

CLARCOR INC  
Form 10-K  
February 09, 2006

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

(Mark One)

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

For the fiscal year ended December 3, 2005

**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

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

| <b>Title of each class</b>               | <b>Name of each exchange<br/>on which registered</b> |
|--|--|
| 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  No

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

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  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.

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

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 day of registrant's most recently completed second fiscal quarter was \$1,424,025,673.

The number of outstanding shares of Common Stock as of January 31, 2006 was 51,768,233 shares.

Certain portions of the registrant's Proxy Statement dated February 9, 2006 for the Annual Meeting of Shareholders to be held on March 27, 2006 are incorporated by reference in Part III. 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 December 3, 2005.

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**PART I**

**Item 1. Description of 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 2005, the year ended on December 3, 2005 and included 53 weeks. For fiscal year 2004, the year ended November 27, 2004 and included 52 weeks. For fiscal year 2003, the year ended November 29, 2003 and included 52 weeks. In this 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.*

On March 1, 2005, the Company acquired 100% of the shares of Niagara Screen Products Limited ( Niagara ), a Canadian manufacturer of woven wire and metallic screening and filtration products located in St. Catharines, Ontario, Canada, for approximately US \$3.4 million in cash. As a result of the acquisition, Niagara is a wholly-owned subsidiary of the Company, reported as part of the Company's Industrial/ Environmental Filtration segment.

On November 1, 2005, the Company acquired 100% of the shares of Martin Kurz & Co., Inc. ( MKI ), a privately-owned manufacturer of sintered porous metal laminates used in screening and filtration products for a wide array of industries, including pharmaceutical, petrochemical, aerospace, paper and chemical process industries, for approximately \$24.6 million in cash, net of cash received. Based in Mineola, NY, MKI sells products under the Dynapore® and Foil-Mesh™ trademarks, among others. As a result of the acquisition, MKI is a wholly-owned subsidiary of the Company, reported as part of the Company's Industrial/ Environmental Filtration segment.

During fiscal 2005 these acquired businesses contributed approximately \$3.0 million to the Company's revenues for the year.

In late November 2005, the Company learned that a major customer of the Company's Industrial/ Environmental segment intends to begin manufacturing certain products at the customer's non-U.S. facilities and will cease purchasing these products from the Company at some point in 2006. A fuller discussion of this matter is set forth on page 8 of Exhibit 13(a)(ii) to this Form 10-K Management's Discussion and Analysis of Financial Condition and Results of Operation, under the heading Outlook .

*(b) Financial Information About Industry Segments*

During 2005, 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 2003 through 2005 is included in Note Q to Notes to Consolidated Financial Statements. See pages F-27 through F-28 in this 2005 Annual Report on Form 10-K ( 2005 Form 10-K ).

*(c) Narrative Description of the Business*

**Engine/Mobile Filtration**

The Company's Engine/ Mobile segment sells filtration products used on engines and in mobile equipment applications, including trucks, automobiles, buses, 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.

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The products in this 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.

### **Industrial/Environmental Filtration**

The Company's Industrial/ Environmental segment centers around the manufacture 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 process filtration products and air filtration products and systems used to maintain high interior air quality and to control exterior pollution.

The segment's process filtration products include specialty industrial process liquid filters; filters for pharmaceutical processes and beverages; filtration systems for aircraft refueling, anti-pollution, sewage treatment and water recycling; bilge 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); cosmetics and toiletries; playing cards; cosmetics and pharmaceuticals. Other packaging products include shells for dry batteries, film canisters, 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.

During fiscal 2005, the Company continued its development and expansion of its Total Filtration Program, as a distribution channel for all of the Company's filtration products. Under this Program, the Company offers customers the ability to purchase all of their filters for their respective facilities and manufacturing, transportation and construction equipment effectively a one-stop shopping approach to filtration. Customers that purchase a broad range of filtration products and services from multiple suppliers are able, by taking advantage of the Program, to purchase most of their filter requirements from a single source, and thereby reduce administrative burdens and uncertainty concerning filter pricing, availability, delivery, performance and quality. The Company believes that it can serve its customers' total filtration requirements

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because it believes that it manufactures and supplies the broadest range of filtration products in the industry. The Company expects that the impact of this Program will grow as customers' facilities are converted to the Program. During fiscal 2005, the Company concentrated on implementing various elements of the Program that are important for the Program's success over the medium and long-term. These included the further integration of Company branch operations, training sales people to be cross-functional and cross-disciplinary with respect to the Company's array of filtration products and services, and standardizing back-office IT systems and operational practices across branch offices.

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 all aspects of J.L. Clark's manufacturing processes with respect to the products sold and is qualified 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.

### **Class of Products**

No class of 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**

Steel, filter media, cartons, aluminum sheet and coil, stainless steel, chrome vanadium, chrome silicon, resins, gaskets, roll paper, corrugated paper, bulk and roll plastic materials and cotton, wood and synthetic fibers and adhesives are the most important raw materials used in the manufacture of the Company's products. All of these are purchased or are available from a variety of sources. The Company has no long-term purchase commitments. During fiscal 2005 the price of steel and certain hydrocarbon based products (such as resins) purchased by the Company either increased to or remained at high levels. The Company was able to procure adequate supplies of raw materials.

### **Patents, Trademarks and Tradenames**

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 tradenames, the Company believes that its trademarks used in connection with certain products and certain tradenames (such as Baldwin, Purolator and Facet) are valuable and significant to its business.

### **Customers**

The largest 10 customers of the Engine/ Mobile Filtration segment accounted for 24% of the \$368,183,000 of fiscal year 2005 sales of such segment.

The largest 10 customers of the Industrial/ Environmental Filtration segment accounted for 24% of the \$427,448,000 of fiscal year 2005 sales of such segment.

The largest 10 customers of the Packaging segment accounted for 63% of the \$78,343,000 of fiscal year 2005 sales of such segment.

No single customer accounted for 10% or more of the Company's consolidated fiscal year 2005 sales.

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### **Backlog**

At November 30, 2005, the Company had a backlog of firm orders for products amounting to approximately \$91,602,000. The backlog figure for November 30, 2004 was approximately \$75,900,000. Substantially all of the orders on hand at November 30, 2005 are expected to be filled during fiscal 2006. The Company does not view its backlog as being excessive or problematic, or a significant indication of fiscal 2006 sales levels.

### **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 five companies worldwide measured by annual sales.

In the Packaging segment, its principal competitors include several manufacturers who 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.

### **Product Development**

The Company develops products on its own and in consultation or partnership with its customers. The Company's Technical Centers and laboratories 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 departments are concerned with the improvement and creation of new filters and filtration media, filtration systems, containers and packaging products in order to broaden the uses of these items, counteract obsolescence and evaluate other products available in the marketplace.

In fiscal 2005, the Company employed approximately 100 professional employees 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 \$9,490,000 on such activities as compared with \$7,950,000 for fiscal year 2004 and \$7,403,000 for fiscal year 2003.

During fiscal 2005, the Company spent approximately \$3 million in connection with completing approximately 95% of a new aviation fuel test facility in Greensboro, North Carolina. In addition, the Company completed a significant portion of a new media development center in Cincinnati, Ohio. The Company anticipates completing both the Greensboro and Cincinnati centers in the first half of 2006.

### **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 (EPA) and/or other responsible state agencies have designated the Company as a



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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. For example, during fiscal 2003, the Company replaced certain oxidizers used to remove air-borne contaminants at its Rockford, Illinois, packaging manufacturing facility. The cost of this project was about \$1.4 million. In 2005 similar equipment was installed at the Company's packaging manufacturing facility located in Lancaster, Pennsylvania, at approximately the same cost. The Company is presently unable to predict the timing or the cost of any other project of this nature and cannot give any assurance that the cost of such projects may not have an 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, 2005, the Company had approximately 5,034 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 Q to Notes to Consolidated Financial Statements. See page F-28 in this 2005 Form 10-K.

### **Internet Website**

The Company's Internet address is [www.clarcor.com](http://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 Exchange Act as soon as reasonably practicable after such forms are electronically filed with the SEC. In addition, the following corporate governance documents can be found on this website: (a) charters for the Audit Committee, the Corporate Governance Committee and the Compensation Committee of the Board of Directors; (b) Code of Conduct; (c) Code of Ethics for Chief Executive Officer and Senior Financial Officers; (d) Corporate Governance Guidelines; (e) Disclosure Controls and Procedures; (f) Procedures Regarding Reports of Misconduct or Alleged Misconduct; and (g) the Company's By-laws. 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.

### **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 2005 Form 10-K.*

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***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. Economic downturns in the markets we serve may result in reductions in sales and pricing of our products, which could reduce future earnings and cash flow.

***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 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, 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 22% 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 intend 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 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 local systems;
- domestic and foreign customs, tariffs and quotas or other trade barriers;
- increased costs for transportation and shipping;
- difficulties in protecting intellectual property;
- risk of nationalization of private enterprises by foreign governments;
- managing and obtaining support and distribution channels for overseas operations;



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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 upon the 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 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 2005. Further increases in the price of these items could further materially increase our operating costs and materially adversely affect our profit margins. 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 with respect to intellectual property.***

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. We also face increasing exposure to claims by others for infringement of intellectual property rights, particularly with respect to our aftermarket products. These claims could result in significant costs or losses.

***Our success depends in part on our development of improved products, and our efforts 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

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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 our company 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;

- 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 means that company-wide business initiatives, such as our Total Filtration Program and the integration of



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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 good repair and well maintained. Plant asset additions in fiscal 2006 are estimated at \$25-\$30 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.

Engine/Mobile Filtration Segment.**United States Facilities**

| <b>Location</b> | <b>Size</b>  | <b>Owned or Leased</b> |
|-----------------|--|------------------------|
| 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 168,000 sq ft of manufacturing and office space  | Owned                  |
| Yankton, SD     | 20 acre site with 170,000 sq ft of manufacturing space   | Owned                  |

**International Facilities**

| <b>Location</b>                        | <b>Size</b>  | <b>Owned or Leased</b> |
|--|--|------------------------|
| Warrington, Cheshire, England          | 4 acre site with two facilities totaling 71,000 sq feet of manufacturing, warehousing and office space | Owned                  |
| Weifang, People's Republic of China(1) | 8 buildings, constituting 180,000 sq ft of manufacturing and administrative space                      | Leased                 |

(1) The Company recently consented to a relocation of this facility by the local Chinese government under favorable terms and at little cost to the Company and with no anticipated material interruption to the Company's operations in China. It is anticipated that this relocation will occur in late 2006.

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

**Table of Contents****Industrial/Environmental Filtration Segment.****United States Facilities**

| <b>Location</b>    | <b>Size</b>   | <b>Owned or Leased</b> |
|--------------------|---|------------------------|
| Auburn Hills, MI   | 55,000 sq ft of warehousing and office space                                  | Leased                 |
| Birmingham, AL     | 9,000 sq ft of warehouse space  | Owned                  |
| Blue Ash, OH       | 17 acre site with 157,000 sq ft of manufacturing and office space             | Owned                  |
| Campbellsville, KY | 100 acre site with 290,000 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                 |
| Goodlettsville, TN | 33,000 sq ft of warehouse space   | Owned                  |
| 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                  |
| Henderson, NC      | 226,000 sq feet of manufacturing, warehousing and office space                | Leased                 |
|                    | 25 acres with 235,000 sq feet of manufacturing, warehousing and office space  | Owned                  |
| Houston, TX        | 88,000 sq ft of manufacturing, warehousing and office space                   | Leased                 |
| Jeffersontown, KY  | 7.5 acre site with 100,000 sq ft of manufacturing and office space            | Owned                  |
| Kenly, NC          | 50,000 sq feet of manufacturing and office space                              | Owned                  |
| Louisville, KY     | 99,000 sq feet of manufacturing, warehousing and office space                 | Leased                 |
| Mineola, NY        | 5 buildings totaling approx 31,000 sq ft of manufacturing and office space    | Leased                 |
| New Albany, IN     | 142,000 sq feet of manufacturing, warehousing and office space                | Leased                 |
| Ottawa, KS         | 41,000 sq ft of manufacturing and office space                                | Owned                  |
| Rockford, IL       | 83,000 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                  |



**Table of Contents****International Facilities**

| <b>Location</b>                 | <b>Size</b>  | <b>Owned or Leased</b> |
|---------------------------------|--|------------------------|
| 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                  |

In addition to the above properties, the Industrial/ Environmental segment leases smaller facilities in the following locations in order to manufacture, distribute and/or service filtration products: *United States*: Anaheim, CA; Atlanta, GA; Auburn, WA; Chantilly, VA; Cincinnati, OH; Clover, SC; Columbus, OH; Commerce City, CO; Dalton, GA; Dallas, TX; Davenport, IA; Fresno, CA; Hayward, CA; Houston, TX; Indianapolis, IN; Jackson, MS; Jasper, IN; Kansas City, MO; Kenly, NC; Lexington, KY; Louisville, KY; Phoenix, AZ; Portland, OR; Sacramento, CA; Stillwell, OK; Tulsa, OK; Wichita, KA. *International*: France; Germany; Italy; Malaysia; Netherlands; Singapore; United Kingdom.

**Packaging Segment.**

| <b>Location</b> | <b>Size</b>   | <b>Owned or Leased</b> |
|-----------------|---|------------------------|
| Rockford, IL    | 34 acre site with buildings totaling 394,000 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                  |

In addition to the above properties, the Packaging segment leases a smaller facility in Lathrop, California to manufacture packaging products.

**Item 3. Legal Proceedings.**

The Company is involved in legal actions arising in the normal course of business. Management is of the opinion that the outcome of these actions will not have a material adverse effect on the Company's consolidated results of operations or financial position.

**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 February 1, 2006:

| <b>Name</b>  | <b>Age at 12/3/05</b> | <b>Year Elected to Office</b> |
|--|-----------------------|-------------------------------|
| Norman E. Johnson<br>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. | 57                    | 2000                          |

Bruce A. Klein

58

1995

Vice President-Finance and Chief Financial Officer. Mr. Klein was employed by the Company and elected Vice President-Finance and Chief Financial Officer on January 3, 1995.

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| <b>Name</b>  | <b>Age at<br/>12/3/05</b> | <b>Year Elected<br/>to Office</b> |
|--|---------------------------|-----------------------------------|
| Sam Ferrise<br>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.  | 49                        | 2003                              |
| David J. Lindsay<br>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.   | 50                        | 1995                              |
| Marcia S. Blaylock<br>Vice President, Controller. Ms. Blaylock has been an employee of the Company since 1974. She was elected Assistant Secretary in 1994, Corporate Secretary in 1995, Vice President and Corporate Secretary in 1996, Vice President, Controller and Corporate Secretary in 1997 and Vice President, Controller in 2000.  | 49                        | 2000                              |
| Richard M. Wolfson<br>Vice President, General Counsel and Secretary. Mr. Wolfson became an employee of the Company in 2006. He was elected Vice President, General Counsel and Secretary in 2006. He was a principal of the InterAmerican Group, an advisory services and private equity firm, from 2001 until 2006. He served as a Vice President and then as an Executive Vice President of Education Networks of America, Inc. ( ENA ) from 2000 to 2001. Prior to joining ENA, he was a partner in the Chicago office of the law firm of Baker & McKenzie. | 39                        | 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, held at the time of the Annual Meeting of Shareholders, and ends on the date of the next Annual Meeting of Shareholders or upon the due election and qualification of his or her successor.

**Table of Contents****PART II****Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

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

On March 21, 2005, the Company's Board of Directors approved a 100% stock dividend for the purpose of effecting a 2-for-1 stock split of the issued shares of Common Stock of the Company. The record date for the split was April 15, 2005, and the stock dividend was paid on April 29, 2005, doubling the number of shares of Common Stock outstanding at that time to approximately 51,519,588. Unless otherwise indicated, all shares and per share amounts set forth in this report have been adjusted for the 2-for-1 stock split.

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.

| <b>Quarter Ended</b>   | <b>Market Price</b> |            | <b>Dividends</b>  |
|------------------------|---------------------|------------|-------------------|
|                        | <b>High</b>         | <b>Low</b> |                   |
| February 26, 2005      | \$ 28.55            | \$ 24.60   | \$ 0.06375        |
| May 28, 2005           | 28.66               | 24.75      | 0.06375           |
| August 27, 2005        | 31.79               | 26.61      | 0.06375           |
| December 3, 2005       | 31.98               | 25.89      | 0.06750           |
| <b>Total Dividends</b> |                     |            | <b>\$ 0.25875</b> |

| <b>Quarter Ended</b>   | <b>Market Price</b> |            | <b>Dividend</b>   |
|------------------------|---------------------|------------|-------------------|
|                        | <b>High</b>         | <b>Low</b> |                   |
| February 28, 2004      | \$ 22.91            | \$ 20.60   | \$ 0.06250        |
| May 29, 2004           | 22.73               | 20.08      | 0.06250           |
| August 28, 2004        | 22.92               | 21.16      | 0.06250           |
| November 27, 2004      | 26.30               | 21.83      | 0.06375           |
| <b>Total Dividends</b> |                     |            | <b>\$ 0.25125</b> |

As set forth above, the quarterly dividend rate was increased in fiscal year 2005, and the Company expects to continue making dividend payments to shareholders.

The approximate number of holders of record of the Company's Common Stock at February 1, 2006, 2006 was 1,950. In addition, the Company believes that there are approximately 6,100 beneficial owners whose shares are held in street names.

On June 17, 2005, the Company's Board of Directors approved a two-year Stock Repurchase Program, pursuant to which the Company from time to time may purchase up to \$150 million worth of shares of the Company's Common Stock in the open market or through privately negotiated transactions. The Company has no obligation to repurchase shares under the program, and the timing, actual number and value of shares to be purchased depend on market conditions and the Company's then-current liquidity needs. As of the end of fiscal year 2005, the Company had repurchased approximately 368,200 shares of its Common Stock, at a



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median price of \$28.41 per share, and an aggregate cost of \$10.4 million. The following table sets forth the monthly share purchases by Company in the last fiscal quarter of 2005.

**COMPANY PURCHASES OF EQUITY SECURITIES(1)**

| Period |               | Total<br>Number of<br>Shares<br>Purchased | Average<br>Price Paid<br>per Share | Total Number<br>of Shares<br>Purchased as<br>Part of<br>the Company's<br>Publicly<br>Announced<br>Plan | Maximum<br>Approximate<br>Dollar Value of<br>Shares<br>that may yet be<br>Purchased under<br>the<br>Plan |
|--------|---------------|---|------------------------------------|--|--|
| Sept 1 | Sept 30, 2005 | 250,000                                   | \$ 28.42                           | 250,000  | \$ 140,909,090   |
| Oct. 1 | Oct. 31, 2005 | 50,000                                    | 27.41                              | 50,000   | \$ 139,538,836   |
| Nov. 1 | Dec. 3, 2005  | 0   |                                    |  | \$ 139,538,836   |
| Total  |               | 300,000                                   |                                    |  |  |

(1) Purchase Plan announced June 20, 2005 for aggregate purchases up to \$150 million. Program expires June 16, 2007.

**Item 6. Selected Financial Data.**

The information required hereunder is included as Exhibit 13(a)(i) to this 2005 Form 10-K.

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation.**

The information required hereunder is included as Exhibit 13(a)(ii) to this 2005 Form 10-K.

**Item 7A. Quantitative and Qualitative Disclosures about Market Risk.**

The information required hereunder is included on page 6 of Exhibit 13(a)(ii) to this 2005 Form 10-K.

**Item 8. Financial Statements and Supplementary Data.**

The Consolidated Financial Statements, the Notes thereto and the report thereon of PricewaterhouseCoopers LLP, an independent registered public accounting firm, required hereunder with respect to the Company and its consolidated subsidiaries are included in this 2005 Form 10-K on pages F-1 through F-28.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

**Item 9A. Controls and Procedures.****Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

Under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, the Company conducted an evaluation of its disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of December 3, 2005, the end of the period covered by this annual report.

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**Management's Report on Internal Control Over Financial Reporting**

The management of CLARCOR is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f), for the Company. Under the supervision and with the participation of management, including the Company's Chief Executive Officer and Chief Financial Officer, an evaluation of the effectiveness of the Company's internal control over financial reporting was conducted based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ). Based on that evaluation, the Company's management concluded that the Company's internal control over financial reporting was effective as of December 3, 2005.

The Company has excluded MKI from its assessment of internal control over financial reporting as of December 3, 2005 because it was acquired by the Company in a purchase business combination during fiscal 2005. MKI is a wholly-owned subsidiary whose total assets and total revenues represent 4% and 0.05%, respectively, of the related consolidated financial statement amounts as of and for the fiscal year ended December 3, 2005.

Our independent registered public accounting firm, PricewaterhouseCoopers LLP, has issued an attestation report on management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 3, 2005, which report appears on page F-1 of this Form 10-K.

**Item 9B. Other Information.**

None.

**PART III**

**Item 10. Directors and Executive Officers of the Registrant.**

Certain information required hereunder is set forth in the Company's Proxy Statement dated February 9, 2006 (the Proxy Statement ) for the Annual Meeting of Shareholders to be held on March 27, 2006 under the caption Election of Directors Nominees for Election to the Board of Directors, Information Concerning Nominees and Directors , and The Board of Directors Committees of the Board of Directors and is incorporated herein by reference. Additional information required hereunder is set forth in the Proxy Statement under the caption Beneficial Ownership of the Company's Common Stock Section 16(a) Beneficial Ownership Reporting Compliance and is incorporated herein by reference.

On March 28, 2005, the Company filed with the New York Stock Exchange ( NYSE ) the Annual CEO Certification regarding the Company's compliance with the NYSE's Corporate Governance listing standards, as required by Section 303A-12(a) of the NYSE Listed Company Manual. In addition, the Company has filed as exhibits to this 2005 Form 10-K and to the annual report on form 10-K for the year ended November 27, 2004, the applicable certifications of its Chief Executive Officer and its Chief Financial Officer required under Section 302 of the Sarbanes-Oxley Act of 2002, regarding the quality of the Company's public disclosures.

**Item 11. Executive Compensation.**

The information required hereunder is set forth in the Proxy Statement under the captions Compensation of Executive Officers and Other Information and Report of the Compensation Committee and under the caption Performance Graph and is incorporated herein by reference.

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**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

The information required hereunder is set forth in the Proxy Statement under the caption "Equity Compensation Plan Information" and under the caption "Beneficial Ownership of the Company's Common Stock" and is incorporated herein by reference.

**Item 13. Certain Relationships and Related Transactions.**

None.

**Item 14. Principal Accounting Fees and Services.**

The information required herein is set forth in the Proxy Statement under the caption "Report of the Audit Committee - Amounts Paid to PricewaterhouseCoopers LLP."

**PART IV**

**Item 15. Exhibits, Financial Statement Schedules.**

*(a)(1) Financial Statements*

|  | <b>Page No.</b> |
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| Consolidated Balance Sheets at November 30, 2005 and 2004  | F-3             |
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| Consolidated Statements of Shareholders' Equity for the years ended November 30, 2005, 2004 and 2003 | F-5             |
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*(a)(2) Financial Statement Schedule*

|                                       |     |
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| II. Valuation and Qualifying Accounts | S-1 |
|---------------------------------------|-----|

Financial statements and schedules other than those listed above are omitted for the reason that they are not applicable, are not required, or the information is included in the financial statements or the footnotes therein.

*(a)(3) Exhibits*

- 3.1            The registrant's Second Restated Certificate of Incorporation. Incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 1998.
- 3.1(a)        Amendment to ARTICLE FOURTH of the Second Restated Certificate of Incorporation. Incorporated by reference to the Company's Proxy Statement dated February 18, 1999 for the Annual Meeting of Shareholders held on March 23, 1999.
- 3.1(b)        Amendment to ARTICLE FOURTH of the Second Restated Certificate of Incorporation. Incorporated by reference to the Company's Proxy Statement dated February 17, 2005 for the Annual Meeting of Shareholders held on March 21, 2005.



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- 3.2 The registrant's By-laws, as amended. Incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 1995.
- 3.3 Certificate of Designation of Series B Junior Participating Preferred Stock of CLARCOR as filed with the Secretary of State of the State of Delaware on April 2, 1996. Incorporated by reference to Exhibit 4.5 to the Registration Statement on Form 8-A filed April 3, 1996.
- 4.1 Stockholder Rights Agreement dated as of March 28, 1996 between the registrant and the First Chicago Trust of New York. Incorporated by reference to Exhibit 4 to the Company's Current Report on Form 8-K filed April 3, 1996.
- 4.1(a) First Amendment to Stockholders Rights Agreement dated as of March 23, 1999. Incorporated by reference to Exhibit 4 to the Company's Form 8-A/ A filed March 29, 1999.
- 4.2 Certain instruments defining the rights of holders of long-term debt securities of CLARCOR and its subsidiaries are omitted pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K. CLARCOR hereby agrees to furnish copies of these instruments to the SEC upon request.
- 4.2(c) Credit Agreement dated as of April 8, 2003 among CLARCOR Inc., the Lenders and Bank One, NA, as Agent. Incorporated by reference to Exhibit 4 to the Company's Quarterly Report on Form 10-Q filed June 27, 2003.
- 10.1 The registrant's Deferred Compensation Plan for Directors. Incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 1984 (the 1984 10-K ). +
- 10.2 The registrant's Supplemental Retirement Plan. Incorporated by reference to Exhibit 10.2 to the 1984 10-K. +
- 10.2(a) The registrant's 1994 Executive Retirement Plan. Incorporated by reference to Exhibit 10.2(a) to the Company's Annual Report on Form 10-K for the fiscal year ended December 3, 1994 ( 1994 10-K ). +
- 10.2(b) The registrant's 1994 Supplemental Pension Plan. Incorporated by reference to Exhibit 10.2(b) to the 1994 10-K. +
- 10.2(c) The registrant's Supplemental Retirement Plan (as amended and restated effective December 1, 1994). Incorporated by reference to Exhibit 10.2(c) to the 1994 10-K. +
- 10.3 The registrant's 1984 Stock Option Plan. Incorporated by reference to Exhibit A to the Company's Proxy Statement dated March 2, 1984 for the Annual Meeting of Shareholders held on March 31, 1984. +
- 10.4 Employment Agreements with certain officers. Incorporated by reference to Exhibit 5 to the Company's Current Report on Form 8-K filed July 25, 1989. +
- 10.4(a)(1) Form of Amended and Restated Employment Agreement with each of Marcia S. Blaylock, Sam Ferrise, Bruce A. Klein, David J. Lindsay and Richard M. Wolfson. Incorporated by

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Reference to Exhibit 10.4(a)(1) to the Company's Annual Report on Form 10-K for the fiscal year ended December 2, 2000 (the 2000 10-K). +

- 10.4(c) Employment Agreement with Norman E. Johnson dated July 1, 1997. Incorporated by reference to Exhibit 10.4(c) to the 1997 10-K. +
- 10.4(c)(1) Amended and Restated Employment Agreement with Norman E. Johnson dated as of December 17, 2000. Incorporated by Reference to Exhibit 10.4(c)(1) to the 2000 10-K. +
- 10.4(d) Trust Agreement dated December 1, 1997. Incorporated by reference to Exhibit 10.4(d) to the 1997 10-K. +

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|         |   |
|---------|---|
| 10.4(e) | Executive Benefit Trust Agreement dated December 22, 1997. Incorporated by reference to Exhibit 10.4(e) to the 1997 10-K. +   |
| 10.5    | The registrant's 1994 Incentive Plan (the 1994 Plan ) as amended through June 30, 2000. Incorporated by Reference to Exhibit 10.5 to the 2000 10-K. +   |
| 10.5(a) | Amendment to the 1994 Plan adopted December 18, 2000. Incorporated by Reference to Exhibit 10.5(a) to the 2000 10-K. +  |
| 10.5(b) | The registrant's 2004 Incentive Plan (the 2004 Plan ). Incorporated by reference to Exhibit A to the Company's Proxy Statement dated February 20, 2003 for the Annual Meeting of Shareholders held on March 24, 2003. +   |
| 10.5(c) | Amendment to the 1994 Plan and to the 2004 Plan. Incorporated by reference to Exhibit 10.5(c) to the Company's Annual Report for the fiscal year ended November 29, 2003 (the 2003 10-K ). +  |
| 10.6    | Stock Purchase Agreement dated as of October 19, 2005, among the Company, MKI Acquisition Company, Martin Kurz & Co., Inc. and the Stockholders of Martin Kurz & Co., Inc. Incorporated by reference to Exhibit 2 of the Company's Current Report on Form 8-K filed October 21, 2005. |
| *12.1   | Computation of Certain Ratios.  |
| *13 (a) | The following items are included as Exhibits to this Annual Report on Form 10-K:  |
| (i)     | The 11-Year Financial Review ; and  |
| (ii)    | Management's Discussion and Analysis of Financial Condition and Results of Operation.   |
| 14      | Code of Ethics for Chief Executive Officer and Senior Financial Officers. Incorporated by reference to Exhibit 14 to the 2003 10-K.   |
| *21     | Subsidiaries of the Registrant.   |
| *23     | Consent of Independent Registered Public Accounting Firm.   |
| *31.1   | Certification of Norman E. Johnson, Chairman, President and Chief Executive Officer of the Company, pursuant to Rule 13a-14(a) of the Exchange Act.   |
| *31.2   | Certification of Bruce A. Klein, Vice President Finance and Chief Financial Officer of the Company, pursuant to Rule 13a-14(a) of the Exchange Act.   |
| *32.1   | Certification of Norman E. Johnson, Chairman, President and Chief Executive Officer of the Company, pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code.   |
| *32.2   | Certification of Bruce A. Klein, Vice President Finance and Chief Financial Officer of the Company, pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code.   |

\* Filed herewith.

+ Management contract or compensatory plan or arrangement.

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 9, 2006

CLARCOR Inc.  
(Registrant)

By: /s/ Norman E. Johnson

Norman E. Johnson  
*Chairman of the Board, President &  
Chief Executive Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: February 9, 2006

By: /s/ Norman E. Johnson

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Norman E. Johnson  
*Chairman of the Board, President &  
Chief Executive Officer and Director*

Date: February 9, 2006

By: /s/ Bruce A. Klein

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Bruce A. Klein  
*Vice President Finance &  
Chief Financial Officer*

Date: February 9, 2006

By: /s/ Marcia S. Blaylock

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Marcia S. Blaylock  
*Vice President, Controller &  
Chief Accounting Officer*

Date: February 9, 2006

By: /s/ J. Marc Adam

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J. Marc Adam  
*Director*

Date: February 9, 2006

By: James W. Bradford, Jr.  
*Director*

Date: February 9, 2006

By: /s/ Robert J. Burgstahler

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Robert J. Burgstahler  
*Director*

Date: February 9, 2006

By: \_\_\_\_\_ /s/ Paul Donovan

Paul Donovan  
*Director*

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Date: February 9, 2006

By: /s/ Robert H. Jenkins

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Robert H. Jenkins  
*Director*

Date: February 9, 2006

By: /s/ Philip R. Lochner, Jr.

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Philip R. Lochner, Jr.  
*Director*

Date: February 9, 2006

By: /s/ James L. Packard

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James L. Packard  
*Director*

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**REPORT OF INDEPENDENT REGISTERED  
PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders

CLARCOR Inc.

We have completed integrated audits of CLARCOR Inc.'s 2005 and 2004 consolidated financial statements and of its internal control over financial reporting as of December 3, 2005, and an audit of its 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions on CLARCOR's 2005, 2004 and 2003 consolidated financial statements and on its internal control over financial reporting as of December 3, 2005, based on our audits, are presented below.

**Consolidated financial statements and financial statement schedule**

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of CLARCOR and its subsidiaries at December 3, 2005 and November 27, 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 3, 2005 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

**Internal control over financial reporting**

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A, that the Company maintained effective internal control over financial reporting as of December 3, 2005 based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 3, 2005, based on criteria established in *Internal Control - Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial

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reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management's Report on Internal Control over Financial Reporting, management has excluded Martin Kurz & Co., Inc. from its assessment of internal control over financial reporting as of December 3, 2005 because it was acquired by the Company in a purchase business combination during 2005. We have also excluded Martin Kurz & Co., Inc. from our audit of internal control over financial reporting. Martin Kurz & Co., Inc. is a wholly-owned subsidiary whose total assets and total revenues represent 4% and 0.05%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 3, 2005.

/s/ PricewaterhouseCoopers LLP

Louisville, Kentucky  
February 6, 2006

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**CLARCOR Inc.**  
**CONSOLIDATED BALANCE SHEETS**  
**November 30, 2005 and 2004**  
(Dollars in thousands except per share data)

|   | 2005              | 2004              |
|---|-------------------|-------------------|
| <b>ASSETS</b>   |                   |                   |
| Current assets:   |                   |                   |
| Cash and cash equivalents   | \$ 18,502         | \$ 17,420         |
| Short-term investments  | 10,400            | 5,100             |
| Accounts receivable, less allowance for losses of \$9,775 for 2005 and \$9,557 for 2004 | 152,755           | 143,719           |
| Inventories   | 117,508           | 115,571           |
| Prepaid expenses and other current assets   | 7,253             | 5,111             |
| Deferred income taxes   | 18,515            | 17,069            |
| <b>Total current assets</b>   | <b>324,933</b>    | <b>303,990</b>    |
| Plant assets, at cost less accumulated depreciation                                     | 149,505           | 142,242           |
| Acquired intangibles, less accumulated amortization                                     | 168,176           | 147,789           |
| Pension assets  | 22,069            | 24,574            |
| Deferred income taxes   | 521               | 614               |
| Other noncurrent assets   | 10,068            | 8,588             |
| <b>Total assets</b>   | <b>\$ 675,272</b> | <b>\$ 627,797</b> |
| <b>LIABILITIES</b>  |                   |                   |
| Current liabilities:  |                   |                   |
| Current portion of long-term debt   | \$ 233            | \$ 420            |
| Accounts payable and accrued liabilities  | 108,693           | 117,859           |
| Income taxes  | 12,544            | 7,993             |
| <b>Total current liabilities</b>  | <b>121,470</b>    | <b>126,272</b>    |
| Long-term debt, less current portion  | 16,009            | 24,130            |
| Postretirement health care benefits   | 4,239             | 4,380             |
| Long-term pension liabilities   | 16,287            | 11,256            |
| Deferred income taxes   | 26,184            | 26,778            |
| Other long-term liabilities   | 6,267             | 4,874             |
| Minority interests  | 1,983             | 1,645             |
| Contingencies   |                   |                   |
| <b>SHAREHOLDERS EQUITY</b>  |                   |                   |
| Capital stock:  |                   |                   |
| Preferred, par value \$1, authorized 5,000,000 shares, none issued                      | 51,595            | 25,612            |

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Common, par value \$1, authorized 60,000,000 shares, issued 51,594,781  
in 2005 and 51,223,054 in 2004

|   |            |            |
|---|------------|------------|
| Capital in excess of par value                  | 21,458     | 23,995     |
| Accumulated other comprehensive (loss) earnings | (4,637)    | 1,671      |
| Retained earnings                               | 414,417    | 377,184    |
| Total shareholders equity                       | 482,833    | 428,462    |
| Total liabilities and shareholders equity       | \$ 675,272 | \$ 627,797 |

The accompanying notes are an integral part of the consolidated financial statements.

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**CLARCOR Inc.**  
**CONSOLIDATED STATEMENTS OF EARNINGS**  
**for the years ended November 30, 2005, 2004 and 2003**  
**(Dollars in thousands except per share data)**

|   | 2005       | 2004       | 2003       |
|---|------------|------------|------------|
| Net sales   | \$ 873,974 | \$ 787,686 | \$ 741,358 |
| Cost of sales                                       | 608,242    | 547,058    | 519,667    |
| Gross profit  | 265,732    | 240,628    | 221,691    |
| Selling and administrative expenses                 | 147,240    | 142,451    | 134,629    |
| Operating profit                                    | 118,492    | 98,177     | 87,062     |
| Other income (expense):                             |            |            |            |
| Interest expense                                    | (636)      | (446)      | (1,767)    |
| Interest income                                     | 928        | 385        | 235        |
| Other, net  | (862)      | 944        | 529        |
|   | (570)      | 883        | (1,003)    |
| Earnings before income taxes and minority interests | 117,922    | 99,060     | 86,059     |
| Provision for income taxes                          | 40,968     | 34,717     | 31,371     |
| Earnings before minority interests                  | 76,954     | 64,343     | 54,688     |
| Minority interests in earnings of subsidiaries      | (561)      | (346)      | (136)      |
| Net earnings  | \$ 76,393  | \$ 63,997  | \$ 54,552  |
| Net earnings per common share:                      |            |            |            |
| Basic   | \$ 1.48    | \$ 1.26    | \$ 1.09    |
| Diluted   | \$ 1.46    | \$ 1.24    | \$ 1.08    |
| Average number of common shares outstanding:        |            |            |            |
| Basic   | 51,658,347 | 50,984,314 | 50,213,122 |
| Diluted   | 52,215,689 | 51,506,738 | 50,745,612 |

The accompanying notes are an integral part of the consolidated financial statements.

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**CLARCOR Inc.**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY**  
**for the years ended November 30, 2005, 2004 and 2003**  
**(Dollars in thousands except per share data)**

**Common Stock**

|  | Issued              |           | In Treasury         |        | Capital<br>in<br>Excess<br>of<br>Par<br>Value | Accumulated<br>Other<br>Comprehensive<br>(Loss)<br>Earnings | Retained<br>Earnings | Total      |
|--|---------------------|-----------|---------------------|--------|---|---|----------------------|------------|
|  | Number<br>of Shares | Amount    | Number<br>of Shares | Amount |   |   |                      |            |
| Balance,<br>November 30,<br>2002                   | 49,837,228          | \$ 24,919 |                     | \$     | \$ 12,854                                     | \$ (6,187)  | \$ 283,875           | \$ 315,461 |
| Net earnings                                       |                     |           |                     |        |   |   | 54,552               | 54,552     |
| Other<br>comprehensive<br>earnings, net of<br>tax: |                     |           |                     |        |   |   |                      |            |
| Minimum pension<br>liability<br>adjustment         |                     |           |                     |        |   | 517   |                      | 517        |
| Translation<br>adjustments                         |                     |           |                     |        |   | 4,734   |                      | 4,734      |
| Total<br>comprehensive<br>earnings                 |                     |           |                     |        |   |   |                      | 59,803     |
| Stock options<br>exercised                         | 770,340             | 385       |                     |        | 2,097   |   |                      | 2,482      |
| Tax benefit<br>applicable to stock<br>options      |                     |           |                     |        | 4,494   |   |                      | 4,494      |
| Issuance of stock<br>under award plans             | 23,826              | 12        |                     |        | 553   |   |                      | 565        |
| Forfeiture of stock<br>under award plans           | (13,140)            | (7)       |                     |        |   |   |                      | (7)        |
| Cash dividends<br>\$0.2463 per<br>common share     |                     |           |                     |        |   |   | (12,406)             | (12,406)   |
| Balance,<br>November 30,                           | 50,618,254          | 25,309    |                     |        | 19,998  | (936)   | 326,021              | 370,392    |

2003

|   |            |        |  |         |          |          |
|---|------------|--------|--|---------|----------|----------|
| Net earnings                              |            |        |  |         | 63,997   | 63,997   |
| Other comprehensive earnings, net of tax: |            |        |  |         |          |          |
| Minimum pension liability adjustment      |            |        |  | (1,229) |          | (1,229)  |
| Translation adjustments                   |            |        |  | 3,836   |          | 3,836    |
| Total comprehensive earnings              |            |        |  |         |          | 66,604   |
| Stock options exercised                   | 530,082    | 265    |  | (2,667) |          | (2,402)  |
| Tax benefit applicable to stock options   |            |        |  | 5,378   |          | 5,378    |
| Issuance of stock under award plans       | 74,718     | 38     |  | 1,286   |          | 1,324    |
| Cash dividends \$0.2513 per common share  |            |        |  |         | (12,834) | (12,834) |
| Balance, November 30, 2004                | 51,223,054 | 25,612 |  | 23,995  | 1,671    | 377,184  |
|   |            |        |  |         |          | 428,462  |
| Net earnings                              |            |        |  |         | 76,393   | 76,393   |
| Other comprehensive earnings, net of tax: |            |        |  |         |          |          |
| Minimum pension liability adjustment      |            |        |  | (2,110) |          | (2,110)  |
| Translation adjustments                   |            |        |  | (4,198) |          | (4,198)  |
| Total comprehensive earnings              |            |        |  |         |          | 70,085   |
| Stock options exercised                   | 602,897    | 479    |  | (1,669) |          | (1,190)  |
| Tax benefit applicable to stock           |            |        |  | 6,789   |          | 6,789    |

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|  |            |           |           |          |           |            |            |            |
|--|------------|-----------|-----------|----------|-----------|------------|------------|------------|
| options                                  |            |           |           |          |           |            |            |            |
| Issuance of stock under award plans      | 137,030    | 97        |           |          | 2,436     |            |            | 2,533      |
| Stock split                              |            | 25,775    |           |          |           |            | (25,775)   |            |
| Purchase treasury stock                  |            |           | (368,200) | (10,461) |           |            |            | (10,461)   |
| Retire treasury stock                    | (368,200)  | (368)     | 368,200   | 10,461   | (10,093)  |            |            |            |
| Cash dividends \$0.2588 per common share |            |           |           |          |           |            | (13,385)   | (13,385)   |
| Balance, November 30, 2005               | 51,594,781 | \$ 51,595 |           | \$       | \$ 21,458 | \$ (4,637) | \$ 414,417 | \$ 482,833 |

The accompanying notes are an integral part of the consolidated financial statements.

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**CLARCOR Inc.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**for the years ended November 30, 2005, 2004 and 2003**  
**(Dollars in thousands)**

|   | 2005      | 2004      | 2003      |
|---|-----------|-----------|-----------|
| <b>Cash flows from operating activities:</b>                              |           |           |           |
| Net earnings  | \$ 76,393 | \$ 63,997 | \$ 54,552 |
| Adjustments to reconcile net earnings to net cash provided by operations: |           |           |           |
| Depreciation  | 19,749    | 18,241    | 18,078    |
| Amortization  | 1,338     | 910       | 907       |
| Minority interests in earnings of subsidiaries                            | 561       | 346       | 136       |
| Net (gain)/ loss on dispositions of plant assets                          | (53)      | (522)     | 105       |
| Changes in assets and liabilities, net of business acquisitions:          |           |           |           |
| Short-term investments  | (5,300)   | (2,600)   | (2,500)   |
| Accounts receivable   | (7,957)   | (13,152)  | (4,392)   |
| Inventories   | (395)     | (11,303)  | 3,572     |
| Prepaid expenses and other current assets                                 | (2,081)   | 831       | (332)     |
| Other noncurrent assets   | (661)     | 1,056     | (862)     |
| Accounts payable and accrued liabilities                                  | (7,312)   | 7,893     | 5,879     |
| Pension assets and liabilities, net                                       | 4,059     | (2,936)   | 1,817     |
| Income taxes  | 11,271    | 4,994     | 4,810     |
| Deferred income taxes   | (266)     | 4,051     | 3,626     |
| Net cash provided by operating activities                                 | 89,346    | 71,806    | 85,396    |
| <b>Cash flows from investing activities:</b>                              |           |           |           |
| Additions to plant assets   | (24,032)  | (22,352)  | (13,042)  |
| Business acquisitions, net of cash acquired                               | (28,133)  | (41,893)  |           |
| Dispositions of plant assets  | 653       | 2,071     | 7         |
| Other, net  |           | (35)      | 49        |
| Net cash used in investing activities                                     | (51,512)  | (62,209)  | (12,986)  |
| <b>Cash flows from financing activities:</b>                              |           |           |           |
| Proceeds (payments) under multicurrency revolving credit agreements       | (7,500)   | 7,500     | (62,473)  |
| Payments on long-term debt  | (811)     | (519)     | (11,044)  |
| Sales of capital stock under stock option and employee purchase plans     | 5,790     | 2,703     | 5,254     |
| Purchase of treasury stock  | (10,461)  |           |           |
| Cash dividends paid   | (13,385)  | (12,834)  | (12,406)  |
| Other, net  | (9,332)   | 4,213     |           |
| Net cash provided by (used in) financing activities                       | (35,699)  | 1,063     | (80,669)  |

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|   |           |           |          |
|---|-----------|-----------|----------|
| Net effect of exchange rate changes on cash             | (1,053)   | 912       | 360      |
| Net change in cash and short-term cash investments      | 1,082     | 11,572    | (7,899)  |
| Cash and short-term cash investments, beginning of year | 17,420    | 5,848     | 13,747   |
| Cash and short-term cash investments, end of year       | \$ 18,502 | \$ 17,420 | \$ 5,848 |

The accompanying notes are an integral part of the consolidated financial statements.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollars in thousands except per share data)**

**A. Accounting Policies**

**Principles of Consolidation**

The consolidated financial statements include all domestic and foreign subsidiaries that are more than 50% owned and controlled. CLARCOR Inc. and its subsidiaries are hereinafter collectively referred to as the Company or CLARCOR. The Company has three reportable segments: Engine/ Mobile Filtration, Industrial/ Environmental Filtration and Packaging.

**Use of Management's Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Accounting Period**

The Company's fiscal year ends on the Saturday closest to November 30. The fiscal year ended December 3, 2005 was comprised of fifty-three weeks. The fiscal years ended November 27, 2004 and November 29, 2003 were comprised of fifty-two weeks. In the consolidated financial statements, all fiscal years are shown to begin as of December 1 and end as of November 30 for clarity of presentation.

**Reclassifications**

Certain reclassifications have been made to conform prior years' data to the current presentation. These reclassifications had no effect on reported earnings.

**Cash and Cash Equivalents and Short-term Investments**

All highly liquid investments with a maturity of three months or less when purchased or that are readily saleable are considered to be short-term cash equivalents. Management determines the appropriate classification of its investments at the time of acquisition and reevaluates such determination at each balance sheet date. Short-term investments include auction rate securities (ARS) classified as trading securities. Unrealized holding gains and losses, if any, would be included in investment income. There were no unrealized holding gains or losses in any year presented. The carrying amount of cash equivalents and investments approximates fair value. In 2005, the Company began recording its ARS in a separate balance sheet classification.

The Company reclassified short-term investments on its Consolidated Balance Sheet for 2004 and on its 2004 and 2003 Statements of Cash Flows, which were previously presented as cash and cash equivalents, to present them in accordance with their contractual maturities. The amounts reclassified totaled \$5,100 in 2004 and \$2,500 in 2003. The purchases and sales related to the investments held in each of the three years ended November 30, 2005 have been presented on the Consolidated Statements of Cash Flows in the operating activities section. This reclassification had no impact on the Consolidated Statements of Earnings or Consolidated Statements of Shareholders' Equity.

**Foreign Currency Translation**

Financial statements of foreign subsidiaries are translated into U.S. dollars at current rates, except that revenues, costs, expenses and cash flows are translated at average rates during each reporting period. Net exchange gains or losses resulting from the translation of foreign financial statements are accumulated with other comprehensive earnings as a separate component of shareholders' equity and are presented in the Consolidated Statements of Shareholders' Equity.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Dollars in thousands except per share data) (Continued)**

Derivatives

During the years presented, the Company did not use any derivatives. However, from time-to-time, the Company may make limited use of derivative financial instruments to manage certain interest rate and foreign currency risks. Interest rate swap agreements could be utilized to convert certain floating rate debt into fixed rate debt. Cash flows related to interest rate swap agreements would be included in interest expense over the terms of the agreements.

When applicable, the Company documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. In addition, the Company assesses (both at the hedge's inception and on an ongoing basis) the effectiveness of the derivatives that are used in hedging transactions. If it is determined that a derivative is not (or has ceased to be) effective as a hedge, the Company would discontinue hedge accounting prospectively. Ineffective portions of changes in the fair value of cash flow hedges would be recognized in earnings.

Comprehensive Earnings

Foreign currency translation adjustments, unrealized gains and losses on derivative instruments and minimum pension liability adjustments are included in other comprehensive earnings, net of tax.

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

|  | 2005       | 2004       | 2003     |
|--|------------|------------|----------|
| Minimum pension liability, net of tax            | \$ (3,944) | \$ (1,834) | \$ (605) |
| Translation adjustments                          | (693)      | 3,505      | (331)    |
| Accumulated other comprehensive earnings/ (loss) | \$ (4,637) | \$ 1,671   | \$ (936) |

The minimum pension liability is net of tax of \$2,373, \$1,089, and \$359 for the years ended November 30, 2005, 2004 and 2003, respectively. The translation adjustment is net of tax of \$155 for the year ended November 30, 2005. There were no tax effects for prior years' translation adjustments.

Stock-based Compensation

In accordance with Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation and SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, the Company accounts for stock-based compensation using the intrinsic value method as prescribed under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations and provides the disclosure-only provisions of SFAS No. 123. As discussed under New Pronouncements, the Company will adopt SFAS No. 123R, Share-Based Payment for its fiscal year 2006.

If the Company had determined compensation expense for its stock-based compensation plans based on the fair value at the grant dates consistent with the method of SFAS No. 123 and SFAS No. 148, the

**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Dollars in thousands except per share data) (Continued)**

Company's pro forma net earnings and basic and diluted earnings per share (EPS) would have been as follows.

|   | 2005      | 2004      | 2003      |
|---|-----------|-----------|-----------|
| Net earnings, as reported   | \$ 76,393 | \$ 63,997 | \$ 54,552 |
| Add stock-based compensation expense, net of tax, included in net earnings                | 531       | 489       | 361       |
| Less total stock-based compensation expense under the fair value-based method, net of tax | (8,486)   | (4,362)   | (2,668)   |
| Pro forma net earnings  | \$ 68,438 | \$ 60,124 | \$ 52,245 |
| Basic EPS, as reported  | \$ 1.48   | \$ 1.26   | \$ 1.09   |
| Pro forma basic EPS   | \$ 1.32   | \$ 1.18   | \$ 1.04   |
| Diluted EPS, as reported  | \$ 1.46   | \$ 1.24   | \$ 1.08   |
| Pro forma diluted EPS   | \$ 1.31   | \$ 1.17   | \$ 1.03   |

On November 18, 2005, the Board of Directors approved a grant of 386,375 options that were fully vested on the date of grant. Approximately \$3,000 of pretax compensation expense was included in the determination of pro forma earnings during 2005 that otherwise would have been recorded as stock option expense in accordance with SFAS No. 123R, *Share-Based Payment* over future years had the options been granted with a four-year vesting period similar to prior grants.

On March 22, 2005, the Compensation Committee of the Board of Directors approved accelerating the vesting of nonqualified stock options granted on December 12, 2004 to current employees, including executive officers. All of these options had an exercise price greater than the then-market price per share and provided for vesting at the rate of 25% per year beginning on the first anniversary of the date of grant. Approximately \$3,000 of pretax compensation expense was included in the determination of pro forma earnings during 2005 that otherwise would have been recorded as stock option expense in accordance with SFAS No. 123R, *Share-Based Payment* over future years.

**Accounts Receivable and Allowance for Losses**

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for losses is the Company's best estimate of the amount of probable credit losses in its existing accounts receivable. The Company determines the allowance based on economic conditions in the industries to which the Company sells and on historical experience by evaluating specific customer accounts for risk of loss, fluctuations in amounts owed and current payment trends. The allowances provided are estimates that may be impacted by economic and market conditions which could have an effect on future allowance requirements and results of operations. The Company reviews its allowance for doubtful accounts monthly. Past due balances over 90 days and over a specified amount are reviewed individually for collectibility. Account balances are charged off against the allowance when it is probable the receivable will not be recovered. The Company does not have any off-balance sheet credit exposure related to its customers.

**Plant Assets**

Depreciation is determined primarily by the straight-line method for financial statement purposes and by the accelerated method for tax purposes. The provision for depreciation is based on the estimated useful lives of the assets (15 to 40 years for buildings and improvements and 3 to 15 years for machinery and equipment). It is the policy of the Company to capitalize renewals and betterments and to charge to expense the cost of current maintenance and repairs. When property or equipment is retired or otherwise disposed of, the net book value of the asset is removed from the Company's books and the resulting gain or loss is reflected in earnings.



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Dollars in thousands except per share data) (Continued)**

**Goodwill and Other Intangible Assets**

The Company recognizes the excess of the cost of an acquired entity over the net amount assigned to assets acquired and liabilities assumed as goodwill. Goodwill is tested for impairment on an annual basis and between annual tests in certain circumstances. Impairment losses would be recognized whenever the implied fair value of goodwill is less than its carrying value.

The Company recognizes an acquired intangible apart from goodwill whenever the asset arises from contractual or other legal rights, or whenever it is capable of being separated or divided from the acquired entity and sold, transferred, licensed, rented, or exchanged, either individually or in combination with a related contract, asset or liability. An intangible other than goodwill is amortized over its estimated useful life unless that life is determined to be indefinite. The Company's trade names and trademarks have indefinite useful lives and are subject to impairment testing. All other acquired intangible assets, including patents (average fourteen year life) and other identifiable intangible assets with lives ranging from two to thirty years, are being amortized using the straight-line method over the estimated periods to be benefited. The Company reviews the lives of its definite-lived intangibles annually and if necessary, impairment losses would be recognized if the carrying amount of an intangible subject to amortization is not recoverable from expected future cash flows and its carrying amount exceeds its fair value.

**Impairment of Long-Lived Assets**

The Company determines any impairment losses based on underlying cash flows related to specific groups of acquired long-lived assets, including associated identifiable intangibles and goodwill, when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

**Income Taxes**

The Company provides for income taxes and recognizes deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the financial statement carrying amounts and the tax basis of assets and liabilities.

**Revenue Recognition**

Revenue is recognized when product ownership and risk of loss has transferred to the customer or performance of services is complete and the Company has no remaining obligations regarding the transaction. Estimated discounts and rebates are recorded as a reduction of sales in the same period revenue is recognized. Shipping and handling costs are recorded as revenue when billed to customers.

**Product Warranties**

The Company provides for estimated warranty costs when the related products are recorded as sales or for specific items at the time their existence is known and the amounts are reasonably determinable.

**Research and Development**

The Company charges research and development costs relating to the development of new products or the improvement or redesign of its existing products to expense when incurred. These costs totaled approximately \$9,490 in 2005, \$7,950 in 2004 and \$7,403 in 2003.

**Self-Insurance**

The Company self-insures for certain insurable risks, primarily workers' compensation, general liability, property losses and employee medical coverage. Insurance coverage is generally obtained for catastrophic property and casualty exposures, as well as risks that require insurance by law or contract. Liabilities are

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(Dollars in thousands except per share data) (Continued)**

determined using independent actuarial estimates of the aggregate liability for claims incurred and an estimate of incurred but not reported claims, on an undiscounted basis. When applicable, anticipated recoveries are recorded in the same lines in the Consolidated Statements of Earnings in which the losses were recorded, based on management's best estimate of amounts due from insurance providers.

**Guarantees**

The Company has provided letters of credit totaling approximately \$25,028 to various government agencies, primarily related to industrial revenue bonds, and to insurance companies and other entities in support of its obligations. The Company believes that no payments will be required resulting from these accommodation obligations.

In the ordinary course of business, the Company also provides routine indemnifications and other guarantees whose terms range in duration and often are not explicitly defined. The Company does not believe these will have a material impact on the results of operations or financial condition of the Company.

The Company has a majority ownership interest in a consolidated affiliate in which the Company has agreed, under certain conditions, to buy out the minority owners' interest for an amount estimated not to exceed \$1,400 as of November 30, 2005. In accordance with SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, the Company has recorded this amount at its fair value in other long-term liabilities.

**New Pronouncements**

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123R, Share-Based Payment, which requires companies to expense the value of employee stock options and similar awards. In accordance with a Securities and Exchange Commission rule issued in April 2005, SFAS No. 123R is effective for the Company's fiscal year beginning December 1, 2005. The Company will also adopt the non-substantive vesting period approach for awards with retirement eligibility options, which requires recognition of compensation expense immediately for grants to retirement eligible employees or over the period from the grant date to the date retirement eligibility is achieved. Adoption of this standard is expected to reduce the Company's net earnings and earnings per share for interim and annual periods after adoption. Management expects fiscal year 2006 EPS will be reduced by approximately \$0.03 under the modified prospective method of reporting based on the unvested options outstanding as of November 30, 2005.

On December 21, 2004, the FASB issued two FSPs regarding the accounting implications of the American Jobs Creation Act of 2004. FSP No. 109-1, Application of FASB Statement No. 109 Accounting for Income Taxes to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004 is not expected to have an effect on the Company's effective tax rate until fiscal 2006. FSP No. 109-2, Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004 was effective for fiscal year 2004 and is discussed in Note J.

**B. Acquisitions**

On November 1, 2005, the Company acquired Martin Kurz & Co., Inc. (MKI), a privately-owned Mineola, New York manufacturer of sintered porous metal laminates used in screening and filtration products for a wide array of industries, including pharmaceutical, petrochemical, aerospace, paper and chemical process industries, for approximately \$24,621 net of cash received, including acquisition expenses. The preliminary purchase price was paid in cash with available funds. MKI's sales for the most recent twelve months prior to acquisition were approximately \$12,000. The acquisition would not have significantly affected net earnings and earnings per share of the Company for prior fiscal years. MKI was acquired to expand the Company's product line and technical capabilities in filter manufacturing. The Company expects the acquisition to be accretive to



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Dollars in thousands except per share data) (Continued)**

earnings per share in fiscal year 2006. MKI is included in the Industrial/ Environmental segment from the date of acquisition.

The excess of the initial purchase price over the estimated fair value of the net tangible and identifiable intangible assets acquired was recorded as goodwill. The initial purchase price was based on the net assets of the business acquired as shown on an October 31, 2005, balance sheet which is subject to a final adjustment. The preliminary allocation of the purchase price over the preliminary estimated fair value of the tangible and identifiable intangible assets acquired for MKI resulted in \$9,114 recorded as goodwill. In addition based on a preliminary appraisal, the Company recognized \$8,600 for customer relationships that will be amortized over twelve years, \$267 as indefinite-lived trademarks and \$1,700 as other acquired intangibles which will be amortized over five to ten years. The preliminary allocation for MKI will be finalized when the Company completes its estimates of liabilities assumed, completes an appraisal of the assets acquired and finalizes the purchase price with the sellers. The Company expects to do this in fiscal 2006. Following is a preliminary condensed balance sheet based on fair values of the assets acquired and liabilities assumed.

|  |    |        |
|--|----|--------|
| Cash   | \$ | 244    |
| Accounts receivable, less allowance for losses |    | 1,312  |
| Inventory, net                                 |    | 468    |
| Prepaid assets                                 |    | 59     |
| Plant assets                                   |    | 3,580  |
| Goodwill                                       |    | 9,114  |
| Other acquired intangibles                     |    | 10,567 |
| <br>   |    |        |
| Total assets acquired                          |    | 25,344 |
| Accounts payable and accrued liabilities       |    | (479)  |
| <br>   |    |        |
| Net assets acquired                            | \$ | 24,865 |

On March 1, 2005, the Company acquired Niagara Screen Products Limited (Niagara), a manufacturer of woven wire and metallic screening and filtration products, located in St. Catharines, Ontario, Canada for \$3,356 in cash. Niagara became a wholly-owned subsidiary of the Company and is included in the Industrial/ Environmental Filtration segment from the date of acquisition. The allocation of the excess of purchase price over the fair value of the tangible and identifiable intangible assets acquired for Niagara resulted in \$2,164 recorded as goodwill. In addition, the Company recognized \$53 for customer relationships that will be amortized over twenty years. The Company also recorded \$382 as exit costs for terminated employees and \$78 as plant shutdown costs, both of which were paid during fiscal year 2005. The acquisition would not have significantly affected net earnings and earnings per share of the Company for prior fiscal years.

On September 15, 2004, the Company acquired certain assets of United EFP, a privately-owned manufacturer of woven wire and metallic screening and filtration products for the plastic and polymer fiber industries, operating through two manufacturing facilities in Houston, Texas and Shelby, North Carolina for \$37,188 net of cash received, including acquisition expenses. The purchase price was paid in cash with available funds and proceeds from a revolving credit facility. During 2005, the purchase price was finalized resulting in a \$60 payment by the seller to the Company. An increase to goodwill of \$282 was recorded primarily as a result of the net settlement payment, entries associated with the valuation of accounts receivable and liabilities assumed and final payment of acquisition expenses. United EFP was renamed Purolator EFP (PEFP) and became a wholly-owned subsidiary reported as part of the Industrial/Environmental Filtration segment. PEFP's sales in the most recent twelve-month period prior to the acquisition were approximately \$25,000. PEFP was acquired in order to expand the Company's product line and

provide strategic growth opportunities, particularly in liquid process filtration applications. The acquisition would not have significantly affected net earnings and earnings per share of the Company for prior fiscal years.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Dollars in thousands except per share data) (Continued)**

The excess of the initial purchase price over the estimated fair value of the net tangible and identifiable intangible assets acquired was recorded as goodwill. The purchase price was based on the net assets of the business acquired as shown on a September 14, 2004, balance sheet which was subject to a final adjustment. The allocation of the purchase price over the estimated fair value of the tangible and identifiable intangible assets acquired for PEFP resulted in \$16,357 recorded as goodwill in 2004. In addition, the Company recognized \$5,204 for customer relationships that is being amortized over twenty years, \$18 as indefinite-lived trademarks and \$560 as other acquired intangibles which is being amortized over three years.

Following is a condensed balance sheet based on fair values of the assets acquired and liabilities assumed.

|  |    |            |
|--|----|------------|
| Cash   | \$ | 2          |
| Accounts receivable, less allowance for losses |    | 2,980      |
| Inventory, net                                 |    | 3,679      |
| Prepaid assets                                 |    | 62         |
| Plant assets                                   |    | 9,555      |
| Goodwill                                       |    | 16,639     |
| Other acquired intangibles                     |    | 5,782      |
| <br>Total assets acquired                      |    | <br>38,699 |
| Accounts payable and accrued liabilities       |    | (1,569)    |
| <br>Net assets acquired                        | \$ | <br>37,130 |

On March 1, 2004, the Company acquired certain assets of Filtrel Group, a Luton, England manufacturer and distributor of heavy-duty engine air filters for \$4,871 in cash. As a result of the acquisition, the assets were combined into existing subsidiaries of the Company in the Engine/ Mobile Filtration segment. An allocation of the purchase price was made to major categories of assets and liabilities. The \$3,598 excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired was recorded as goodwill. Other acquired intangibles included a noncompete agreement valued by an independent appraiser at \$115, which is being amortized on a straight-line basis over two years. The Company also recorded \$50 as exit costs for terminated employees. This amount was paid during the quarter ended May 29, 2004. The acquisition is not material to the results of the Company.

**C. Inventories**

Inventories are valued at the lower of cost or market determined on the first-in, first-out (FIFO) method of inventory costing which approximates current cost. Inventories are summarized as follows:

|                   | 2005       | 2004       |
|-------------------|------------|------------|
| Raw materials     | \$ 42,205  | \$ 39,630  |
| Work in process   | 17,057     | 14,432     |
| Finished products | 58,246     | 61,509     |
|                   | \$ 117,508 | \$ 115,571 |



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Dollars in thousands except per share data) (Continued)**

**D. Plant Assets**

Plant assets at November 30, 2005 and 2004 were as follows:

|                                 | 2005       | 2004       |
|---------------------------------|------------|------------|
| Land                            | \$ 7,153   | \$ 6,934   |
| Buildings and building fixtures | 81,587     | 80,395     |
| Machinery and equipment         | 253,191    | 233,655    |
| Construction in process         | 13,285     | 10,186     |
|                                 | 355,216    | 331,170    |
| Less accumulated depreciation   | 205,711    | 188,928    |
|                                 | \$ 149,505 | \$ 142,242 |

**E. Acquired Intangibles**

The following table reconciles the activity for goodwill by reporting unit for fiscal years 2005 and 2004.

|                                  | <b>Engine/Mobile<br/>Filtration</b> | <b>Industrial/<br/>Environmental<br/>Filtration</b> | <b>Packaging</b> | <b>Total<br/>Goodwill</b> |
|----------------------------------|-------------------------------------|---|------------------|---------------------------|
| Balance at November 30, 2003     | \$ 12,170                           | \$ 70,550   | \$               | \$ 82,720                 |
| Acquisitions                     | 3,598                               | 16,357  |                  | 19,955                    |
| Currency translation adjustments | 481                                 | 18  |                  | 499                       |
| Balance at November 30, 2004     | 16,249                              | 86,925  |                  | 103,174                   |
| Acquisitions                     |                                     | 11,560  |                  | 11,560                    |
| Currency translation adjustments | (571)                               | 115   |                  | (456)                     |
| Balance at November 30, 2005     | \$ 15,678                           | \$ 98,600   | \$               | \$ 114,278                |

The following table summarizes acquired intangibles by reporting unit. Other acquired intangibles includes parts manufacturer regulatory approvals, patents and noncompete agreements.

|                               | <b>Engine/Mobile<br/>Filtration</b> | <b>Industrial/<br/>Environmental<br/>Filtration</b> | <b>Packaging</b> | <b>Total</b> |
|-------------------------------|-------------------------------------|---|------------------|--------------|
| Balance at November 30, 2004: |                                     |   |                  |              |
| Trademarks                    | \$ 603                              | \$ 28,891   | \$               | \$ 29,494    |
| Customer relationships, gross | \$ 943                              | \$ 7,844  | \$               | \$ 8,787     |

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|                                   |        |           |           |
|-----------------------------------|--------|-----------|-----------|
| Less accumulated amortization     | 188    | 754       | 942       |
| Customer relationships, net       | \$ 755 | \$ 7,090  | \$ 7,845  |
| Other acquired intangibles, gross | \$ 209 | \$ 11,024 | \$ 11,233 |
| Less accumulated amortization     | 136    | 3,821     | 3,957     |
| Other acquired intangibles, net   | \$ 73  | \$ 7,203  | \$ 7,276  |

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Dollars in thousands except per share data) (Continued)**

|                                   | <b>Engine/Mobile<br/>Filtration</b> | <b>Industrial/<br/>Environmental<br/>Filtration</b> | <b>Packaging</b> | <b>Total</b> |
|-----------------------------------|-------------------------------------|---|------------------|--------------|
| Balance at November 30, 2005:     |                                     |   |                  |              |
| Trademarks                        | \$ 603                              | \$ 29,158   | \$               | \$ 29,761    |
| Customer relationships, gross     | \$ 943                              | \$ 16,500   | \$               | \$ 17,443    |
| Less accumulated amortization     | 283                                 | 1,214   |                  | 1,497        |
| Customer relationships, net       | \$ 660                              | \$ 15,286   | \$               | \$ 15,946    |
| Other acquired intangibles, gross | \$ 207                              | \$ 12,724   | \$               | \$ 12,931    |
| Less accumulated amortization     | 193                                 | 4,547   |                  | 4,740        |
| Other acquired intangibles, net   | \$ 14                               | \$ 8,177  | \$               | \$ 8,191     |

The Company has completed the annual impairment reviews at each year-end, with no indication of impairment of goodwill. In performing the impairment reviews, the Company estimated the fair values of the aggregated reporting units using a present value method that discounted future cash flows. Such valuations are sensitive to assumptions associated with cash flow growth, discount rates, terminal value and the aggregation of reporting unit components. The Company further assessed the reasonableness of these estimates by using valuation methods based on market multiples and recent capital market transactions.

The Company performed the annual impairment tests on its indefinite-lived intangibles as of November 30, 2005 and 2004 using the relief-from-royalty method to determine the fair value of its trademarks and trade names. There was no impairment as the fair value was greater than the carrying value for these indefinite-lived intangibles as of these dates.

In addition, the Company reassessed the useful lives and classification of identifiable finite-lived intangible assets at each year end and determined that they continue to be appropriate. Amortization expense was \$1,338, \$910 and \$907 for the years ended November 30, 2005, 2004 and 2003, respectively. The estimated amounts of amortization expense for the next five years are \$2,111 in 2006, \$2,017 in 2007, \$1,832 in 2008, \$1,832 in 2009 and \$1,827 in 2010.

**F. Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities at November 30, 2005 and 2004 were as follows:

|   | <b>2005</b> | <b>2004</b> |
|---|-------------|-------------|
| Accounts payable                        | \$ 49,239   | \$ 63,605   |
| Accrued salaries, wages and commissions | 16,649      | 16,226      |
| Compensated absences                    | 7,632       | 7,542       |
| Accrued insurance liabilities           | 12,053      | 10,872      |
| Accrued pension liabilities             | 606         | 680         |
| Warranties                              | 1,122       | 1,200       |
| Other accrued liabilities               | 21,392      | 17,734      |

\$ 108,693      \$ 117,859

No amounts within the other accrued liabilities amount shown above exceed 5% of total current liabilities. Warranties are recorded as a liability on the balance sheet and as charges to current expense for estimated normal warranty costs and, if applicable, for specific performance issues known to exist on products already sold. The expenses estimated to be incurred are provided at the time of sale and adjusted as needed, based primarily upon experience.

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Changes in the Company's warranty accrual during the year ended November 30, 2005 are as follows:

|   |    |         |
|---|----|---------|
| Balance at November 30, 2004                      | \$ | 1,200   |
| Accruals for warranties issued during the period  |    | 1,071   |
| Accruals related to pre-existing warranties       |    | 29      |
| Settlements made during the period                |    | (1,160) |
| Other adjustments, primarily currency translation |    | (18)    |
| Balance at November 30, 2005                      | \$ | 1,122   |

**G. Long-Term Debt**

Long-term debt at November 30, 2005 and 2004 consisted of the following:

|  | 2005      | 2004      |
|--|-----------|-----------|
| Multicurrency revolving credit agreements, interest payable at the end of each funding period at an adjusted LIBOR | \$        | \$ 7,500  |
| Industrial Revenue Bonds, at weighted average interest rates of 3.11% and 1.81% at year end                        | 15,820    | 16,638    |
| Other  | 422       | 412       |
|  | 16,242    | 24,550    |
| Less current portion   | 233       | 420       |
|  | \$ 16,009 | \$ 24,130 |

A fair value estimate of \$16,004 and \$23,963 for long-term debt in 2005 and 2004, respectively, is based on the current interest rates available to the Company for debt with similar remaining maturities.

In April 2003, the Company entered into a five-year multicurrency revolving credit agreement with a group of financial institutions under which it may borrow up to \$165,000. The credit agreement provides that loans may be made under a selection of currencies and rate formulas. The interest rate is based upon either a defined Base Rate or the London Interbank Offered Rate (LIBOR) plus or minus applicable margins. Facility fees and other fees on the entire loan commitment are payable for the duration of this facility.

Borrowings under the credit facility are unsecured, but are guaranteed by subsidiaries of the Company. The agreement related to this borrowing contains certain restrictive covenants that include maintaining minimum consolidated net worth, limiting new borrowings, maintaining a minimum interest coverage and restricting certain changes in ownership. The Company was in compliance with these covenants throughout fiscal years 2005 and 2004. This agreement also includes a \$40,000 letter of credit subline, against which \$8,491 in letters of credit had been issued at November 30, 2005 and 2004.

As of November 30, 2005 and 2004, the industrial revenue bonds include \$7,410 and \$8,000, respectively, issued in cooperation with the Campbellsville-Taylor County Industrial Development Authority (Kentucky), that are due May 1, 2031 and \$8,410 issued in cooperation with the South Dakota Economic Development Finance Authority due February 1, 2016. The interest rate on these bonds is reset weekly.

Required principal maturities of long-term debt for the next five fiscal years ending November 30 approximates: \$233 in 2006, \$61 in 2007, \$58 in 2008, \$47 in 2009, \$23 in 2010 and \$15,820 thereafter.

Interest paid totaled \$483, \$278 and \$1,868 during 2005, 2004 and 2003, respectively.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Dollars in thousands except per share data) (Continued)**

**H. Leases**

The Company has various lease agreements for offices, warehouses, manufacturing plants, and equipment that expire on various dates through July 2015 and contain renewal options. Some of these leases provide for payment of property taxes, utilities and certain other expenses. Commitments for minimum rentals under noncancelable leases at November 30, 2005 for the next five years are: \$9,013 in 2006, \$7,075 in 2007, \$5,408 in 2008, \$3,833 in 2009 and \$2,677 in 2010. Rent expense totaled \$11,026, \$10,316 and \$9,999 for the years ended November 30, 2005, 2004 and 2003, respectively.

**I. Pension and Other Postretirement Plans**

The Company has defined benefit pension plans and postretirement health care plans covering certain current and retired employees. In addition to the plan assets related to qualified plans, the Company has funded approximately \$1,374 and \$1,551 at November 30, 2005 and 2004, respectively, in a restricted trust for its nonqualified plans. This trust is included in other noncurrent assets in the Company's Consolidated Balance Sheets.

Effective January 1, 2004, the Company froze participation in one of its defined benefit plans. Certain current plan participants will continue to participate in the plan while other participants will not accrue future benefits under the plan but will participate in an enhanced defined contribution plan which offers an increased company match.

The Company's policy is to contribute to the qualified U.S. and non-U.S. pension plans at least the minimum amount required by applicable laws and regulations, to contribute to the nonqualified plan when required for benefit payments, and to contribute to the postretirement benefit plan an amount equal to the benefit payments. During 2006, the minimum required contribution for the U.S. pension plans is expected to be zero. The Company from time to time makes contributions in excess of the minimum amount required as economic conditions warrant. The Company did not make a contribution to the qualified U.S. pension plan in 2005; however, \$6,500 was contributed in fiscal year 2004. The Company has not determined whether it will make a voluntary contribution to the U.S. qualified plan in 2006; however it does expect to contribute \$280 to the U.S. nonqualified plan, \$330 to the non-U.S. plan and \$280 to the postretirement benefit plan to pay benefits during 2006.

The following table shows reconciliations of the pension plans and other postretirement plan benefits as of November 30, 2005 and 2004. The accrued pension benefit liability includes an unfunded benefit obligation of \$18,307 and \$12,737 as of November 30, 2005 and 2004, respectively, related to nonqualified plans.

|   | Pension Benefits |            | Other Postretirement Benefits |          |
|---|------------------|------------|-------------------------------|----------|
|   | 2005             | 2004       | 2005                          | 2004     |
| Change in benefit obligation:           |                  |            |                               |          |
| Benefit obligation at beginning of year | \$ 116,520       | \$ 100,509 | \$ 1,994                      | \$ 3,750 |
| Currency translation                    | (754)            | 731        |                               |          |
| Service cost                            | 3,755            | 3,473      | 30                            | 124      |
| Interest cost                           | 6,236            | 5,906      | 103                           | 217      |
| Plan participants' contributions        | 90               | 78         |                               |          |
| Amendments                              |                  | (138)      |                               | (1,708)  |
| Actuarial losses/ (gains)               | 6,027            | 10,765     | (295)                         | (156)    |
| Benefits paid                           | (4,907)          | (4,804)    | (62)                          | (233)    |
| Benefit obligation at end of year       | \$ 126,967       | \$ 116,520 | \$ 1,770                      | \$ 1,994 |



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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|   | Pension Benefits |            | Other Postretirement Benefits |            |
|---|------------------|------------|-------------------------------|------------|
|   | 2005             | 2004       | 2005                          | 2004       |
| <b>Change in plan assets:</b>   |                  |            |                               |            |
| Fair value of plan assets at beginning of year                        | \$ 96,531        | \$ 86,582  | \$                            | \$         |
| Currency translation  | (563)            | 541        |                               |            |
| Actual return on plan assets  | 8,519            | 7,207      |                               |            |
| Employer contribution   | 201              | 6,667      |                               |            |
| Plan participants contributions                                       | 90               | 78         |                               |            |
| Benefits paid   | (4,647)          | (4,544)    |                               |            |
| Fair value of plan assets at end of year                              | \$ 100,131       | \$ 96,531  | \$                            | \$         |
| <b>Reconciliation of Funded Status:</b>                               |                  |            |                               |            |
| Accumulated benefit obligation  | \$ 115,890       | \$ 106,668 | \$ n/a                        | \$ n/a     |
| Additional benefit obligation for future salary increases             | 11,077           | 9,852      | n/a                           | n/a        |
| Benefit obligation  | 126,967          | 116,520    | 1,770                         | 1,994      |
| Fair value of plan assets   | 100,131          | 96,531     |                               |            |
| Funded status   | (26,836)         | (19,989)   | (1,770)                       | (1,994)    |
| Unrecognized prior service cost                                       | 1,216            | 1,066      | (1,586)                       | (1,708)    |
| Unrecognized net actuarial loss/ (gain)                               | 38,099           | 35,630     | (1,160)                       | (943)      |
| Net amount recognized   | \$ 12,479        | \$ 16,707  | \$ (4,516)                    | \$ (4,645) |
| <b>Amounts recognized in the Consolidated Balance Sheets include:</b> |                  |            |                               |            |
| Prepaid benefit cost  | \$ 22,069        | \$ 24,574  | \$                            | \$         |
| Accrued benefit liability   | (16,893)         | (11,936)   | (4,516)                       | (4,645)    |
| Other noncurrent assets   | 986              | 1,146      |                               |            |
| Accumulated other comprehensive loss, pretax                          | 6,317            | 2,923      |                               |            |
| Net amount recognized   | \$ 12,479        | \$ 16,707  | \$ (4,516)                    | \$ (4,645) |
| <b>Assumptions:</b>   |                  |            |                               |            |
| Discount rate-qualified plans   | 5.50%            | 5.50%      | 5.00%                         | 5.50%      |
| Discount rate-nonqualified plan                                       | 5.00%            | 5.50%      | n/a                           | n/a        |
| Rate of compensation increase-qualified plans                         | 4.00%            | 4.00%      | n/a                           | n/a        |
|   | 6.50%            | 6.50%      | n/a                           | n/a        |

| Rate of compensation increase-nonqualified plans |          |          |          |          |
|--|----------|----------|----------|----------|
| Measurement date                                 | 11/01/05 | 11/01/04 | 11/01/05 | 11/01/04 |

The assumptions for the discount rate, rate of compensation increase and expected rate of return and the asset allocations related to the non-U.S. plan are not materially different than for the U.S. plans. The discount rate is used to calculate the present value of the projected benefit obligation. The Company's objective in selecting a discount rate is to select the best estimate of the rate at which the benefit obligations could be effectively settled on the measurement date taking into account the nature and duration of the benefit obligations of the plan. In making this best estimate, the Company looks at rates of return on high-quality

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fixed-income investments currently available and expected to be available during the period to maturity of the benefits. This process includes looking at the universe of bonds available on the measurement date with a quality rating of Aa or better. Similar appropriate benchmarks are used to determine the discount rate for the non-U.S. plan.

The rate of compensation increase represents the long-term assumption for expected increases in salaries among continuing active participants accruing benefits in the pay-related plans.

The U.S. plan's target allocation is 70% equity securities, 25% debt securities and 5% real estate. The target allocation is based on the Company's desire to maximize total return considering the long-term funding objectives of the pension plans but may change in the future. With advice from investment managers, plan assets are diversified to achieve a balance between risk and return. The Company's expected long-term rate of return considers historical returns on plan assets as well as future expectation given the target allocation and current economic conditions with input from investment managers and actuaries. The expected rate of return on plan assets is designed to be a long-term assumption that may be subject to considerable year-to-year variance from actual returns.

As of the November 1 measurement date, the actual pension asset allocations were as follows:

|                       | 2005   | 2004   |
|-----------------------|--------|--------|
| Equity securities     | 71.9%  | 69.0%  |
| Debt securities       | 24.8%  | 30.6%  |
| Real estate and other | 3.3%   | 0.4%   |
| Total                 | 100.0% | 100.0% |

The expected pension benefit payments for the next ten fiscal years are as follows:

|           | Pension<br>Benefits | Other<br>Postretirement<br>Benefits |
|-----------|---------------------|-------------------------------------|
| 2006      | \$ 5,052            | \$ 277                              |
| 2007      | 5,177               | 290                                 |
| 2008      | 18,605              | 262                                 |
| 2009      | 5,768               | 222                                 |
| 2010      | 13,124              | 189                                 |
| 2011-2015 | 34,704              | 589                                 |

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The components of net periodic benefit cost for pensions are shown below. Increases in the liability due to changes in plan benefits are recognized in the net periodic benefit costs through a straight-line amortization over the average remaining service period of employees expected to receive benefits.

|   | <b>Pension Benefits</b> |                 |                 |
|---|-------------------------|-----------------|-----------------|
|   | <b>2005</b>             | <b>2004</b>     | <b>2003</b>     |
| <b>Components of net periodic benefit cost:</b> |                         |                 |                 |
| Service cost                                    | \$ 3,755                | \$ 3,473        | \$ 4,327        |
| Interest cost                                   | 6,236                   | 5,906           | 5,820           |
| Expected return on plan assets                  | (7,483)                 | (6,963)         | (6,001)         |
| <b>Amortization of unrecognized:</b>            |                         |                 |                 |
| Prior service cost                              | 146                     | 158             | 140             |
| Net actuarial loss                              | 2,105                   | 1,375           | 1,689           |
| Settlement costs for a terminated plan          |                         |                 | 69              |
| <b>Net periodic benefit cost</b>                | <b>\$ 4,759</b>         | <b>\$ 3,949</b> | <b>\$ 6,044</b> |

**Assumptions:**

|   |          |          |          |
|---|----------|----------|----------|
| Discount rate-qualified plans                   | 5.50%    | 6.00%    | 6.75%    |
| Discount rate-nonqualified plan                 | 5.50%    | 6.00%    | 6.75%    |
| Expected return on plan assets                  | 8.00%    | 8.25%    | 8.50%    |
| Rate of compensation increase-qualified plans   | 4.00%    | 4.00%    | 5.00%    |
| Rate of compensation increase-nonqualified plan | 6.50%    | 6.50%    | 6.50%    |
| Measurement date                                | 11/01/04 | 11/01/03 | 11/01/02 |

The assumptions for the expected long-term rate of return on plan assets were based on historical performance and adjusted to reflect the potential range of returns for the current asset allocations. For the determination of 2006 expense, the Company will not change its assumptions for the long-term return on assets or the rate of compensation increase; however, it will lower its discount rate on its nonqualified U.S. pension plan to 5.0%, which will have an immaterial effect on fiscal 2006 expense.

The postretirement obligations represent a fixed dollar amount per retiree. The Company has the right to modify or terminate these benefits. The participants will assume substantially all future health care benefit cost increases, and future increases in health care costs will not increase the postretirement benefit obligation or cost to the Company. Therefore, the Company has not assumed any annual rate of increase in the per capita cost of covered health care benefits for future years. The prescription drug benefits provided by this plan are not actuarially equivalent to Medicare Part D; therefore, the Company will not receive a government subsidy under the Medicare Prescription Drug, Improvement and Modernization Act of 2003. The Company plans to discontinue the prescription drug benefit portion of its plan effective January 31, 2006. This change will not



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have a material effect on fiscal 2006 expense or liability. The components of net periodic benefit cost for postretirement health care benefits are shown below.

|   | <b>Other Postretirement Benefits</b> |               |               |
|---|--------------------------------------|---------------|---------------|
|   | <b>2005</b>                          | <b>2004</b>   | <b>2003</b>   |
| <b>Components of net periodic benefit cost:</b> |                                      |               |               |
| Service cost                                    | \$ 30                                | \$ 124        | \$ 114        |
| Interest cost                                   | 103                                  | 217           | 237           |
| <b>Amortization of unrecognized:</b>            |                                      |               |               |
| Prior service cost                              | (122)                                |               |               |
| Net actuarial gain                              | (77)                                 | (32)          | (20)          |
| <b>Net periodic benefit cost</b>                | <b>\$ (66)</b>                       | <b>\$ 309</b> | <b>\$ 331</b> |

**Assumptions:**

|                  |          |          |          |
|------------------|----------|----------|----------|
| Discount rate    | 5.50%    | 6.00%    | 6.75%    |
| Measurement date | 11/01/04 | 11/01/03 | 11/01/02 |

In November 2004, the Company notified active participants that it will freeze participation in the postretirement healthcare plan to eligible retirees effective January 1, 2007. As a result, unrecognized prior service costs of \$1,708 is being amortized over the average remaining years of service for active plan participants. The Company will lower its discount rate assumption to 5.0% for its other post-retirement benefits plan, which will not significantly affect the fiscal 2006 expense.

The Company also sponsors various defined contribution plans that provide employees with an opportunity to accumulate funds for their retirement. The Company matches the contributions of participating employees based on the percentages specified in the respective plans. The Company recognized expense related to these plans of \$3,157, \$2,886 and \$1,471 in 2005, 2004 and 2003, respectively.

**J. Income Taxes**

The provision for income taxes consisted of:

|                 | <b>2005</b>      | <b>2004</b>      | <b>2003</b>      |
|-----------------|------------------|------------------|------------------|
| <b>Current:</b> |                  |                  |                  |
| Federal         | \$ 33,608        | \$ 25,551        | \$ 24,433        |
| State           | 4,057            | 3,043            | 2,066            |
| Foreign         | 3,885            | 2,362            | 2,938            |
| <b>Deferred</b> | <b>(582)</b>     | <b>3,761</b>     | <b>1,934</b>     |
|                 | <b>\$ 40,968</b> | <b>\$ 34,717</b> | <b>\$ 31,371</b> |

Income taxes paid, net of refunds, totaled \$29,483, \$25,633 and \$22,607 during 2005, 2004 and 2003, respectively.

Earnings before income taxes and minority interests included the following components:

|                 | <b>2005</b> | <b>2004</b> | <b>2003</b> |
|-----------------|-------------|-------------|-------------|
| Domestic income | \$ 106,162  | \$ 90,770   | \$ 77,779   |
| Foreign income  | 11,760      | 8,290       | 8,280       |
|                 | \$ 117,922  | \$ 99,060   | \$ 86,059   |

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Dollars in thousands except per share data) (Continued)**

The provision for income taxes resulted in effective tax rates that differ from the statutory federal income tax rates. The reasons for these differences are as follows:

|   | <b>Percent of Pretax Earnings</b> |              |              |
|---|-----------------------------------|--------------|--------------|
|   | <b>2005</b>                       | <b>2004</b>  | <b>2003</b>  |
| Statutory U.S. tax rates                      | 35.0%                             | 35.0%        | 35.0%        |
| State income taxes, net of federal benefit    | 2.1                               | 2.1          | 1.7          |
| Foreign sales                                 | (0.6)                             | (0.8)        | (0.8)        |
| Tax credits                                   | (0.9)                             | (2.5)        | (1.1)        |
| Foreign taxes at different rates              | (0.8)                             | (0.1)        | 1.2          |
| Other, net                                    | (0.1)                             | 1.3          | 0.5          |
| <b>Consolidated effective income tax rate</b> | <b>34.7%</b>                      | <b>35.0%</b> | <b>36.5%</b> |

The components of the net deferred tax liability as of November 30, 2005 and 2004 were as follows:

|  | <b>2005</b>       | <b>2004</b>       |
|--|-------------------|-------------------|
| <b>Deferred tax assets:</b>                |                   |                   |
| Deferred compensation                      | \$ 4,261          | \$ 4,206          |
| Other postretirement benefits              | 1,094             | 1,132             |
| Tax credits and foreign loss carryforwards | 1,523             | 2,699             |
| Accounts receivable                        | 4,682             | 4,529             |
| Inventories                                | 4,002             | 3,626             |
| Accrued liabilities and other              | 5,436             | 5,056             |
| Valuation allowance                        | (896)             | (1,230)           |
| <b>Total deferred tax assets, net</b>      | <b>20,102</b>     | <b>20,018</b>     |
| <b>Deferred tax liabilities:</b>           |                   |                   |
| Pensions                                   | (2,192)           | (6,207)           |
| Plant assets                               | (16,547)          | (16,500)          |
| Intangibles                                | (8,511)           | (6,406)           |
| <b>Total deferred tax liabilities</b>      | <b>(27,250)</b>   | <b>(29,113)</b>   |
| <b>Deferred tax liability, net</b>         | <b>\$ (7,148)</b> | <b>\$ (9,095)</b> |

Of the tax credits and foreign loss carryforwards, \$1,238 expires in 2008 through 2013 and \$285 may be carried over indefinitely. In 2005 and 2004, the Company reduced the valuation allowance by \$334 and \$1,225, respectively, related to foreign net operating losses and foreign tax credit carryovers. The valuation allowance reflects the estimated amount of deferred tax assets due to foreign net operating losses that may not be realized of which approximately

\$111 will reduce goodwill from acquired entities if realized. The Company expects to realize the remaining deferred tax assets through the reversal of taxable temporary differences and future earnings.

The Company repatriated \$2,460, \$1,732 and \$1,808 of its accumulated foreign earnings and provided \$117, \$81 and \$64 for U.S. income taxes on the repatriations in 2005, 2004 and 2003, respectively. The Company has not provided deferred taxes on additional unremitted foreign earnings from certain foreign affiliates of approximately \$14,055 that are intended to be indefinitely reinvested to finance operations and expansion outside the United States. If such earnings were distributed beyond the amount for which taxes

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Dollars in thousands except per share data) (Continued)**

have been provided, foreign tax credits would substantially offset any incremental U.S. tax liability. Determination of the unrecognized deferred taxes related to these undistributed earnings is not practicable.

**K. Relocation Costs**

On January 8, 2004, the Company announced that the corporate headquarters would move to the Nashville, Tennessee area in 2004. Costs for this move, which were a one-time expense incurred during fiscal 2004, were approximately \$2,209 or \$0.03 per diluted share and are included in selling and administrative expenses. The Company paid all significant relocation costs during fiscal year 2004.

**L. Contingencies**

The Company is involved in legal actions arising in the normal course of business. Additionally, the Company is party to various proceedings relating to environmental issues. The U.S. Environmental Protection Agency (EPA) 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. 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 the environmental regulation and the continuing advancement of remediation technology. Applicable federal law may impose joint and several liability on each PRP for the cleanup.

It is the opinion of management, after consultation with legal counsel that additional liabilities, if any, resulting from these legal or environmental issues, are not expected to have a material adverse effect on the Company's financial condition or consolidated results of operations.

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

**M. Preferred Stock Purchase Rights**

In March 1996, the Board of Directors of CLARCOR adopted a Shareholder Rights Plan to replace an existing plan that expired on April 25, 1996. Under the terms of the Plan, each shareholder received rights to purchase shares of CLARCOR Series B Junior Participating Preferred Stock. The rights become exercisable only after the earlier to occur of (i) 10 business days after the first public announcement that a person or group (other than a CLARCOR-related entity) has become the beneficial owner of 15% or more of the outstanding shares of CLARCOR Common Stock; or (ii) 10 business days (unless extended by the CLARCOR Board in accordance with the Rights Agreement) after the commencement of, or the intention to make, a tender or exchange offer, the consummation of which would result in any person or group (other than a CLARCOR-related entity) becoming such a 15% beneficial owner. Each right entitles the holder to buy one-three-hundredths of a share of such preferred stock at an exercise price of \$26.67 subject to certain adjustments.

Once the rights become exercisable, each right will entitle the holder, other than the acquiring person or group, to purchase a number of CLARCOR common shares at a 50% discount to the then-market price of CLARCOR Common Stock. In addition, under certain circumstances, if the rights become exercisable, the holder will be entitled to purchase the stock of the acquiring individual or group at a 50% discount. The Board may also elect to redeem the rights at \$.01 per right. The rights expire on April 25, 2006.

The authorized preferred stock includes 300,000 shares designated as Series B Junior Participating Preferred Stock.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Dollars in thousands except per share data) (Continued)**

**N. Incentive Plan**

On March 24, 2003, the shareholders of CLARCOR approved the 2004 Incentive Plan, which replaced the 1994 Incentive Plan on its termination date of December 14, 2003. The 2004 Incentive Plan allows the Company to grant stock options, restricted stock and performance awards to officers, directors and key employees of up to 3,000,000 shares. In any calendar year, the Plan allows grants and awards of up to 3% of the outstanding common stock as of January 1 of each calendar year.

The following is a description and summary of the key provisions.

**Stock Options**

Under the 2004 Incentive Plan, nonqualified stock options may only be granted at the fair market value at the date of grant. All outstanding stock options have been granted at the fair market value on the date of grant. The Company's Board of Directors determines the vesting requirements for stock options at the time of grant and may accelerate vesting as occurred during 2005. Options granted to key employees prior to fiscal 2005 vest 25% per year beginning at the end of the first year; therefore, they become fully exercisable at the end of four years. Options granted to non-employee directors vest immediately. All options expire ten years from the date of grant unless otherwise terminated. The options granted in fiscal 2005 are fully vested as discussed in Note A.

The following table summarizes the activity under the nonqualified stock option plans and include options granted under both the 1994 Incentive Plan and the 2004 Incentive Plan.

|                                    | 2005        |                                 | 2004        |                                 | 2003        |                                 |
|------------------------------------|-------------|---------------------------------|-------------|---------------------------------|-------------|---------------------------------|
|                                    | Shares      | Weighted Average Exercise Price | Shares      | Weighted Average Exercise Price | Shares      | Weighted Average Exercise Price |
| Outstanding at beginning of year   | 3,676,306   | \$ 15.42                        | 3,831,868   | \$ 11.84                        | 4,092,536   | \$ 9.69                         |
| Granted                            | 1,374,865   | 27.50                           | 1,048,738   | 22.54                           | 1,019,442   | 16.83                           |
| Exercised                          | (1,105,778) | 11.98                           | (1,148,694) | 10.12                           | (1,228,634) | 8.84                            |
| Surrendered                        | (59,478)    | 18.52                           | (55,606)    | 14.44                           | (51,476)    | 11.65                           |
| Outstanding at end of year         | 3,885,915   | \$ 20.63                        | 3,676,306   | \$ 15.42                        | 3,831,868   | \$ 11.84                        |
| Options exercisable at end of year | 3,511,015   | \$ 20.63                        | 2,725,328   | \$ 14.52                        | 2,698,080   | \$ 11.40                        |

The following table summarizes information about the options at November 30, 2005.

| Range of Exercise Prices | Options Outstanding |                                 |  | Options Exercisable |                                 |
|--------------------------|---------------------|---------------------------------|--|---------------------|---------------------------------|
|                          | Number              | Weighted Average Exercise Price | Weighted Average Remaining Life in Years | Number              | Weighted Average Exercise Price |

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|                   |           |          |      |           |          |
|-------------------|-----------|----------|------|-----------|----------|
| \$7.21 - \$9.79   | 520,126   | \$ 9.10  | 3.74 | 520,126   | \$ 9.10  |
| \$10.53 - \$15.15 | 346,795   | \$ 13.31 | 5.69 | 346,795   | \$ 13.31 |
| \$16.01 - \$22.80 | 1,665,629 | \$ 20.07 | 6.07 | 1,290,729 | \$ 19.91 |
| \$25.89 - \$29.45 | 1,353,365 | \$ 27.62 | 8.30 | 1,353,365 | \$ 27.62 |

The weighted average fair value per option at the date of grant for options granted in 2005, 2004 and 2003 was \$7.13, \$5.68 and \$3.90, respectively. The fair value of each option grant is estimated on the date of grant

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using the Black-Scholes option pricing model with the following weighted average assumptions by grant year. Adjustments for forfeitures are made as they occur.

|                                  | 2005   | 2004   | 2003   |
|----------------------------------|--------|--------|--------|
| Risk-free interest rate          | 4.05%  | 3.67%  | 3.87%  |
| Expected dividend yield          | 1.06%  | 1.29%  | 1.58%  |
| Expected volatility factor       | 21.48% | 22.80% | 23.00% |
| Expected option term (in years): |        |        |        |
| Original grants without reloads  | 6.4    | 7.0    | 7.0    |
| Original grants with reloads     | 5.0    | 5.0    | 7.0    |

**Restricted Stock Awards**

During 2005, 2004 and 2003, respectively, the Company granted 60,285, 37,832 and 45,290 restricted units of Company common stock with a weighted average fair value of \$27.35, \$22.80 and \$16.15 per share, the respective market price of the stock at the date granted. The restricted share units require no payment from the employee and compensation cost is recorded based on the market price on the grant date and is recorded equally over the vesting period of four years. During the vesting period, officers and key employees receive compensation equal to dividends declared on common shares. Upon vesting, the employee may elect to defer receipt of their shares. Compensation expense related to restricted stock awards totaled \$836, \$770 and \$569 in 2005, 2004 and 2003, respectively.

**Directors' Restricted Stock Compensation**

The incentive plans provide for grants of shares of common stock to all non-employee directors equal to a one-year annual retainer in lieu of cash. The directors' rights to the shares vest immediately on the date of grant. In 2005, 2004 and 2003, respectively, 6,760, 12,640 and 14,352 shares of Company common stock were issued under the plans. Compensation expense related to directors' restricted stock totaled \$172 in 2005 and \$260 for each year 2004 and 2003.

**O. Stock Split, Earnings Per Share and Treasury Transactions**

On March 21, 2005, the Company declared a two-for-one stock split effected in the form of a 100% stock dividend distributable April 29, 2005 to shareholders of record April 15, 2005. In connection therewith, the Company transferred \$25,775 from retained earnings to common stock, representing the par value of additional shares issued. All share and per share amounts for all periods presented have been adjusted to reflect the stock split.

The Company calculates basic earnings per share by dividing net earnings by the weighted average number of shares outstanding. Diluted earnings per share reflects the impact of outstanding stock options if



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exercised during the periods presented using the treasury stock method. The following table provides a reconciliation of the denominators utilized in the calculation of basic and diluted earnings per share:

|  | 2005       | 2004       | 2003       |
|--|------------|------------|------------|
| Net Earnings   | \$ 76,393  | \$ 63,997  | \$ 54,552  |
| Basic EPS:   |            |            |            |
| Weighted average number of common shares outstanding         | 51,658,347 | 50,984,314 | 50,213,122 |
| Basic per share amount                                       | \$ 1.48    | \$ 1.26    | \$ 1.09    |
| Diluted EPS:   |            |            |            |
| Weighted average number of common shares outstanding         | 51,658,347 | 50,984,314 | 50,213,122 |
| Dilutive effect of stock options                             | 557,342    | 522,424    | 532,490    |
| Diluted weighted average number of common shares outstanding | 52,215,689 | 51,506,738 | 50,745,612 |
| Diluted per share amount                                     | \$ 1.46    | \$ 1.24    | \$ 1.08    |

For fiscal years ended November 30, 2005, 2004 and 2003, respectively, 744,865, 575,700 and 15,546 stock options with a weighted average exercise price of \$28.89, \$22.80 and \$19.40 were not included in the computation of diluted earnings per share as the exercise prices of the options were greater than the average market price of the common shares during the respective periods.

On June 17, 2005, the Board of Directors authorized the repurchase of up to \$150,000 of outstanding shares of common stock in the open market and in private transactions over a two-year period. During 2005, the Company purchased and retired 368,200 shares of common stock for \$10,461. The number of issued shares was reduced as a result of the retirement of these shares.

**P. Unaudited Quarterly Financial Data**

The unaudited quarterly data for 2005 and 2004 were as follows:

|                                | First<br>Quarter | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter | Total      |
|--------------------------------|------------------|-------------------|------------------|-------------------|------------|
| 2005:                          |                  |                   |                  |                   |            |
| Net sales                      | \$ 196,261       | \$ 219,786        | \$ 216,403       | \$ 241,524        | \$ 873,974 |
| Gross profit                   | 57,019           | 66,086            | 67,400           | 75,227            | 265,732    |
| Net earnings                   | 13,154           | 17,346            | 20,855           | 25,038            | 76,393     |
| Net earnings per common share: |                  |                   |                  |                   |            |
| Basic                          | \$ 0.26          | \$ 0.34           | \$ 0.40          | \$ 0.48           | \$ 1.48    |
| Diluted                        | \$ 0.25          | \$ 0.33           | \$ 0.40          | \$ 0.48           | \$ 1.46    |
| 2004:                          |                  |                   |                  |                   |            |
| Net sales                      | \$ 175,272       | \$ 198,712        | \$ 206,209       | \$ 207,493        | \$ 787,686 |
| Gross profit                   | 51,484           | 61,099            | 63,234           | 64,811            | 240,628    |

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|                                |         |         |         |         |         |
|--------------------------------|---------|---------|---------|---------|---------|
| Net earnings                   | 11,661  | 14,914  | 15,875  | 21,547  | 63,997  |
| Net earnings per common share: |         |         |         |         |         |
| Basic                          | \$ 0.23 | \$ 0.30 | \$ 0.31 | \$ 0.42 | \$ 1.26 |
| Diluted                        | \$ 0.23 | \$ 0.29 | \$ 0.31 | \$ 0.42 | \$ 1.24 |

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Dollars in thousands except per share data) (Continued)**

Fiscal year 2005 was a fifty-three week year, whereas fiscal year 2004 was a fifty-two week year. Fourth quarter 2005 was a fourteen week quarter while fourth quarter 2004 was a thirteen week quarter. In addition, a tax benefit from the favorable settlement of a tax position related to a foreign subsidiary decreased income tax expense by \$1,235 and increased diluted EPS by \$0.02 during the third quarter of 2005. Tax benefits arising from the American Jobs Creation Act of 2004 decreased income tax expense \$1,225 and increased diluted EPS by \$0.02 during the fourth quarter of 2004.

**Q. Segment Information**

Based on the economic characteristics of the Company's business activities, the nature of products, customers and markets served, and the performance evaluation by management and the Company's Board of Directors, the Company has identified three reportable segments: Engine/ Mobile Filtration, Industrial/ Environmental Filtration and Packaging.

The Engine/ Mobile Filtration segment manufactures and markets a complete line of filters used in the filtration of oils, air, fuel, coolant, hydraulic and transmission fluids in both domestic and international markets. The Engine/ Mobile Filtration segment provides filters for certain types of transportation equipment including automobiles, heavy-duty and light trucks, buses and locomotives, marine and mining equipment, industrial equipment and heavy-duty construction and agricultural equipment. The products are sold to aftermarket distributors, original equipment manufacturers and dealer networks, private label accounts and directly to truck service centers and large national accounts.

The Industrial/ Environmental Filtration segment manufactures and markets a complete line of filters, cartridges, dust collectors and filtration systems used in the filtration of air and industrial fluid processes in both domestic and international markets. The filters and filter systems are used in commercial and industrial buildings, hospitals, manufacturing processes, pharmaceutical processes, clean rooms, airports, shipyards, refineries, power generation plants and residences. The products are sold to commercial and industrial distributors, original equipment manufacturers and dealer networks, private label accounts, retailers and directly to large national accounts.

The Packaging segment manufactures and markets consumer and industrial packaging products including custom-designed plastic and metal containers and closures and lithographed metal sheets in both domestic and international markets. The products are sold directly to consumer and industrial packaging customers.

Net sales represent sales to unaffiliated customers. No single customer or class of product accounted for 10% or more of the Company's consolidated 2005 sales. Intersegment sales are not material. Assets are those assets used in each business segment. Corporate assets consist of cash and short-term cash investments, deferred income taxes, headquarters facility and equipment, pension assets and various other assets that are not specific to an operating segment. Unallocated amounts include interest income and expense and other non-operating income and expense items.

The segment data for the years ended November 30, 2005, 2004 and 2003 were as follows:

|                                      | 2005       | 2004       | 2003       |
|--------------------------------------|------------|------------|------------|
| Net sales:                           |            |            |            |
| Engine/ Mobile Filtration            | \$ 368,183 | \$ 320,042 | \$ 287,797 |
| Industrial/ Environmental Filtration | 427,448    | 396,629    | 386,275    |
| Packaging                            | 78,343     | 71,015     | 67,286     |
|                                      | \$ 873,974 | \$ 787,686 | \$ 741,358 |



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Dollars in thousands except per share data) (Continued)**

|   | 2005       | 2004       | 2003       |
|---|------------|------------|------------|
| <b>Operating profit:</b>                            |            |            |            |
| Engine/ Mobile Filtration                           | \$ 80,414  | \$ 66,564  | \$ 58,299  |
| Industrial/ Environmental Filtration                | 31,266     | 28,671     | 24,171     |
| Packaging   | 6,812      | 5,151      | 4,592      |
| Relocation costs                                    |            | (2,209)    |            |
|   | 118,492    | 98,177     | 87,062     |
| Other income (expense)                              | (570)      | 883        | (1,003)    |
| Earnings before income taxes and minority interests | \$ 117,922 | \$ 99,060  | \$ 86,059  |
| <b>Identifiable assets:</b>                         |            |            |            |
| Engine/ Mobile Filtration                           | \$ 193,701 | \$ 181,611 | \$ 153,621 |
| Industrial/ Environmental Filtration                | 372,120    | 352,093    | 297,219    |
| Packaging   | 43,551     | 41,474     | 39,733     |
| Corporate   | 65,900     | 52,619     | 47,664     |
|   | \$ 675,272 | \$ 627,797 | \$ 538,237 |
| <b>Additions to plant assets:</b>                   |            |            |            |
| Engine/ Mobile Filtration                           | \$ 10,350  | \$ 7,943   | \$ 3,637   |
| Industrial/ Environmental Filtration                | 8,776      | 12,274     | 4,825      |
| Packaging   | 3,846      | 1,204      | 3,284      |
| Corporate   | 1,060      | 931        | 1,296      |
|   | \$ 24,032  | \$ 22,352  | \$ 13,042  |
| <b>Depreciation and amortization:</b>               |            |            |            |
| Engine/ Mobile Filtration                           | \$ 7,404   | \$ 7,272   | \$ 7,335   |
| Industrial/ Environmental Filtration                | 10,316     | 8,493      | 8,075      |
| Packaging   | 2,533      | 2,624      | 2,861      |
| Corporate   | 834        | 762        | 714        |
|   | \$ 21,087  | \$ 19,151  | \$ 18,985  |

Financial data relating to the geographic areas in which the Company operates are shown for the years ended November 30, 2005, 2004 and 2003. Net sales by geographic area are based on sales to final customers within that region.

|                   | 2005       | 2004       | 2003       |
|-------------------|------------|------------|------------|
| <b>Net sales:</b> |            |            |            |
| United States     | \$ 682,672 | \$ 620,337 | \$ 599,843 |

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|                     |            |            |            |
|---------------------|------------|------------|------------|
| Europe              | 87,853     | 80,441     | 70,023     |
| Other international | 103,449    | 86,908     | 71,492     |
|                     | \$ 873,974 | \$ 787,686 | \$ 741,358 |

Plant assets, at cost, less accumulated depreciation:

|                     |            |            |            |
|---------------------|------------|------------|------------|
| United States       | \$ 141,374 | \$ 133,361 | \$ 120,719 |
| Europe              | 5,784      | 6,626      | 6,423      |
| Other international | 2,347      | 2,255      | 2,430      |
|                     | \$ 149,505 | \$ 142,242 | \$ 129,572 |

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**CLARCOR Inc.**  
**SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS AND RESERVES**  
**for the years ended November 30, 2005, 2004, and 2003**  
**(Dollars in thousands)**

| Column A                                    | Column B                       | Column C                             |                                  | Column D    | Column E                 |
|---|--------------------------------|--------------------------------------|----------------------------------|-------------|--------------------------|
| Description                                 | Balance at beginning of period | (1)<br>Charged to costs and expenses | (2)<br>Charged to other accounts | Deductions  | Balance at end of period |
| <b>2005:</b>                                |                                |                                      |                                  |             |                          |
| Allowance for losses on accounts receivable | \$ 9,557                       | \$ 1,293                             | \$ (127)(A)                      | \$ 948(B)   | \$ 9,775                 |
| <b>2004:</b>                                |                                |                                      |                                  |             |                          |
| Allowance for losses on accounts receivable | \$ 9,106                       | \$ 2,302                             | \$ 166(A)                        | \$ 2,017(B) | \$ 9,557                 |
| <b>2003:</b>                                |                                |                                      |                                  |             |                          |
| Allowance for losses on accounts receivable | \$ 7,020                       | \$ 3,407                             | \$ 994(A)                        | \$ 2,315(B) | \$ 9,106                 |

## NOTES:

(A) Due to business acquisitions and reclassifications.

(B) Bad debts written off during year, net of recoveries.

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