CLARCOR INC
Form 10-K
January 21, 2011

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

(Mark One)

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

For the fiscal year ended November 27, 2010

OR

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

For the transition period from ______________ to ______________

Commission File Number 1-11024

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

DELAWARE	36-0922490
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
840 Crescent Centre Drive, Suite 600, Franklin, TN	37067
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code:	615-771-3100

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 £ No R

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 R 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. Yes R No £

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. R

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 R	Accelerated filer £	Non-accelerated filer £	Smaller reporting company £
		(Do not check if a smaller reporting company)	

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

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 $1,805,283,219.

There were 50,374,153 shares of Common Stock outstanding as of January 14, 2011.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the registrant's Proxy Statement for the 2011 Annual Meeting of Shareholders ("Proxy Statement"), currently anticipated to be held on March 22, 2011, 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 27, 2010.

TABLE OF CONTENTS

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 2010, the year ended on November 27, 2010 and included 52 weeks. 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. In this 2010 Annual Report on Form 10-K (“2010 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

On December 29, 2010 (which is part of fiscal year 2011), the Company acquired all of the outstanding equity interests in TransWeb, LLC (“TransWeb”), a privately-owned manufacturer of media used in a variety of end-use applications, including respirators and heating, ventilating and air conditioning (“HVAC”) filters. Founded in 1996 and based in Vineland, New Jersey, TransWeb has supplied media to a subsidiary of the Company for several years. TransWeb was acquired to expand the Company’s technology capabilities in the area of media development and to enhance the product offerings of our filtration operating companies. Transweb’s results will be included in the Industrial/Environmental Filtration segment from the date of acquisition.

As disclosed in Items 1A and Item 3 of this 2010 Form 10-K and the Notes to our Consolidated Financial Statements filed herewith, TransWeb has been accused by 3M Company (“3M”) and one of its affiliates of violating certain 3M patents, and the parties are currently engaged in litigation in the United States District Court for the District of New Jersey. TransWeb is seeking a declaratory judgment that the asserted patents are invalid and that the products in question do not infringe. The Company intends to vigorously defend the action and pursue related claims.

The base purchase price to acquire TransWeb was approximately $29 million, excluding cash acquired, plus a potential earn-out payable to one of the former owners. Of the base purchase price, the Company withheld $17 million pending resolution of the 3M litigation, which funds may be used by the Company in connection with the same. The Company paid the balance of the purchase price with available cash.

There were no acquisitions completed during fiscal year 2010.

(b) Financial Information About Industry Segments

During fiscal year 2010, 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 2008 through 2010 is included in Note P to Notes to Consolidated Financial Statements. See pages F-38 through F-39 in this 2010 Form 10-K.

3

(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.

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-38 through F-39 in this 2010 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 in fiscal year 2010 with raw material prices trending higher in all significant spend categories. The Company was able to procure adequate supplies of raw materials throughout fiscal year 2010 and does not anticipate procurement problems in 2011, although it does believe that prices will generally continue to rise.

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 10 largest customers of the Engine/Mobile Filtration segment accounted for 28% of the approximately $446,104,000 of fiscal year 2010 segment sales.

The 10 largest customers of the Industrial/Environmental Filtration segment accounted for 11% of the approximately $470,359,000 of fiscal year 2010 segment sales.

The 10 largest customers of the Packaging segment accounted for 73% of the approximately $94,966,000 of fiscal year 2010 segment sales.

No single customer accounted for 10% or more of the Company's consolidated fiscal year 2010 sales.

Backlog

At November 30, 2010, the Company had a backlog of firm orders for products of approximately $118,113,000. The backlog figure for November 30, 2009 was approximately $109,653,000. Substantially all of the orders on hand at November 30, 2010 are expected to be filled during fiscal year 2011. The Company does not view its backlog as being insufficient, excessive or problematic, or a significant indication of fiscal year 2011 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.

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 2010, the Company employed approximately 116 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 $9,817,000 on such activities as compared with $9,595,000 for fiscal year 2009 and $9,343,000 for fiscal year 2008.

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, 2010, the Company had approximately 5,136 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 2010 were $308,919,000. See page F-39 in this 2010 Form 10-K. In addition, see "Item 1A — Risk Factors" below for a discussion of certain risks of foreign operations.

(e) Available Information

Pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Company files electronically with the Securities and Exchange Commission ("SEC") required current reports on Form 8-K, quarterly reports on Form 10-Q, annual reports on Form 10-K and Form 11-K; proxy materials; ownership reports for insiders as required by Section 16 of the Exchange Act; and registration statements on Form S-8, as necessary; and any other form or report as required.

Our corporate headquarters are located at 840 Crescent Centre Drive, Suite 600, Franklin TN 37067, and our telephone number is (615) 771-3100. The Company's corporate Internet site is www.CLARCOR.com. The Company makes available on that site, free of charge, its Form 10-Ks, Form 10-Qs, Form 8-Ks and amendments to such reports, as soon as reasonably practicable after such forms are electronically filed with, or furnished to, the SEC. The information contained on the Company's website is not incorporated herein or otherwise considered to be a part of this

2010 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 100 F 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 (www.sec.gov) that contains reports, proxy information statements and other information regarding issuers that file electronically with the SEC.

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 2010 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 volatility and disruption. Business credit and liquidity continues to be tight in much of the world.

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. 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.

We could be adversely impacted by environmental matters and climate change and energy legislation and regulation.

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

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

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

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

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 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 2010. 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.

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 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 face heightened legal challenges from our competitors with respect to intellectual property, particularly in the area of patents, as evidenced by our lawsuits with Donaldson and 3M.

We face increasing exposure to claims by others for infringement of intellectual property rights, particularly with respect to patents, 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.

This increased exposure to patent claims is also becoming more relevant to our Industrial/Environmental Filtration segment, where we face sophisticated competitors that are larger and better financed than we are and that have complex patent portfolios that present potential obstacles to our growth.

While we spend (and will continue to spend) significant resources to combat these risks, including by understanding the patent landscape applicable to our operating companies, creating alternative products and product designs that fall outside of our competitors' claimed patent rights, 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.

Examples of significant patent disputes that we face are the Donaldson and 3M/TransWeb litigations that are identified in Item 3 of this 2010 Form 10-K and referenced in the Notes to our Consolidated Financial Statements. While the Company believes in its positions with respect to these actions and is defending and pursuing them vigorously, doing so has required us, and will continue to require us, to expend significant financial and human resources with no guaranty of success.

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 ignored, 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.

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 fully 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 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 2011 are estimated to be between $30 and $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

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
Weifang, People's Republic of China	105,000 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

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.

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
Greensboro, NC	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

Mineral Wells, TX	46 acre site with 351,000 sq feet of manufacturing, warehousing and office space.	Owned
Mineral Wells, TX	35,000 sq ft of warehousing space.	Leased
Ottawa, KS	41,000 sq ft of manufacturing and office space.	Owned
Pittston, PA	250,000 sq feet of manufacturing, warehousing and office space.	Leased
Stilwell, OK	11 acre site with 132,000 sq feet of manufacturing, warehousing and office space.	Leased
Sacramento, CA	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
Vineland, NJ	55,492 sq ft of manufacturing, warehousing and office space.	Owned/Leased

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; Shakopee, MN; Phoenix, AZ; Portland, OR; Ontario, CA; Vernal, UT; Wichita, KS. International: Brazil; 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	11 acre site with 243,500 sq ft of manufacturing and office space.	Owned

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/Qui Tam. 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 engine filter manufacturer, including the Company's subsidiary, Baldwin Filters, Inc. (the "Defendant Group"), engaged in a conspiracy to fix prices, rig bids and allocate U.S. customers for aftermarket filters. This suit is a purported class action on behalf of direct purchasers of filters from the Defendant Group. Parallel purported class actions, including on behalf of indirect purchasers of filters, have been filed by other plaintiffs against the Defendant Group in a variety of jurisdictions in the United States and Canada.

In addition, the Attorney General of the State of Florida and the County of Suffolk, New York have filed complaints against the Defendant Group based on these same allegations, and the Attorney General of the State of Washington requested various documents, information and cooperation, which the Company has agreed to provide.

Finally, in late 2010, William Burch, a former employee of two other defendants in these cases, has brought an action under the United States False Claims Act and similar state statutes on behalf of the governments of the United States and approximately twenty individual states against the Defendant Group, based on these same allegations.

All of the U.S cases, including the actions brought by and/or on behalf of governmental entities, have been consolidated into a single multi-district litigation in the Northern District of Illinois. The Company believes all of these lawsuits and the claims made therein to be without merit and is vigorously defending them.

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. Through this lawsuit Donaldson 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. The Company is vigorously defending the action.

TransWeb/3M. Prior to the Company's acquisition of TransWeb, 3M Company and 3M Innovative Properties Company ("3M") filed a lawsuit against TransWeb in the United States District Court for the District of Minnesota on May 21, 2010, alleging that certain TransWeb products infringed certain 3M patents. TransWeb filed its own complaint against 3M in the United States District Court for the District of New Jersey on August 27, 2010, seeking a declaratory judgment that the asserted patents are invalid and that the products in question do not infringe. 3M withdrew its Minnesota action, and the parties are currently litigating the matter in New Jersey. The Company intends to vigorously defend the action and pursue related claims.

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 PRP, 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.

Item 4. [Removed and Reserved].

ADDITIONAL ITEM: Executive Officers of the Registrant

The following individuals are the executive officers of the Company as of January 21, 2011:

Name	Age at 11/27/10	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.	54	2003
Norman E. Johnson Chairman of the Board 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.	62	2000
Christopher L. Conway President and Chief Operating Officer. Mr. Conway has been employed by the Company or its affiliates since 2006, when he was named Vice President of Manufacturing of Baldwin Filters, Inc. In September 2007, Mr. Conway was promoted to the position of President of Facet USA, Inc., another affiliate of the Company. He was then named President of the Company's PecoFacet division in December 2007 and continued in that role until being named as President and Chief Operating Officer of the Company in May 2010. Prior to joining the Company or its affiliates, Mr. Conway served for two years as the Chief Operating Officer of Cortron Corporation, Inc., a small manufacturing start-up based in Minneapolis, Minnesota.	55	2010
David J. Fallon Vice President – Finance & Chief Financial Officer. Mr. Fallon has been employed by the Company since 2009, when he was elected Vice President-Finance. He was elected Chief Financial Officer in 2010. Prior to joining the Company, Mr. Fallon held various positions for Noble International, Ltd. and its affiliates, including the position of Chief Financial Officer of Noble International, Ltd. immediately prior to his employment with the Company.	40	2010
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.	55	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	44	2006

and private equity firm, from 2001 until 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.

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 27, 2010	$ 35.25	$ 30.72	$ 0.0975
May 29, 2010	38.73	33.50	0.0975
August 28, 2010	38.59	33.58	0.0975
November 27, 2010	42.01	33.64	0.1050
Total Dividends			$ 0.3975

	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

As set forth above, the quarterly dividend rate was increased in fiscal year 2010, 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 14, 2011 was 1,842.

On June 22, 2010, 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 through June 22, 2013. The Company has 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.

The Company repurchased 445,991 shares of its common stock, at an average price of $36.50 per share, and an aggregate cost of approximately $16.3 million during the fiscal year 2010. As set forth in the table below, the Company repurchased 157,149 shares of its common stock during the fourth quarter of fiscal year 2010. The average price for the shares repurchased in the fourth quarter was $39.89 with an aggregate cost of approximately $6.3 million. The Company had a balance of $233,722,827 available to repurchase shares as of November 27, 2010.

COMPANY PURCHASES OF EQUITY SECURITIES

	(a)	(b)	(c)	(d)
Period	Total Number of shares purchased	Average price paid per share	Total number of shares purchased as part of the Company's publicly announced plan	Maximum approximate dollar value of shares that may yet be purchased under the Plan
August 29, 2010 through September 30, 2010	-	$ -	-	$ 239,991,336

October 1, 2010 through October 31, 2010	-	$	-	-	$	239,991,336
November 1, 2010 through November 27, 2010	157,149	$	39.89	157,149	$	233,722,827
Total	157,149			157,149		

17

5-Year Performance of the Company

The following Performance Graph compares the Company's cumulative total return on its Common Stock for a five-year period (December 3, 2005 to November 27, 2010) 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 - Assumes Initial Investment of $100 and Reinvestment of All Dividends

Item 6. Selected Financial Data.

The information required hereunder is included as Exhibit 13 to this 2010 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)

	2010	2009	2008	2010 vs. 2009 $ Change	2010 vs. 2009 % Change
Net sales	$ 1,011.4	$ 907.7	$ 1,059.6	$ 103.7	11%
Cost of sales	673.0	628.4	719.7	44.6	7%
Gross profit	338.4	279.3	339.9	59.1	21%
Selling and administrative expenses	193.8	173.6	188.0	20.2	12%
Operating profit	144.6	105.7	151.9	38.9	37%
Other expense, net	(1.2)	(0.1)	(6.6)	(1.1)	
Provision for income taxes	47.1	33.8	49.3	13.3	39%
Net earnings attributable to CLARCOR	96.1	71.5	95.7	24.6	34%
Average diluted shares	51.2	51.1	51.5	0.1	0%
Diluted earnings per share	$ 1.88	$ 1.40	$ 1.86	$ 0.48	34%
Percentages:					
Gross margin. .	33.5%	30.8%	32.1%		2.7 pt
Selling and administrative percentage	19.2%	19.1%	17.7%		0.1 pt
Operating margin	14.3%	11.6%	14.3%		2.7 pt
Effective tax rate	32.8%	32.0%	33.9%		0.8 pt
Net earnings margin	9.5%	7.9%	9.0%		1.6 pt

Fiscal Year 2010 versus Fiscal Year 2009

Our fiscal year 2010 operating performance improved from fiscal year 2009 primarily due to a $103.7 million or 11% increase in net sales. The incremental net sales allowed us to leverage our fixed manufacturing costs and increase our gross margin percentage to 33.5% from 30.8% in 2009. The $103.7 million increase in net sales was the result of a $72.8 million increase at our Engine/Mobile Filtration segment and a $21.5 million increase at our Packaging segment. The net sales increase at our Packaging segment includes a no-margin $4.6 million tooling and equipment sale to one of our customers. Net sales at our Industrial/Environmental Filtration segment increased $9.4 million compared with fiscal year 2009 despite a $13.7 million decline in HVAC filter sales to 3M.

The increase in operating margin to 14.3% in fiscal year 2010 from 11.6% in fiscal year 2009 was primarily the result of the 2.7 point improvement in gross margin percentage. This 2.7 point improvement was a result of the net sales increase and the associated leveraging of fixed manufacturing costs in addition to the cost benefits from the restructuring of our HVAC filter operations. The 33.5% gross margin percentage in fiscal year 2010 was our highest annual gross margin percentage in almost twenty years. Selling and administrative expenses in fiscal year 2010 as a percentage of net sales were consistent with fiscal year 2009 but increased $20.2 million primarily as a result of incremental employee compensation associated with our company-wide profit sharing program and additional legal expenses partially offset by a reduction in bad debt expense.

The 14.3% operating margin in fiscal year 2010 not only was 2.7 points greater than fiscal year 2009, but it was equivalent to the operating margin from fiscal year 2008 despite $48.2 million lower net sales. We were able to generate a fiscal year 2010 operating margin equivalent to fiscal year 2008 despite lower net sales as a result of various cost efficiencies implemented in 2009 including the benefits of the aforementioned restructuring program at our HVAC filter operations. As a result of this improved operating performance, diluted earnings per share of $1.88 in fiscal year 2010 was 34% greater than diluted earnings per share of $1.40 in fiscal year 2009 and $0.02 greater than diluted earnings per share of $1.86 in fiscal year 2008.

Fiscal Year 2009 versus Fiscal Year 2008

Fiscal year 2009 was a challenging year as we were significantly impacted by the global economic recession. Our net sales declined $151.9 million or 14% from fiscal year 2008. 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 fiscal year 2008. The negative impact of lower net sales was offset in part by three significant cost items in fiscal year 2009 compared with fiscal year 2008: lower material costs, reduced discretionary spending and the benefits from HVAC filter operations restructuring program.

We realized an approximate $11.0 million benefit from the reduction of material costs in fiscal year 2009 compared with fiscal year 2008. This reduction was driven by lower commodity pricing primarily in steel, filter media and adhesives. In addition, we initiated several projects in fiscal year 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 fiscal year 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 fiscal year 2008. 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 fiscal year 2009. At the beginning of fiscal year 2009, we completed the consolidation of two manufacturing operations, one distribution facility and one office location into one facility in Indiana. As a result of this consolidation and the full year benefits of facilities closed in fiscal year 2008, we recognized approximately $4.0 million in fixed cost savings in fiscal year 2009 compared to fiscal year 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 fiscal year 2008.

Other Items

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

- Acquisitions

We completed no acquisitions in fiscal year 2010 and six acquisitions in fiscal year 2009. The net sales and operating profit impact of these six acquisitions for comparisons between fiscal years 2008, 2009 and 2010 was not significant. At the beginning of fiscal year 2008, we completed the acquisition of Perry Equipment Corporation ("Peco"), a manufacturer of engineered filtration products and technologies primarily in the natural gas industry. The purchase price was $145.8 million, excluding cash acquired. Net sales and operating profit results from the Peco acquisition are included in all fiscal years presented.

- Foreign exchange

The average exchange rate for foreign currencies in which we transact business was higher in fiscal year 2010 compared with fiscal year 2009. As a result, the U.S. dollar value of our net sales in fiscal year 2010 was positively influenced by $6.6 million and operating profit by $1.7 million. Weaker foreign currencies negatively impacted our translated fiscal year 2009 results compared with fiscal year 2008. As a result, the U.S. dollar value of net sales in 2009 declined $24.8 million and operating profit declined $2.7 million.

- Other income (expense)

Interest expense

Interest expense declined $1.6 million in fiscal year 2010 compared to fiscal year 2009. $1.1 million of this decrease was due to the impact of a mark-to-market adjustment on an interest rate swap agreement in 2009. The remaining $0.5 million decline primarily resulted from lower interest expense on our line of credit driven by a lower average interest rate (0.6% in fiscal year 2010 and 0.8% in fiscal year 2009) and lower average outstanding balances ($7.9 million in fiscal year 2010 and $61.3 million in fiscal 2009).

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

Foreign currency gains and losses

Changes in foreign currency transaction gains and losses negatively impacted other income (expense) by $1.9 million in fiscal year 2010 versus fiscal year 2009. We recognized a foreign currency loss of $0.7 million in fiscal year 2010 from the translation of cash accounts at certain foreign subsidiaries denominated in currencies other than their functional currency. As most foreign currencies strengthened against the U.S. dollar throughout fiscal year 2009, we recognized approximately $1.2 million of foreign currency gains in fiscal year 2009 mostly related to the translation of U.S. dollar denominated intercompany debt at our non-U.S. subsidiaries. Most of this U.S. dollar denominated intercompany debt was repaid by the first quarter of fiscal year 2010.

Changes in foreign currency transaction gains and losses contributed a positive $2.7 million change in other income (expense) in fiscal year 2009 compared to fiscal year 2008. As previously mentioned, we recognized $1.2 million of foreign currency gains in fiscal year 2009. The weakening of foreign currencies against the U.S. dollar generated $1.5 million of foreign currency losses in fiscal year 2008.

- Provision for income taxes

The effective tax rate in fiscal year 2010 was 32.8% compared with 32.0% in fiscal year 2009. This increase in the effective tax rate was primarily driven by the expiration of the research and development tax credit in fiscal year 2010.

The effective tax rate in fiscal year 2009 was 32.0% compared with 33.9% in fiscal year 2008. This reduction was driven by a higher mix of taxable income in foreign operations with lower tax rates than in the U.S.

- Shares outstanding

Average diluted shares remained relatively flat in fiscal year 2010 compared with fiscal year 2009. Average diluted shares climbed 0.1 million due to an increase in the dilutive impact of our outstanding stock options. This higher dilutive impact resulted from the higher average share price in fiscal year 2010. This increase in average diluted shares was offset by a 0.2 million share reduction in average basic shares outstanding. Average basic shares declined from fiscal year 2009 due to our share repurchases in both 2009 and 2010 offset by additional shares issued from the exercise of stock options.

Average diluted shares outstanding declined 0.4 million in fiscal year 2009 compared to fiscal year 2008. This reduction was driven almost entirely by the lower dilution from our outstanding stock options and restricted share units. Average basic shares outstanding remained consistent from 2008 to 2009.

SEGMENT ANALYSIS

(Dollars in millions)		2010	% Total		2009	% Total		2008	% Total
Net sales:									
Engine/Mobile Filtration	$	446.1	44%	$	373.3	41%	$	439.0	42%
Industrial/Environmental Filtration		470.4	47%		461.0	51%		543.1	51%
Packaging		94.9	9%		73.4	8%		77.5	7%
	$	1,011.4	100%	$	907.7	100%	$	1,059.6	100%
Operating profit:									
Engine/Mobile Filtration	$	92.2	64%	$	75.2	71%	$	99.4	65%
Industrial/Environmental Filtration		43.5	30%		24.7	23%		45.8	30%
Packaging		8.9	6%		5.8	6%		6.7	5%
	$	144.6	100%	$	105.7	100%	$	151.9	100%
Operating margin:									
Engine/Mobile Filtration		20.7%			20.1%			22.6%	
Industrial/Environmental Filtration		9.3%			5.4%			8.4%	
Packaging		9.4%			7.9%			8.6%	
		14.3%			11.6%			14.3%	

Net sales, operating profit and operating margin increased for each of our segments in fiscal year 2010 compared with fiscal year 2009. Net sales for both the Engine/Mobile Filtration and Packaging segments increased significantly from fiscal year 2009. The 20% growth in our Engine/Mobile/Filtration segment was due to stronger heavy-duty engine filter demand in the U.S. and continued growth internationally. The 29% growth in our Packaging segment was a result of increased sales of our smokeless tobacco metal lids in addition to a no margin $4.6 million equipment and tooling sale to one of our customers. Although we recognized only moderate 2% net sales growth at our Industrial/Environmental Filtration segment, operating margin improved 3.9 points to 9.3%. This improvement was the result of various cost efficiencies but mainly those from the restructuring at our HVAC filter operations.

Net sales, operating profit and operating margin declined for each of our segments in fiscal year 2009 compared with fiscal year 2008. Net sales were down approximately 15% at both our Engine/Mobile Filtration and Industrial/Environmental Filtration segments and 5% at our Packaging segment. In general, this reduction in net sales, due to a decline in global economic conditions, was the primary reason for the lower operating profit and margin at each of our segments.

Engine/Mobile Filtration Segment

(Dollars in millions)				2010 v 2009		2009 v 2008	
	2010	2009	2008	$ Change	% Change	$ Change	% Change

Net sales	$	446.1	$	373.3	$	439.0	$	72.8	20%	$	(65.7)	-15%
Operating profit		92.2		75.2		99.4		17.0	23%		(24.2)	-24%
Operating margin		20.7%		20.1%		22.6%			0.6 pt			-2.5 pt

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

Fiscal Year 2010 versus Fiscal Year 2009

The net sales increases for our Engine/Mobile Filtration segment for fiscal year 2010 compared with fiscal year 2009 are detailed in the following table:

(Dollars in millions)	Net Sales
2009	$ 373.3
U.S. sales	36.8
Foreign sales (including export)	30.0
Foreign exchange	6.0
Net increase	72.8
2010	$ 446.1

The net increase in U.S. sales for the Engine/Mobile Filtration segment in fiscal year 2010 as compared with fiscal year 2009 is detailed as follows:

(Dollars in millions)	
Heavy-duty engine filters	$ 33.7
Locomotive filters	3.1
Net increase in U.S. sales	$ 36.8

Our sales of heavy-duty engine filters in the U.S. have been positively influenced by continued strength in the U.S. trucking industry. Through November 2010, heavy-duty truck tonnage in the U.S. was approximately 6.0% higher compared with the same period in 2009. In addition, truck tonnage continues to trend upwards as average U.S. truck tonnage in our fiscal fourth quarter 2010 exceeded our fiscal third quarter 2010 by approximately 1.0%. Our U.S. sales of railroad filtration products have increased slightly, but we anticipate activity to improve in fiscal 2011. As an indicator of the recovery in U.S. rail activity, through October 2010 approximately 130,000 freight cars have been removed from storage since the end of 2009. Additional cars have been removed from storage for sixteen consecutive months.

Net sales (adjusted for changes in foreign currency) outside the U.S. increased $30.0 million in fiscal year 2010 from fiscal year 2009. This net sales increase was spread throughout our diverse international markets. However, approximately $12.0 million of this increase in fiscal year 2010 was from sales in China which have been positively impacted by our continued market penetration in first fit heavy-duty engine filter sales.

The increase in operating profit for the Engine/Mobile Filtration segment compared to fiscal year 2009 was driven by the increase in heavy-duty engine filter sales. For fiscal year 2010, selling and administrative expenses were approximately $18.5 million higher than fiscal year 2009. The increase in selling and administrative expenses was the result of higher payments under our company-wide profit sharing program and incremental legal expenses. We estimate that the change in average foreign exchange rates from fiscal year 2009 to fiscal year 2010 positively influenced the translated U.S. dollar value of fiscal year 2010 operating profit by $1.6 million.

Fiscal Year 2009 versus Fiscal Year 2008

The net sales decrease for our Engine/Mobile Filtration segment for fiscal year 2009 compared with fiscal year 2008 is detailed in the following table:

(Dollars in millions)	Net Sales
2008	$ 439.0
U.S. sales	(39.2)
Foreign sales (including export)	(14.2)
Foreign exchange	(12.3)
Net decrease	(65.7)
2009	$ 373.3

The net decrease in U.S. sales for the Engine/Mobile Filtration segment in fiscal year 2009 as compared to fiscal year 2008 is detailed as follows:

(Dollars in millions)