

CLARCOR INC.
Form 10-K
January 26, 2015
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UNITED STATES
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 November 29, 2014

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

For the transition period from _____ to _____
Commission File Number 1-11024

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

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

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

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

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

None
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes 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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months. Yes 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, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

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company” in Rule 12b-2 of the Exchange Act. (Check one):

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

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

The aggregate market value of the Common Stock held by non-affiliates computed by reference to the price at which the Common Stock was last sold as of the last business day of registrant’s most recently completed second fiscal quarter was \$2,938,211,151.

There were 50,213,428 shares of Common Stock outstanding as of January 20, 2015.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the registrant’s Proxy Statement for the 2015 Annual Meeting of Shareholders (“Proxy Statement”), currently anticipated to be held on March 24, 2015, are incorporated by reference in Part III of this Annual Report on Form 10-K. Such Proxy Statement will be filed with the Securities and Exchange Commission not later than 120 days after the conclusion of the registrant’s fiscal year ended November 29, 2014.

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PART I

Item 1. Business.

(a) General Development of Business

CLARCOR Inc. ("CLARCOR") was organized in 1904 as an Illinois corporation and in 1969 was reincorporated in the State of Delaware. As used herein, the "Company" and terms such as "we," "us" 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 2014, the year ended on November 29, 2014 and included 52 weeks. For fiscal year 2013, the year ended on November 30, 2013 and included 52 weeks. For fiscal year 2012, the year ended on December 1, 2012 and included 52 weeks. In this 2014 Annual Report on Form 10-K ("2014 Form 10-K"), all references to fiscal years are shown to begin on December 1 and end on November 30 for clarity of presentation. Unless otherwise indicated, dollar amounts, other than per share data, are in thousands.

Certain Significant Developments

Acquisitions

On December 3, 2013, the Company acquired from NV Bekaert SA, 100% of the outstanding shares of Bekaert Advanced Filtration SA (Belgium), 100% of the outstanding shares of PT Bekaert Advanced Filtration (Indonesia) and certain other assets in India, China and the U.S. (collectively, the "Bekaert Business"). The purchase price for this business was approximately \$7.3 million in cash. The Bekaert Business is headquartered in Belgium and has manufacturing facilities located in Belgium and Indonesia. Its results are included as part of the Company's Industrial/Environmental Filtration segment.

On December 16, 2013, the Company completed its acquisition of the Air Filtration business of General Electric Company's ("GE") Power and Water division through the acquisition of certain assets and the assumption of certain liabilities, as well as the acquisition of the stock of a subsidiary of GE. The purchase price for this business was approximately \$260.3 million in cash. This business now operates as "CLARCOR Industrial Air" and is headquartered in Overland Park, Kansas, with manufacturing facilities located in Missouri and the United Kingdom. Its results are included as part of the Company's Industrial/Environmental Filtration segment.

On May 1, 2014, the Company acquired Stanadyne Corporation's diesel fuel filtration business (the "Stanadyne Business") through the acquisition of the stock of Stanadyne Holdings, Inc. The purchase price for the Stanadyne Business was approximately \$327.7 million in cash. The business now operates as "CLARCOR Engine Mobile Solutions" and is headquartered in Windsor, Connecticut, with a manufacturing facility in North Carolina. Its results are included as part of the Company's Engine/Mobile Filtration segment.

On December 17, 2014, the Company acquired 100% of the outstanding shares of Filter Resources, Inc., Filtration, Inc. and Fabrication Specialties, Inc. (collectively, "Filter Resources"). The purchase price for Filter Resources was approximately \$21.9 million, and is subject to post-closing adjustments based on the working capital of the business as of the closing and the completion of certain capital equipment projects. The operations of Filter Resources are being merged into the Company's PECOFacet group of companies, headquartered in Mineral Wells, Texas, and its results will be included as part of the Company's Industrial/Environmental Filtration segment. Results of operations for Filter Resources are not included in this 2014 Form 10-K, due to the fact that this acquisition was completed in fiscal 2015.

New Borrowings

On May 1, 2014, the Company entered into a credit agreement amendment to include an additional \$315.0 million to its existing term loan facility, and then borrowed \$315.0 million under the term loan facility to fund a portion of the purchase price with respect to our acquisition of the Stanadyne Business. Further information regarding these new borrowings is included in Note H to our Consolidated Financial Statements.

(b) Financial Information About Industry Segments

During fiscal year 2014, 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

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information for each of the Company's reportable segments for the fiscal years 2012 through 2014 is included in Note O to our Consolidated Financial Statements.

(c) Narrative Description of Business

Engine/Mobile Filtration

The Company's Engine/Mobile Filtration segment manufactures and sells filtration products for on-road and off-road mobile and stationary applications, including trucks, agricultural machinery, construction and mining equipment, power generation, marine, automobiles, transit buses, locomotives and other industrial and specialty applications. The segment's filtration products are manufactured and sold throughout the world, primarily in the aftermarket, but also to first-fit original equipment manufacturers ("OEMs") and through original equipment suppliers and wholesale distribution channels.

The products manufactured and sold in the Engine/Mobile Filtration segment include both "first-fit" filtration systems as well as replacement products such as oil, air, fuel, coolant, transmission and hydraulic filters that are used in a wide variety of applications and in processes where filtration efficiency, capacity and reliability are critical. Most of these applications involve a process through which impurities in an air or fluid stream are removed by engineered filtration media such as semi-porous paper, corrugated paper, cotton, synthetic, chemical or membrane filter media with varying filtration efficiency characteristics. The impurities captured by the media are generally disposed of when the filter is changed.

Industrial/Environmental Filtration

The Company's Industrial/Environmental Filtration segment manufactures and sells filtration products used in industrial and commercial processes, and in buildings and infrastructures of various types. The segment's products are sold throughout the world, and include liquid process, natural gas and air filtration products and systems used to protect critical equipment, to support the processing and transportation of fuels and feedstocks, to maintain high interior air quality and to control exterior pollution.

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

The segment's air filtration products represent air filters and systems, including advanced medias and treatments and high efficiency first-fit systems. These products are used in gas turbine power generation systems, heavy industrial manufacturing processes, thermal power plants, commercial buildings, hospitals, general factories, residential buildings, residences, paint spray booths, medical devices and facilities, motor vehicle systems, aircraft cabins, clean rooms, compressors and compressor stations.

Packaging

The Company's Packaging segment 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, mints and other

confections); smokeless tobacco products; lip balms; ointments; and consumer healthcare products. Other packaging products include shells for dry cell batteries, canisters for film and candles, spools for insulated and fine wire, and custom decorated flat metal sheets.

Containers and packaging specialties are usually 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, OEMs and their dealer networks, retail stores and directly to end-use customers such as truck and equipment fleet users, manufacturing companies and contractors. In addition, both segments manufacture and distribute products worldwide through their respective foreign subsidiaries and through export sales from the United States to independent

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distributors and end-use customers. In the Packaging segment, J.L. Clark uses an internal sales force and sells its products directly to customers for containers and packaging specialties.

Financial information related to the geographic areas in which the Company operates and sells its products is included in Note O to our Consolidated Financial Statements.

Class of Products

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

Raw Materials

The primary raw materials the Company uses to manufacture and package its products include various types of steel, adhesives, petrochemical-based materials, wood based products and filter medias made from materials such as wood pulps, metals, polyester, polypropylene, fiberglass and other synthetic fibers. All of these are purchased and are available from a variety of sources. The Company experienced price volatility in fiscal year 2014 with raw material prices trending higher in most significant spend categories. The Company was able to procure adequate supplies of raw materials throughout fiscal year 2014 and does not anticipate procurement problems in 2015, although the Company does believe that prices will generally continue to rise over the long term.

Patents, Trademarks and Trade names

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

With respect to trademarks and trade names, the Company believes that the trademarks and trade names it uses in connection with certain products (such as "Baldwin," "Purolator," "PecoFacet," "Fuel Manager," "Altair" and "BHA") are valuable and significant to its business.

Seasonality

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

Customers

The 10 largest customers of the Engine/Mobile Filtration segment accounted for approximately 29% of the \$603.8 million of fiscal year 2014 segment sales.

The 10 largest customers of the Industrial/Environmental Filtration segment accounted for approximately 15% of the \$833.1 million of fiscal year 2014 segment sales.

The 10 largest customers of the Packaging segment accounted for approximately 77% of the \$75.9 million of fiscal year 2014 segment sales.

No single customer accounted for 10% or more of the Company's consolidated fiscal year 2014 sales.

Backlog

At November 30, 2014, the Company had a backlog of open orders for products of approximately \$224.8 million. The backlog figure for November 30, 2013 was approximately \$150.4 million. The increase in backlog at November 30, 2014 compared to November 30, 2013 was primarily due to our acquisitions of CLARCOR Industrial Air, the Stanadyne Business and the Bekaert Business, as well as growth in orders for filtration vessels in the natural gas market served by our Industrial/Environmental Filtration segment. Substantially all of the orders on hand at November 30, 2014 are expected to be filled during fiscal year 2015. The

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Company does not view its backlog as being insufficient, excessive or problematic, or a significant indication of fiscal year 2015 sales.

Competition

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

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

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

Product Development

The Company develops products on its own and in consultation or partnership with its customers. In addition to product testing and development that occurs at the Company's various subsidiaries, the Company has historically maintained the CLARCOR Filtration Research Center, a standalone research and development center in Forest Park, Ohio ("CFRC"). During fiscal year 2014, the Company began to transition the personnel and assets at the CFRC to a new facility - the CLARCOR Innovation Center - in Columbia, Tennessee ("CIC"). The CIC will house research scientists and engineers, will serve as the Company's central research and development ("R&D") center in support of the Company's operating subsidiaries, and is anticipated to fully replace the CFRC in fiscal year 2015.

The Company's laboratories, including the CFRC and the CIC, test product components and completed products to ensure high-quality manufacturing results, evaluate competitive products, aid suppliers in the development of product components, and conduct controlled tests of newly designed filters and filtration systems for particular uses. Product development is concerned with the improvement and creation of new filters and filtration media and filtration systems in order to increase their performance characteristics, broaden their respective uses and counteract obsolescence.

In fiscal year 2014, the Company employed approximately 157 professional employees on either a full-time or part-time basis to conduct 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 \$18.1 million on such activities as compared with \$11.3 million for fiscal year 2013 and \$11.8 million for fiscal year 2012.

Environmental Factors

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

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

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

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

Employees

As of November 30, 2014, the Company had approximately 6,015 employees.

(d) Financial Information About Geographic Areas

Financial information relating to export sales and the Company's operations in the United States and other countries is included in Note O to our Consolidated Financial Statements. As noted therein, total international sales for the Company in fiscal years 2014, 2013 and 2012 were \$485.8 million, \$351.8 million and \$342.0 million, respectively. In addition, see "Item 1A — Risk Factors" below for a discussion of certain risks of foreign operations.

(e) Available Information

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

Our corporate headquarters are located at 840 Crescent Centre Drive, Suite 600, Franklin, TN 37067, and our telephone number is (615) 771-3100. The Company's corporate Internet site is www.clarcor.com. The Company makes available on that site, free of charge, its Form 10-Ks, Form 10-Qs, Form 8-Ks and amendments to such reports, as soon as reasonably practicable after such forms are electronically filed with, or furnished to, the SEC. The information contained on the Company's website is not incorporated herein or otherwise considered to be a part of this 2014 Form 10-K.

The public may read and copy any materials that the Company files with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington D.C. 20549. Information regarding the SEC's Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site (www.sec.gov) that contains reports, proxy information statements and other information regarding issuers that file electronically with the SEC.

Item 1A. Risk Factors.

Our business faces a variety of risks. These risks include those described below and may include additional risks and uncertainties not presently known to us or that we currently deem immaterial. If any of the events or circumstances described in the following risk factors occur, our business, financial condition or results of operations could be materially and adversely affected, and the trading price of our Common Stock could decline. These risk factors should be read in conjunction with the other information in this 2014 Form 10-K.

Our business is affected by the health of the markets we serve, including the oil and gas market.

Our financial performance depends, in large part, on varying conditions in the markets that we serve, particularly the general industrial market, the trucking market, and the oil and gas market. Demand in these markets fluctuates in response to overall economic conditions, although the replacement nature of our aftermarket products helps mitigate the effects of these changes, particularly in our Engine/Mobile Filtration segment. In addition, a general economic downturn may have an adverse effect on sales of more expensive filtration systems and products, such as capital equipment sold by our PECOFacet division (which may

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be affected by, among other things, a decrease in the cost of oil and natural gas), CLARCOR Engine Mobile Solutions (which may be affected by, among other things, a decrease in the OEM market for heavy-duty engines, particularly in the agricultural sector) and CLARCOR Industrial Air (which may be affected by, among other things, decrease in gas turbine system sales). An economic downturn in the markets we serve may result in reductions in sales and pricing of our products, which could have a material adverse effect on our potential earnings and future results of operations.

Additionally, a prolonged depression in the price of oil and natural gas would likely negatively impact several of our key business units, including our PECOFacet division and certain of our other subsidiaries that sell products used in the exploration, extraction, storage and transmission of oil and natural gas. Depending on the length and extent of such depression, this could have a material adverse effect on our potential earnings and future results of operations.

Adverse U.S. and global economic conditions could materially and negatively affect our revenues, profitability and results of operations.

Our business depends on the strength of economies in various parts of the world, primarily in North America, but increasingly in Europe and China, and any deterioration in these economies could adversely impact our earnings.

Although the U.S. economy has improved, the U.S. continues to face near term challenges such as excessive federal and state government debt and regulatory uncertainty.

Global macroeconomic conditions and the rate of economic recovery have stabilized to an extent. However, declining or relatively flat growth persists in certain economic regions in which we conduct substantial operations, including in various member-states of the European Union. The continued effects of the global economic downturn and the rate of recovery may have an adverse effect on our business, results of operations and financial condition, and on the general economic activity in many of the industries and markets in which we and our distributors, customers and suppliers operate. We cannot predict changes in worldwide or regional economic conditions, as such conditions are highly volatile and beyond our control. If these conditions deteriorate or do not return to previous levels, however, our business, results of operations and financial condition could be materially adversely affected.

While our current China sales are significantly less than either our U.S. or European sales, we anticipate China becoming more economically and strategically important to our business over time. If China experiences slowed or even negative economic growth, this would adversely impact our business there, as most of the sales we make in China are for domestic Chinese consumption and not for export. In addition, if adverse economic conditions in China were to cause a reduction of the level of infrastructure projects and lower diesel engine manufacturing volume in the country, this would likely have a negative effect on our Engine/Mobile Filtration segment sales there. This is because most of our current Engine/Mobile Filtration sales in China are to OEMs that make large diesel engines for heavy-duty equipment which is used in such infrastructure projects.

We face customer concentration issues in certain geographic locations and/or in respect of certain of our businesses.

Although we serve a diverse customer base across the totality of our business, we do face customer concentration in certain geographic locations and in certain end-markets. For example, the majority of our Engine/Mobile Filtration segment sales in China are predominantly to a relatively small number of OEMs, including most notably Weichai Power Co. Ltd., a large Chinese diesel engine and truck manufacturer (“Weichai”). Our growth in China, a strategically important and potentially high growth market, currently depends in part on our ability to maintain a good and growing commercial relationship with Weichai and the other OEMs. If we are unsuccessful in this regard, this could have a material adverse effect on our potential earnings and future results of operations, and could significantly diminish the opportunities and growth in China for our Engine/Mobile Filtration segment.

Similarly, a significant percentage of the sales of CLARCOR Engine Mobile Solutions, the division of our Engine/Mobile Filtration segment that focuses on OEM customers, are to a relatively small number of OEMs, including John Deere and JCB, or to other filter companies servicing the OEM market, such as Wix Filtration, and a significant percentage of the sales of gas turbine inlet systems and filters by our Clarcor Industrial Air division, which is part of our Industrial/Environmental Filtration segment, are to divisions of General Electric Company. The success of these businesses currently depends in part on our ability to maintain a good and growing commercial relationship with the aforementioned customers. If we are unsuccessful in this regard, this could have a material adverse effect on our potential earnings and future results of operations.

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We face heightened legal challenges from our competitors with respect to intellectual property, particularly in the area of patents.

We face increasing exposure to claims by others for infringement of intellectual property rights, particularly with respect to patents, which claims could result in significant costs or losses. This is especially important with respect to our Engine/Mobile Filtration segment, where many of our competitors are suppliers of “first-fit” products to OEMs and seek to control or at least gain an advantage in the aftermarket through aggressive and comprehensive patent strategies, sometimes in conjunction with the OEMs. These strategies may involve attempting to obtain as many patents as possible, including particularly with respect to the systems for attaching or sealing filters to their respective housings, deliberately delaying the final issuance of patents so as to be able to modify them in response to competitive product designs, and seeking multiple “continuations” of their patents in an attempt to have their patents more clearly apply to competitive product designs.

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

While we spend (and intend to continue to spend) significant resources to combat these risks, including by understanding the patent landscape applicable to our operating companies, creating alternative products and product designs that fall outside of our competitors’ claimed patent rights, challenging patents which we believe to be invalid and attempting to build our own patent portfolio, there can be no guaranty that we will be successful. Any such failure could have a material adverse effect on the financial condition, results of operations, or prospects of the Company.

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

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

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

Our operations are subject to U.S. and non-U.S. environmental laws and regulations governing emissions to air; discharges to water; the generation, handling, storage, transportation, treatment and disposal of waste materials; and the cleanup of contaminated properties. In this regard, the U.S. Environmental Protection Agency and/or other responsible state agencies have designated us as a potentially responsible party, along with other companies, in remedial activities for the cleanup of waste sites under the federal Superfund statute. Additionally, the North Carolina Department of Environmental Protection has identified the property on which one of our subsidiaries currently operates as having concentrations of certain chemicals in groundwater that are above regulatory action levels. Currently, we believe that any potential environmental liabilities with respect to our former or existing operations are not material, but there is no assurance that we will not be adversely impacted by such liabilities, costs or claims in the future, either under present laws and regulations or those that may be adopted or imposed in the future. In addition, environmental and related remediation costs are difficult to quantify for a number of reasons, including the number of parties involved, the difficulty in determining the nature and extent of the contamination at issue, the length of time remediation may require, the complexity of the environmental regulation, the continuing advancement of remediation technology, and the potential imposition of joint and several liability on each potentially responsible party for the cleanup.

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

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

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

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

Approximately 32% of our fiscal 2014 sales resulted from exports to countries outside of the United States and from sales by our foreign business units. As part of our business strategy, we expect to expand our international operations through internal growth and acquisitions. Sales and operations outside of the United States, particularly in emerging markets, are subject to a variety of risks which are different from or additional to the risks the Company faces within the United States. Among others, these risks include:

local economic, political and social conditions, including potential hyper-inflationary conditions and political instability in certain countries;
imposition of limitations on the remittance of dividends and payments by foreign subsidiaries;
adverse currency exchange rate fluctuations, including significant devaluations of currencies;
• tax-related risks, including the imposition of taxes and the lack of beneficial treaties, that result in a higher effective tax rate for the Company;
difficulties in enforcing agreements and collecting receivables through certain foreign legal systems;
domestic and foreign customs, tariffs and quotas or other trade barriers;
increased costs for transportation and shipping;
difficulties in protecting intellectual property;
increased risk of corruption, self-dealing or other unethical practices that may be difficult to detect or remedy;
risk of nationalization of private enterprises by f