. 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 extent of the contamination, the length of time remediation may require, the complexity of environmental regulation and the continuing advancement of remediation technology. Applicable federal law may impose joint and several liability on each PRP for the cleanup of a contaminated site.

The Company does anticipate, however, that it may be required to install additional pollution control equipment to augment or replace existing equipment in the future in order to meet applicable environmental standards. The Company is presently unable to predict the timing or the cost of any project of this nature and cannot give any assurance that the cost of such projects may not have a material adverse effect on earnings. However, the Company is not aware, at this time, of any other additional significant current or pending requirements to install such equipment at any of its facilities.

Employees

As of November 30, 2009, the Company had approximately 4,958 employees.

(d) Financial Information About Foreign and Domestic Operations and Export Sales

Financial information relating to export sales and the Company s operations in the United States and other countries is included in Note P to Notes to Consolidated Financial Statements. As noted therein, total international sales for the Company in fiscal year 2009 were $273,691,000. See page F-36 in this 2009 Form 10-K. In addition, see Item 1A Risk Factors below for a discussion of certain risks of foreign operations.

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(e) Available Information

The Company s Internet address is www.clarcor.com. The Company makes available, free of charge, on this website, its annual report on Form 10-K, its quarterly reports on Form 10-Q, its current reports on Form 8-K and amendments to such reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act), as soon as reasonably practicable after such forms are electronically filed with, or furnished to, the Securities and Exchange Commission (SEC). In addition, the following corporate governance documents can be found on this website: (a) charters for the Audit Committee, the Director Affairs/Corporate Governance Committee and the Compensation Committee of the Board of Directors; (b) Corporate Conduct Guidelines; (c) Code of Ethics for Senior Financial Officers, which includes the Chief Executive Officer; (d) Corporate Governance Guidelines; (e) Disclosure Controls and Procedures; (f) Procedures Regarding Reports of Misconduct or Alleged Misconduct; (g) the Company s By-Laws; (h) Instructions for Communication with Directors, and (i) Insider Trading Policy. Copies of all of these documents can also be obtained, free of charge, upon written request to the Corporate Secretary, CLARCOR Inc., 840 Crescent Centre Drive, Suite 600, Franklin, TN 37067. The information contained on the Company s website is not incorporated herein or otherwise considered to be a part of this 2009 Form 10-K.

The public may read and copy any materials that the Company files with the SEC at the SEC s Public Reference Room at 450 Fifth Street, N.E., Washington D.C. 20549. Information regarding the SEC s Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy, information statements and other information and can be found at *www.sec.gov*.

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Item 1A. Risk Factors.

Our business faces a variety of risks. These risks include those described below and may include additional risks and uncertainties not presently known to us or that we currently deem immaterial. If any of the events or circumstances described in the following risk factors occur, our business, financial condition or results of operations may suffer, and the trading price of our common stock could decline. These risk factors should be read in conjunction with the other information in this 2009 Form 10-K.

Our business is affected by the health of the markets we serve.

Our financial performance depends, in large part, on varying conditions in the markets that we serve, particularly the general industrial and trucking markets. Demand in these markets fluctuates in response to overall economic conditions and is particularly sensitive to changes in fuel costs, although the replacement nature of our products helps mitigate the effects of these changes. In addition, a continued general economic downturn may have an adverse effect on sales of more expensive filtration systems and products, such as capital equipment sold by Perry Equipment Corporation (which may be affected by a decrease in the cost of oil and natural gas), United Air Specialists and our Facet companies. A continued economic downturn in the markets we serve may result in reductions in sales and pricing of our products, which could reduce future earnings and cash flow.

Adverse macroeconomic and business conditions may significantly and negatively affect our revenues, profitability and results of operations.

Economic conditions in the United States and in foreign markets in which we operate could substantially affect our sales and profitability. Economic activity in the United States and throughout much of the world remains depressed following the recent housing downturn and subprime lending collapse. Global credit and capital markets have experienced unprecedented volatility and disruption. Business credit and liquidity continues to be tight in much of the world. Some of our suppliers and customers are facing credit issues and could experience cash flow problems and other financial hardships. Consumer confidence and spending are down significantly.

Recent changes in governmental banking, monetary and fiscal policies to restore liquidity and increase credit availability may not be effective. It is difficult to determine the breadth and duration of the economic and financial market problems and the many ways in which such problems may continue to affect our suppliers, customers and our business in general. Nonetheless, continuation or worsening of these difficult financial and macroeconomic conditions could have a significant adverse effect on our sales, profitability and results of operations.

Our access to borrowing capacity could be affected by the uncertainty impacting credit markets generally.

As a result of current economic conditions, credit markets continue to be tight such that the ability to obtain new capital has become more challenging and more expensive in comparison to recent years. In addition, several large financial institutions have either recently failed or been dependent on the assistance of the U.S. federal government to continue to operate as a going concern. Although we believe that the banks under our credit facility have adequate capital and resources, we can provide no assurance that all of these banks will continue to operate as a going concern in the future. If any of the banks in the lending group of our credit facility were to fail, it is possible that the borrowing capacity under our credit facility would be reduced. In the event that the availability under our credit facility were reduced significantly, we could be required to obtain capital from alternate sources in order to finance our capital needs. Our options for addressing such capital constraints would include, but not be limited to (i) obtaining commitments from the remaining banks in the lending group or from new banks to fund increased amounts under the terms of our credit facility, (ii) accessing the public capital markets, or (iii) delaying certain of our existing development projects. If it became necessary to access additional capital, it is likely that any such alternatives in the current market would be on terms less favorable than under our existing credit facility terms, which could have a material effect on our consolidated financial position, results of operations, or cash flows.

Our manufacturing operations are dependent upon third-party suppliers.

We obtain materials and manufactured components from third-party suppliers. Although the majority of these materials and components can be obtained from multiple sources, and while we historically have not suffered any significant limitations on our ability to procure them, any delay in our suppliers abilities to provide

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us with necessary materials and components may affect our capabilities at a number of our manufacturing locations. Delays in obtaining supplies may result from a number of factors affecting our suppliers, including capacity constraints, labor disputes, the impaired financial condition of a particular supplier, suppliers allocations to other purchasers, weather emergencies or acts of war or terrorism. Any delay in receiving supplies could impair our ability to deliver products to our customers and, accordingly, could have a material adverse effect on our business, results of operations and financial condition.

We could be adversely impacted by environmental laws and regulations.

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 environmental costs with respect to our former or existing operations are not material, but there is no assurance that we will not be adversely impacted by such costs, liabilities or claims in the future, either under present laws and regulations or those that may be adopted or imposed in the future.

Our operations outside of the United States are subject to political, investment and local business risks.

Approximately 30% of our sales result from exports to countries outside of the United States and from sales of our foreign business units. As part of our business strategy, we expect to expand our international operations through internal growth and acquisitions. Sales and operations outside of the United States, particularly in emerging markets, are subject to a variety of risks which are different from or additional to the risks the Company faces within the United States. Among others, these risks include:

- local political and social conditions, including potential hyperinflationary conditions and political instability in certain countries;
- imposition of limitations on the remittance of dividends and payments by foreign subsidiaries;
- adverse currency exchange rate fluctuations, including significant devaluations of currencies;
- tax-related risks, including the imposition of taxes and the lack of beneficial treaties, that result in a higher effective tax rate for the Company;
- difficulties in enforcing agreements and collecting receivables through certain foreign legal systems;
- domestic and foreign customs, tariffs and quotas or other trade barriers;
- increased costs for transportation and shipping;
- difficulties in protecting intellectual property;
- increased risk of corruption, self-dealing or other unethical practices that may be difficult to detect or remedy;
- risk of nationalization of private enterprises by foreign governments;
- managing and obtaining support and distribution channels for overseas operations;
- hiring and retaining qualified management personnel for our overseas operations;
- imposition or increase of restrictions on investment; and
- required compliance with a variety of local laws and regulations which may be materially different than those to which we are subject in the United States.

The occurrence of one or more of the foregoing factors could have a material adverse effect on our international operations or on our financial condition and results of operations.

We face significant competition in the markets we serve.

The markets in which we operate are highly competitive and highly fragmented. We compete worldwide with a number of other manufacturers and distributors that produce and sell similar products. Our products primarily compete on the basis of price, performance, speed of delivery, quality and customer support. Some of

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our competitors are companies, or divisions or operating units of companies, that have greater financial and other resources than we do. Any failure by us to compete effectively in the markets we serve could have a material adverse effect on our business, results of operations and financial condition.

Increasing costs for manufactured components, raw materials, transportation, health care and energy prices may adversely affect our profitability.

We use a broad range of manufactured components and raw materials in our products, including raw steel, steel-related components, filtration media, resins, plastics, paper and packaging materials. Materials comprise the largest component of our costs, representing over 40% of the costs of our net sales in fiscal year 2009. Increases in the price of these items could further materially increase our operating costs and materially adversely affect our profit margins. Similarly, transportation, energy and health care costs have risen steadily over the past few years and represent an increasingly important burden for the Company. Although we try to contain these costs wherever possible, and although we try to pass along increased costs in the form of price increases to our customers, we may be unsuccessful in doing so for competitive reasons, and even when successful, the timing of such price increases may lag significantly behind our incurrence of higher costs.

We face heightened legal challenges from our competitors with respect to intellectual property, particularly with respect to patents relevant to our Engine/Mobile Filtration segment.

We face increasing exposure to claims by others for infringement of intellectual property rights, particularly with respect to patents that are alleged to apply to our aftermarket products, which claims could result in significant costs or losses. This is especially important with respect to our Engine/Mobile Filtration segment, where many of our competitors are suppliers of first-fit products to original equipment manufacturers (OEMs) and seek to control or at least gain an advantage in the aftermarket through aggressive and comprehensive patent strategies, sometimes in conjunction with the OEMs. These strategies may involve attempting to obtain as many patents as possible, including particularly with respect to the systems for attaching or sealing filters to their respective housings, deliberately delaying the final issuance of patents so as to be able to modify them in response to competitive product designs, and seeking multiple continuations of their patents in an attempt to have their patents more clearly apply to competitive product designs. While we spend (and will continue to spend) significant resources to combat these strategies, including by creating alternative designs that fall outside of our competitors patents, challenging patents which we believe to be invalid and attempting to build our own patent portfolio, there can be no guaranty that we will be successful. Any such failure could have a material adverse effect on the financial condition or prospects of the Company.

We face heightened legal challenges with respect to protecting our own intellectual property, particularly overseas.

We have developed and actively pursue developing proprietary technology in the industries in which we operate, and rely on intellectual property laws and a number of patents to protect such technology. In doing so, we incur ongoing costs to enforce and defend our intellectual property. Despite our efforts in this regard, we may face situations where our own intellectual property rights are invalidated or circumvented, to our material detriment. This is of particular concern in China, where we anticipate the market for our products to develop substantially, and, with it, the incentive of third parties to infringe or challenge our intellectual property rights.

Our success depends in part on our development of improved products, and we may fail to meet the needs of customers on a timely or cost-effective basis.

Our continued success depends on our ability to maintain technological capabilities, machinery and knowledge necessary to adapt to changing market demands as well as to develop and commercialize innovative products, such as innovative filtration media and higher efficiency filtration systems. We may not be able to develop new products as successfully as in the past or be able to keep pace with technological developments by our competitors and the industry generally. In addition, we may develop specific technologies and capabilities in anticipation of customers demands for new innovations and technologies. If such demand does not materialize, we may be unable to recover the costs incurred in such programs. If we are unable to recover these costs or if any such programs do not progress as expected, our business, financial condition or results of operations could be materially adversely affected.

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The introduction of new and improved products and services could reduce our future sales.

Substantial changes or technological developments in the industries in which our products are used could reduce sales if these changes negatively impact the need for our products. For example, improvements in engine technology may reduce the need to make periodic filter changes and thus negatively impact our aftermarket filter sales for such engines.

Our ability to operate effectively could be impaired if we fail to attract and retain key personnel.

Our ability to operate our business and implement our strategies depends, in part, on the efforts of our executive officers and other key employees. Our management philosophy of cost-control means that we operate what we consider to be a very lean company with respect to personnel, and our commitment to a less centralized organization (discussed further below) also places greater emphasis on the strength of local management. Our future success will depend on, among other factors, our ability to attract and retain other qualified personnel, particularly management, research and development engineers and technical sales professionals. The loss of the services of any of our key employees or the failure to attract or retain other qualified personnel, domestically or abroad, could have a material adverse effect on our business or business prospects.

Our acquisition strategy may be unsuccessful.

As part of our growth strategy, we plan to pursue the acquisition of other companies, assets and product lines that either complement or expand our existing business. We may be unable to find or consummate future acquisitions at acceptable prices and terms. We continually evaluate potential acquisition opportunities in the ordinary course of business, including those that could be material in size and scope. Acquisitions involve a number of special risks and factors, including:

- the focus of management s attention to the assimilation of the acquired companies and their employees and on the management of expanding operations;
- the incorporation of acquired products into our product line;
- the increasing demands on our operational and information technology systems;
- potentially insufficient internal controls over financial activities or financial reporting at an acquired company that could impact us on a consolidated basis;
- the failure to realize expected synergies;
- the potential loss of customers as a result of changes in control;
- the possibility that we have acquired substantial undisclosed liabilities; and
- the loss of key employees of the acquired businesses.

Although we conduct what we believe to be a prudent level of investigation regarding the operating and financial condition of the businesses we purchase, an unavoidable level of risk remains regarding the actual operating condition of these businesses. Until we actually assume operating control of these business assets and their operations, we may not be able to ascertain the actual value or understand the potential liabilities of the acquired entities and their operations. This is particularly true with respect to non-U.S. acquisitions.

We compete for potential acquisitions based on a number of factors, including price, terms and conditions, size and ability to offer cash, stock or other forms of consideration. In pursuing acquisitions, we compete against other strategic and financial buyers, some of which are larger than we are and have greater financial and other resources than we have. Increased competition for acquisition candidates could result in fewer acquisition opportunities for us and higher acquisition prices. In addition, the negotiation of potential acquisitions may require members of management to divert their time and resources away from our operations.

We are a decentralized company, which presents certain risks.

The Company is relatively decentralized in comparison with its peers. While we believe this practice has catalyzed our growth and enabled us to remain responsive to opportunities and to our customers   needs, it necessarily places significant control and decision-making powers in the hands of local management. This

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presents various risks, including the risk that we may be slower or less able to identify or react to problems affecting a key business than we would in a more centralized environment. In addition, it means that company-wide business initiatives, such as the integration of disparate information technology systems, are often more challenging and costly to implement, and their risk of failure higher, than they would be in a more centralized environment. Depending on the nature of the initiative in question, such failure could materially adversely affect our business, financial condition or results of operations.

Item 1B. Unresolved Staff Comments.

The Company has no unresolved SEC comments.

Item 2. Properties.

The various properties owned and leased by the Company and its operating units are considered by it to be in generally good repair and well maintained. Plant asset additions in fiscal year 2010 are estimated at $40 million for land, buildings, furniture, production equipment and machinery, and computer and communications equipment.

The following is a description of the real property owned or leased by the Company or its affiliated entities, broken down by business segment. All acreage and square foot measurements are approximate.

Corporate Headquarters

The Company s corporate headquarters are located in Franklin, Tennessee, and housed in 23,000 sq ft of office space under lease to the Company. The Company also owns a parcel of undeveloped land in Rockford, Illinois totaling 6 acres. The Company also leases approximately 14,400 square feet of space in Forrest Park, Ohio, which is occupied by the CFRC.

Engine/Mobile Filtration Segment

United States Facilities

Location	Approximate Size	Owned or Leased
Gothenburg, NE	19 acre site with 100,000 sq ft of manufacturing space.	Owned
Kearney, NE	42 acre site with 516,000 sq ft of manufacturing and warehousing space, 25,000 sq ft of research and development space and 40,000 sq ft of office space.	Owned
Lancaster, PA	11.4 acre site with 160,000 sq ft of manufacturing and office space.	Owned
Yankton, SD	20 acre site with 170,000 sq ft of manufacturing space.	Owned

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International Facilities

Location	Approximate Size	Owned or Leased
Warrington, Cheshire, England	4 acre site with two facilities totaling 71,000 sq feet for manufacturing, warehousing and office space.	Leased
Weifang, People s Republic of China*	14 buildings, constituting 300,000 sq ft of manufacturing, warehousing and office space.	Leased
Queretaro, Mexico	3 acre site with 76,000 sq ft of manufacturing, warehousing and office space.	Owned
Casablanca, Morocco	4 acre site with 95,000 sq ft of manufacturing, warehousing and office space.	Owned
Weifang, People s Republic of China**	105,000 sq ft of manufacturing, warehousing and office space.	Leased

In addition to the above properties, the Engine/Mobile Filtration segment leases and operates smaller facilities in Australia, Belgium, South Africa and the United Kingdom in order to manufacture and/or distribute applicable filtration products.

* This facility was formerly part of the Company s joint venture in Weifang. On April 20, 2009, the Company purchased the remaining 20% minority interest in this joint venture.

** This facility was acquired pursuant to the Company s purchase of Weifang Yuhua Filters Ltd. on April 6, 2009.

Industrial/Environmental Filtration Segment

United States Facilities

Location	Approximate Size	Owned or Leased
Auburn Hills, MI	44,222 sq ft of warehousing and office space.	Leased
Blue Ash, OH	17 acre site with 157,000 sq ft of manufacturing and office space.	Owned
Campbellsville, KY	100 acre site with 242,000 sq ft of manufacturing and office space.	Owned
Corona, CA	84,000 sq feet of manufacturing, warehousing and office space.	Leased
Dallas, TX	83,500 sq feet of manufacturing, warehousing and office space.	Leased
Greensboro, NC	21 acre site with 88,000 sq ft of manufacturing, warehousing and office space.	Owned
	97,000 sq ft of manufacturing, warehousing and office space.	Owned
Goodlettsville, TN	35,000 sq ft of warehouse space.	Owned
Houston, TX	88,000 sq ft of manufacturing, warehousing and office space.	Leased

Houston, TX	14,000 sq ft of warehousing and office space.	Leased
Jeffersonville, IN	450,000 sq feet of manufacturing, warehousing and office space.	Leased
Lenexa, KS	18,000 sq feet of warehousing and office space.	Leased
Mineola, NY	5 buildings totaling approx 31,000 sq ft of manufacturing and office space.	Leased
Mineral Wells, TX	46 acre site with 351,000 sq feet of manufacturing, warehousing and office space.	Owned
	35,000 sq ft of warehousing space.	Leased
Ottawa, KS	41,000 sq ft of manufacturing and office space.	Owned

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Location	Approximate Size	Owned or Leased
Pittston, PA	250,000 sq feet of manufacturing, warehousing and office space.	Leased
Sacramento, CA	108,000 sq feet of manufacturing, warehousing and office space.	Leased
	40,000 sq feet of manufacturing, warehousing and office space.	Owned
Shelby, NC	48,000 sq ft of manufacturing, warehousing and office space.	Owned
Tulsa, OK	16 acre site with 142,000 sq ft of manufacturing and office space.	Owned

International Facilities

Location	Approximate Size	Owned or Leased
Calgary, Alberta, Canada	25,000 sq feet of manufacturing, warehousing and office space.	Owned
St. Catharines, Ontario, Canada	25,000 sq ft of warehouse space. Right to occupy 40,000 sq ft total (15,000 sq ft currently being sublet).	Leased
La Coruña, Spain	4 acre site with 61,000 sq ft of manufacturing and office space.	Owned
Pujiang City, People s Republic of China	53,819 sq ft of manufacturing, warehousing and office space.	Leased
Queretaro, Mexico	5 acre site with 108,000 sq ft of manufacturing, warehousing and office space.	Owned
Quzhou, People s Republic of China	215,278 sq ft of manufacturing, warehousing and office space	Leased

In addition to the above properties, the Industrial/Environmental Filtration segment leases and operates smaller facilities in the following locations in order to manufacture, distribute and/or service applicable filtration products: *United States*: Atlanta, GA; Auburn, WA; Birmingham, AL; Evansville, WY; Chantilly, VA; Hamilton, OH; Clover, SC; Columbus, OH; Commerce City, CO; Dallas, TX; Farmington, NM; Fresno, CA; Hayward, CA; Houston, TX; Jackson, MS; Kansas City, MO; Louisville, KY; Butler, WI; Shakopee, MN; Phoenix, AZ; Portland, OR; Sacramento, CA; Stillwell, OK; Tulsa, OK; Vernal, UT; Wichita, KS. *International:* Canada; China; France; Germany; Italy; Malaysia; Netherlands; Singapore; United Kingdom.

Packaging Segment.

Location	Approximate Size	Owned or Leased
Rockford, IL	34 acre site with buildings totaling 405,000 sq ft of manufacturing, warehousing and office space.	Owned
Lancaster, PA		Owned

11 acre site with 243,500 sq ft of manufacturing and office space.

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Item 3. Legal Proceedings.

From time to time, the Company is subject to lawsuits, investigations and disputes (some of which involve substantial amounts claimed) arising out of the conduct of its business, including matters relating to commercial transactions, product liability, intellectual property, and other matters. The Company recognizes a liability for any contingency that is probable of occurrence and reasonably estimable. The Company continually assesses the likelihood of adverse judgments of outcomes in these matters, as well as potential ranges of possible losses (taking into consideration any insurance recoveries), based on a careful analysis of each matter with the assistance of outside legal counsel and, if applicable, other experts. Included in these other matters are the following:

Anti-Trust. On March 31, 2008, S&E Quick Lube, a filter distributor, filed suit in U.S. District Court for the District of Connecticut alleging that virtually every major North American filter manufacturer, including Baldwin Filters, Inc., engaged in a conspiracy to fix prices, rig bids and allocate U.S. customers for aftermarket filters. This suit seeks various remedies, including injunctive relief and monetary damages of an unspecified amount, and is a purported class action on behalf of direct purchasers of filters from the defendants. Parallel purported class actions, including on behalf of indirect purchasers of filters, have been filed by other plaintiffs in a variety of jurisdictions in the United States and Canada. The U.S cases have been consolidated into a single multi-district litigation in the Northern District of Illinois. The Company intends to vigorously defend the claims raised in these actions. In this regard, the Company filed a motion to be dismissed from these cases due to the lack of any factual allegations against the Company specifically and the fact that the allegations center predominantly on the automotive filtration market rather than on the heavy duty filtration market. On November 9, 2009, the presiding court denied the Company s motion, a decision that the Company is seeking to overturn. The Antitrust Division of the Department of Justice (DOJ) is also investigating the allegations raised in these suits. Management does not believe that the Company is the subject of the DOJ investigation and the Company has not been contacted by the DOJ in connection with this matter.

Donaldson. On May 15, 2009, Donaldson Company, Inc. (Donaldson) filed a lawsuit in the U.S. Federal District Court for the District of Minnesota alleging that certain ChannelFlow engine/mobile filters manufactured and sold by a subsidiary of the Company infringe one or more patents held by Donaldson. Donaldson served this lawsuit on August 26, 2009, and through the suit seeks various remedies, including injunctive relief and monetary damages of an unspecified amount. Management believes that the products in question do not infringe the asserted patents and that such patents are invalid, and the Company is vigorously defending the action.

3M. On August 14, 2009, 3M filed a lawsuit in the U.S. Federal District Court for the Eastern District of Virginia, alleging that various statements and imagery on the packaging of certain retail residential filters being sold by a subsidiary of the Company are untrue or misleading to consumers, and thus violate various aspects of the Lanham Act and Virginia consumer protection law. 3M is a former customer of the Company, and the products in question compete with those offered by 3M in the retail marketplace. The Company filed counterclaims against 3M in respect of its own packaging. This lawsuit was concluded on November 17, 2009, at which time the Company and 3M entered into a confidential settlement agreement pursuant to which each party dropped all of its claims and counterclaims.

Additionally, the Company is party to various proceedings relating to environmental issues. The U.S. Environmental Protection Agency and/or other responsible state agencies have designated the Company as a potentially responsible party, along with other companies, in remedial activities for the cleanup of waste sites under the federal Superfund statute. The Company is not certain what future environmental claims, if any, may be asserted.

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Item 4. Submission of Matters to a Vote of Security Holders.

None.

ADDITIONAL ITEM: Executive Officers of the Registrant

The following individuals are the executive officers of the Company as of January 22, 2010:

Name	Age at 11/28/09	Year Elected to Office
Sam Ferrise President, Baldwin Filters, Inc. Mr. Ferrise was appointed President of Baldwin Filters, Inc. in 2000. He became an executive officer of the Company in 2003 while retaining the same title with Baldwin Filters, Inc.	53	2003
Norman E. Johnson Chairman of the Board, President and Chief Executive Officer. Mr. Johnson has been employed by the Company since 1990. He was elected President Baldwin Filters, Inc. in 1990, Vice President CLARCOR in 1992, Group Vice President Filtration Products Group in 1993, President and Chief Operating Officer in 1995 and Chairman, President and Chief Executive Officer in 2000. Mr. Johnson has been a Director of the Company since June 1996.	61	2000
Bruce A. Klein Vice President Finance and Chief Financial Officer. Mr. Klein was employed by the Company and elected Vice President Finance and Chief Financial Officer in 1995. Mr. Klein also assumed the role of the Company s principal accounting officer when the Company s former Controller retired in March of 2006.	62	1995
David J. Lindsay Vice President Administration and Chief Administrative Officer. Mr. Lindsay has been employed by the Company in various administrative positions since 1987. He was elected Vice President Group Services in 1991, Vice President Administration in 1994 and Vice President Administration and Chief Administrative Officer in 1995.	54	1995
Richard M. Wolfson Vice President General Counsel and Secretary. Mr. Wolfson was employed by the Company and elected Vice President, General Counsel and Secretary in 2006. Prior to joining the Company, he was a principal of the InterAmerican Group, an advisory services and private equity firm, from 2001 until 2006.	43	2006

Each executive officer of the Company is elected by the Board of Directors for a term of one year which begins at the Board of Directors Meeting at which he or she is elected, typically held at the time of the Annual Meeting of Shareholders, and ends on the date of the next Annual Meeting of Shareholders or upon their earlier death, resignation or removal in accordance with the Company s By-Laws.

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PART II

Item 5. Market for the Registrant s Common Equity, Related Stockholder Matters, Issuer Purchase of Equity Securities and Five-Year Performance of the Company.

The Company s Common Stock is listed on the New York Stock Exchange; it is traded under the symbol CLC.

The following table sets forth the high and low market prices as quoted during the relevant periods on the New York Stock Exchange and dividends per share paid for each quarter of the last two fiscal years.

	Market Price		
Quarter Ended	High	Low	Dividends
February 28, 2009	$ 34.64	$ 25.73	$ 0.0900
May 30, 2009	33.04	23.05	0.0900
August 29, 2009	34.50	27.47	0.0900
November 28, 2009	33.78	28.77	0.0975
Total Dividends			$ 0.3675

	Market Price		
Quarter Ended	High	Low	Dividends
March 1, 2008	$ 40.62	$ 34.03	$ 0.0800
May 31, 2008	44.20	33.25	0.0800
August 30, 2008	44.25	32.68	0.0800
November 29, 2008	43.17	25.03	0.0900
Total Dividends			$ 0.3300

As set forth above, the quarterly dividend rate was increased in fiscal year 2009, and the Company currently expects to continue making dividend payments to shareholders. The Company s right to make dividend payments is subject to restrictions contained in the credit agreement to which the Company is a party. The Company has never been prevented from making dividend payments under its past credit agreements or its current credit agreement and does not anticipate being so restricted in the foreseeable future.

The approximate number of holders of record of the Company s Common Stock at January 15, 2010 was 1,904.

On June 25, 2007, the Company s Board of Directors approved a three-year, $250 million stock repurchase program. Pursuant to the authorization, the Company may purchase shares from time to time in the open market or through privately negotiated transactions over the next three years. The Company has no obligation to repurchase shares under the authorization, and the timing, actual number and value of shares to be purchased will depend on the Company s stock price and market conditions.

During fiscal year 2009, the Company repurchased 688,200 shares of its Common Stock, at a median price of $28.72 per share, and an aggregate cost of approximately $20 million. As set forth in the table below, the Company did not repurchase any shares during the fourth quarter of fiscal year 2009. The Company had a balance of $167,442,663 available to repurchase shares as of November 28, 2009.

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ISSUER PURCHASES OF EQUITY SECURITIES[(1)]

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
Aug. 30 Sep. 30, 2009		$		$ 167,442,663
Oct. 1 Oct. 31, 2009		$		$ 167,442,663
Nov. 1 Nov. 28, 2009		$		$ 167,442,663
TOTAL				$ 167,442,663

(1) The Purchase Plan announced June 25, 2007 for aggregate purchases up to $250 million. The program expires June 25, 2010.

5-Year Performance of the Company

PERFORMANCE GRAPH

The following Performance Graph compares the Company s cumulative total return on its Common Stock for a five-year period (November 27, 2004 to November 28, 2009) with the cumulative total return of the S&P SmallCap 600 Index and the S&P 500 Industrial Machinery Index.

TOTAL RETURN TO SHAREHOLDERS

Comparison of Five-Year Cumulative Total Return Among the Company, S&P SmallCap 600 Index and S&P 500 Industrial Machinery Index

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN ASSUMES INITIAL INVESTMENT OF $100 AND REINVESTMENT OF ALL DIVIDENDS

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COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN ASSUMES INITIAL INVESTMENT OF $100 AND RE

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	November 27, 2004	December 3, 2005	December 2, 2006	December 1, 2007	November 29, 2008	November 28, 2009
CLARCOR Inc.	100.00	116.57	128.76	140.56	127.93	128.96
S&P SmallCap 600 Index	100.00	112.43	124.27	124.29	79.09	95.18
S&P 500 Industrial Machinery Index	100.00	99.40	109.73	133.06	73.72	103.74

Item 6. Selected Financial Data.

The information required hereunder is included as Exhibit 13 to this 2009 Form 10-K.

Item 7. 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 Financial Statements and Notes thereto. The analysis of operating results focuses on the Company s three reportable business segments: Engine/Mobile Filtration, Industrial/Environmental Filtration and Packaging. Except as otherwise set forth herein, references to particular years refer to the applicable fiscal year of the Company.

EXECUTIVE SUMMARY

Management Discussion Snapshot (Dollars in millions except per share data)

	2009	2008	2007	2009 vs. 2008 $ Change	2009 vs. 2008 % Change
Net sales	$ 907.7	$ 1,059.6	$ 921.2	$ (151.9)	-14 %
Cost of sales	628.5	719.7	641.5	(91.2)	-13 %
Gross profit	279.3	339.9	279.7	(60.6)	-18 %
Selling and administrative expenses	173.6	188.0	149.9	(14.4)	-8 %
Operating profit	105.7	151.9	129.8	(46.2)	-30 %
Other income (expense)	(0.1)	(6.6)	0.7	6.5	
Provision for income taxes	33.8	49.3	39.7	(15.5)	-31 %
Net earnings	71.5	95.7	90.7	(24.2)	-25 %
Average diluted shares (millions)	51.0	51.4	50.9	(0.4)	-1 %
Diluted earnings per share	$ 1.40	$ 1.86	$ 1.78	$ (0.46)	-25 %
Percentages:					
Gross margin	30.8 %	32.1 %	30.4 %		-1.3 pt
Selling and administrative percentage	19.1 %	17.7 %	16.3 %		1.4 pt
Operating margin	11.6 %	14.3 %	14.1 %		-2.7 pt
Effective tax rate	32.0 %	33.9 %	30.4 %		-1.9 pt
Net earnings margin	7.9 %	9.0 %	9.8 %		-1.1 pt

Fiscal year 2009 was a challenging year as we were significantly impacted by the global economic recession. Our net sales declined 14% or $151.9 million from $1,059.6 million in 2008 to $907.7 million in 2009. This sales reduction and the resulting under-absorption of fixed manufacturing costs was the primary reason for our reduced operating profit which declined 30% or $46.2 million from $151.9 million in 2008 to $105.7 million in 2009. The negative impact of lower sales was offset in part by three significant cost items:

- Lower material costs
- Reduced discretionary spending
- Benefits from HVAC filter operations restructuring program

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We realized a $10 to $12 million benefit from the reduction of material costs in 2009 compared to 2008. This reduction was driven by lower commodity pricing primarily in steel, filter media and adhesives. In addition, we initiated several projects in 2009 which removed material cost from our products without compromising the quality of the product to the end customer.

Due to the challenging economic environment in 2009, we established several cost initiatives including headcount reductions, wage freezes and significant cuts in discretionary spending including travel and outside professional services. As a result of these cost initiatives, we were able to reduce our selling and administrative expenses by $14.4 million from $188.0 million in 2008 to $173.6 million in 2009. Despite this focus on lower costs, we did not sacrifice spending on future growth initiatives including our sales force, customer service or product development.

We largely completed our restructuring program at our HVAC filter operations in 2009. At the beginning of fiscal year 2009, we completed the consolidation of two manufacturing operations, one distribution facility and one office location facility into one facility in Indiana. As a result of this consolidation and the full year benefits of facilities closed in 2008, we recognized approximately $4.0 million in fixed cost savings in 2009 compared to 2008. These fixed cost savings were offset in part by a $1.2 million impairment charge recognized on a HVAC facility in North Carolina which we closed in 2008.

Despite the negative comparisons to fiscal 2008, we generated sequentially improving operating performance for each quarter in 2009 as follows:

(Dollars in millions except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$ 213.7	$ 229.4	$ 230.3	$ 234.3
Operating profit	13.7	25.2	32.1	34.7
Operating margin	6.4 %	11.0 %	13.9 %	14.8 %
Diluted earnings per share	$ 0.17	$ 0.33	$ 0.42	$ 0.49

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

Acquisitions

During fiscal year 2009 we completed six small acquisitions and paid an earn-out amount and recieved a refund related to two acquisitions completed prior to fiscal year 2009, all for aggregate consideration of approximately $11.9 million. Four of these fiscal year 2009 acquisitions (approximately $6.0 million) were related to companies located in China, including $4.6 million to purchase the remaining 20% minority interest in our subsidiary in Weifang. The majority of the remaining $5.9 million of the $11.9 million was for the purchase of the Keddeg Company, a U.S. based manufacturer of aerospace filtration products. These combined acquisitions increased 2009 net sales by approximately $5.5 million and 2009 operating profit by approximately $0.4 million.

At the beginning of fiscal 2008 we completed the acquisition of Perry Equipment Corporation (Peco), a manufacturer of engineered filtration products and technologies primarily used in the natural gas industry. The purchase price was $145.8 million, excluding cash acquired. The Peco acquisition increased 2008 net sales by approximately $116.0 million and 2008 operating profit by approximately $15.0 million.

Foreign exchange

Although most foreign currencies strengthened against the U.S. dollar throughout 2009, the average exchange rate for most foreign currencies versus the U.S. dollar was weaker for 2009 compared to 2008. For example, the average exchange rate for the Euro was $1.38 in 2009 and $1.47 in 2008. Weaker foreign currencies negatively impacted our translated 2009 U.S. dollar value of net sales by $24.8 million and operating profit by $2.7 million compared to 2008.

The average exchange rate for most foreign currencies versus the U.S. dollar was stronger in 2008 compared to 2007. As a result, stronger foreign currencies positively impacted our translated U.S. dollar value of net sales by $9.5 million and operating profit by $1.4 million in 2008 compared to 2007.

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Other income (expense)

Interest expense

Interest expense declined $4.4 million in 2009 compared to 2008. $2.8 million of this decrease was driven by lower interest expense on our line of credit driven by both lower average interest rates (0.8% in 2009 and 3.7% in 2008) and lower average outstanding balances ($61.3 million in 2009 and $90.4 million in 2008). In addition, the $1.1 million impact of the mark-to-market adjustment on the interest rate swap was $1.3 million lower in 2009 compared to 2008.

Interest expense increased $5.5 million in 2008 compared to 2007. $3.4 million of this increase was driven by higher interest expense on our line of credit primarily as a result of amounts borrowed to fund the acquisition of Peco. There was no balance on our line of credit in 2007. The remainder of the higher interest expense was related to a $2.4 million mark-to-market adjustment on the interest swap in 2008.

Foreign currency gains and losses

Changes in foreign currency transaction gains and losses contributed a positive $2.7 million change in other income (expense) in 2009 compared to 2008. As most foreign currencies strengthened against the U.S. dollar throughout 2009, we recognized approximately $1.2 million of foreign currency gains in 2009 mostly related to the translation of U.S. dollar intercompany debt at our non-U.S. subsidiaries. The weakening of foreign currencies against the U.S. dollar generated $1.5 million of foreign currency losses in 2008. Changes in foreign currency transaction gains and losses contributed an additional loss of $1.6 million in other income (expense) in 2008 compared to 2007.

Provision for income taxes

The effective tax rate in 2009 was 32.0% compared to 33.9% in 2008. This reduction was driven by a higher mix of taxable income in foreign operations with lower tax rates than in the U.S. In addition, several favorable provision-to-return state tax return adjustments lowered the effective rate. The relatively low effective tax rate of 30.4% in 2007 was driven by a 3.2% benefit from the completion of various income tax audits, the finalization of certain income tax liabilities and the cumulative tax benefit from the research and experimentation tax credit extension in 2007.

Shares outstanding

Average diluted shares outstanding declined 0.4 million in 2009 compared to 2008. This reduction was driven almost entirely by the lower dilution from our outstanding stock options and restricted share units as average basic shares outstanding remained consistent from 2008 to 2009. The full year benefit of our 0.7 million share repurchase executed in the third quarter of 2009 will not be fully realized until 2010.

Average diluted shares outstanding increased 0.5 million in 2008 compared to 2007. This increase was driven by a 0.4 million increase in basic shares outstanding. Average basic shares outstanding increased in 2008 due to the issuance of 2.1 million shares pursuant to the Peco acquisition and 0.4 million shares issued pursuant to stock incentive programs offset by the repurchase of 1.0 million shares at the beginning of 2008 and the full year impact of 2.3 million shares repurchased throughout 2007.

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SEGMENT ANALYSIS

(Dollars in millions)	2009	% Total	2008	% Total	2007	% Total
Net sales:						
Engine/Mobile Filtration	$ 373.3	41 %	$ 439.0	42 %	$ 430.0	47 %
Industrial/Environmental Filtration	461.0	51 %	543.1	51 %	414.5	45 %
Packaging	73.4	8 %	77.5	7 %	76.7	8