

CLARCOR INC.
Form 10-K
January 27, 2017
Table of Contents

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 December 3, 2016

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)

DELAWAREB6-0922490

(State or

other

jurisdiction (I.R.S.

of Employer

incorporation Identification

or No.)

organization)

840

Crescent

Centre

37067

Drive,

Suite 600,

Franklin, TN

(Address of

principal

executive (Zip Code)

offices)

Registrant's

telephone

number, 615-771-3100

including

area code:

Securities registered

pursuant to Section 12(b)

of the Act:

Title of each class Common Stock, par value \$1.00 per share Preferred Stock Purchase Rights	Name of each exchange on which registered New York Stock Exchange 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 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 \$2,870,058,331.

There were 48,895,881 shares of Common Stock outstanding as of January 24, 2017.

DOCUMENTS INCORPORATED BY REFERENCE

None.

Table of Contents

TABLE OF CONTENTS

	Page
PART I	
Item 1. <u>Business</u>	<u>3</u>
Item 1A. <u>Risk Factors</u>	<u>7</u>
Item 1B. <u>Unresolved Staff Comments</u>	<u>15</u>
Item 2. <u>Properties</u>	<u>15</u>
Item 3. <u>Legal Proceedings</u>	<u>18</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>18</u>
Additional Item <u>Executive Officers of the Registrant</u>	<u>19</u>
PART II	
Item 5. <u>Market for the Registrant's Common Equity, Related Stockholder Matters, Issuer Purchase of Equity Securities and Five Year Performance of the Company</u>	<u>20</u>
Item 6. <u>Selected Financial Data</u>	<u>22</u>
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>22</u>
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>47</u>
Item 8. <u>Financial Statements and Supplementary Data</u>	<u>48</u>
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>49</u>
Item 9A. <u>Controls and Procedures</u>	<u>49</u>
Item 9B. <u>Other Information</u>	<u>49</u>
PART III	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	<u>50</u>
Item 11. <u>Executive Compensation</u>	<u>50</u>
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>50</u>
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>50</u>
Item 14. <u>Principal Accounting Fees and Services</u>	<u>50</u>
PART IV	
Item 15. <u>Exhibits and Financial Statement Schedules</u>	<u>51</u>
<u>SIGNATURES</u>	<u>54</u>

Table of Contents

PART I

Item 1. Business.

(a) General Development of Business

CLARCOR Inc. (“CLARCOR”) was organized in 1904 as an Illinois corporation and in 1969 was reincorporated in the State of Delaware. As used herein, the “Company” and terms such as “we,” “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 2016, the year ended on December 3, 2016 and included 53 weeks. For fiscal year 2015, the year ended on November 28, 2015 and included 52 weeks. For fiscal year 2014, the year ended on November 29, 2014 and included 52 weeks. In this 2016 Annual Report on Form 10-K (“2016 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

Pending Acquisition by Parker-Hannifin Corporation

On December 1, 2016, the Company entered into an Agreement and Plan of Merger (the “Parker-Hannifin merger agreement”) with Parker-Hannifin Corporation (“Parker-Hannifin”) and Parker Eagle Corporation, a wholly owned subsidiary of Parker-Hannifin (“Merger Sub”), pursuant to which, upon the closing of the merger, Merger Sub will cease to exist, and the Company will survive as a wholly owned subsidiary of Parker-Hannifin (the “pending Parker-Hannifin transaction”). Upon the closing of this merger, each share of the Company’s common stock, par value \$1.00 per share (other than treasury stock and any shares of the Company’s common stock owned by the Company, Parker-Hannifin, Merger Sub, any of their wholly owned subsidiaries, or any person who properly demands statutory appraisal of their shares) will be converted into the right to receive an amount in cash equal to \$83.00 without interest. Upon completion of the merger, the Company’s common stock will no longer be publicly traded and will be delisted from the New York Stock Exchange.

The pending Parker-Hannifin transaction is expected to be completed by the end of the first quarter of calendar year 2017, and is subject to customary closing conditions, including approval of the merger by the Company’s stockholders and receipt of applicable foreign regulatory approvals.

Acquisitions

On March 7, 2016, the Company acquired certain assets of FibeRio Technology Corporation (“FibeRio”), a technology company focused on the research, development and commercialization of performance fabric and filtration media, for a purchase price of approximately \$11.9 million consisting of \$8.0 million in cash and \$3.9 million in contingent earn-out liability. The assets acquired and the activities of FibeRio have been merged into the Company’s Innovation Center, located near the Company’s headquarters in Franklin, Tennessee, which supports the Company’s global growth and innovation activities including research and development. Further information regarding this business acquisition is included in Note B to the Consolidated Financial Statements.

On January 29, 2016, the Company acquired certain assets of TDC Filter Manufacturing, Inc. (“TDC”), a manufacturer and supplier of pleated filter bags, dust collection cartridges and gas turbine air filters, for a purchase price of approximately \$11.3 million. The operations of TDC have been merged into the Company’s CLARCOR Industrial Air

business, headquartered in Overland Park, Kansas, which is part of the Company's Industrial/Environmental Filtration segment. Further information regarding this business acquisition is included in Note B to the Consolidated Financial Statements.

Restructuring and Cost Reduction Initiatives

In November 2015, the Company announced a reduction-in-force as a part of a broader effort to more closely align operating expenses with the Company's long-term strategic initiatives and macroeconomic business conditions. The Company recognized approximately \$5.6 million of pre-tax restructuring charges in fiscal year 2015 in connection with this reduction-in-force, consisting of severance and other employee termination benefits, substantially all of which are expected to be settled in cash. In addition, as previously disclosed, we undertook several other cost reduction initiatives in fiscal 2016, including, but not limited to, leveraging purchasing and logistics spending across our historically decentralized business units, reducing discretionary selling and administrative expenses, and implementing facility consolidations including reductions-in-force. In fiscal 2016, we recognized

Table of Contents

approximately \$4.4 million of pre-tax restructuring charges consisting of severance and other employee termination benefits, facility closures costs, and other upfront costs in connection with these cost reduction initiatives, substantially all of which are expected to be settled in cash. Further information regarding this restructuring is included in Note I to our Consolidated Financial Statements.

(b) Financial Information About Industry Segments

During fiscal year 2016, the Company conducted business in two principal industry segments: (1) Engine/Mobile Filtration and (2) Industrial/Environmental Filtration. These segments are discussed in greater detail below. Financial information for each of the Company's reportable segments for the fiscal years 2014 through 2016 is included in Note Q to our Consolidated Financial Statements. On June 27, 2015, the Company completed the disposition of J.L. Clark, Inc., which was the only operating company within the Company's former Packaging segment. Further information regarding this disposition is included in Note C 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 was conducted by a wholly-owned subsidiary, J.L. Clark, Inc. ("J.L. Clark"). On June 27, 2015, the Company completed the disposition of J.L. Clark. Further information regarding this disposition is included in Note C to our Consolidated Financial Statements.

Prior to this disposition, J.L. Clark manufactured a wide variety of different types and sizes of containers and packaging specialties. Metal, plastic and combination metal/plastic containers and closures manufactured by J.L. Clark 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);

Table of Contents

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.

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 distributors and end-use customers. Prior to the disposition of J.L. Clark, the Packaging segment used an internal sales force and sold 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 Q 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, although qualifying alternate suppliers for certain raw materials, principally certain filter media grades, can be a lengthy process. The Company experienced somewhat volatile pricing for many commodities in fiscal year 2016. Raw material prices, especially in significant spend categories such as steel and petrochemical-based materials including adhesives, saw significant fluctuations during fiscal year 2016. The Company was able to procure adequate supplies of raw materials throughout fiscal year 2016 and does not anticipate procurement problems in 2017 although the Company may experience higher raw material costs in fiscal 2017 based on current forecasts regarding expectations for material costs over this period of time.

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 the Company's 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 35% of the \$586.0 million of fiscal year 2016 segment sales.

The 10 largest customers of the Industrial/Environmental Filtration segment accounted for approximately 16% of the \$803.5 million of fiscal year 2016 segment sales.

Table of Contents

No single customer accounted for 10% or more of the Company's consolidated fiscal year 2016 sales.

Backlog

At December 3, 2016, the Company had a backlog of open orders for products of approximately \$207.9 million. The backlog figure for November 28, 2015 was approximately \$243.4 million. The decrease in backlog at December 3, 2016 compared to November 28, 2015 was primarily due to timing of gas turbine orders and declining order levels for filtration vessels in the natural gas market served by our Industrial/Environmental Filtration segment. The majority of the orders on hand at December 3, 2016 are expected to be filled during fiscal year 2017; some orders, primarily related to filtration systems for gas turbine air intake filtration applications, are expected to be filled during fiscal year 2018. The Company does not view its backlog as being insufficient, excessive or problematic, or a significant indication of fiscal year 2017 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 and in gas turbine applications.

On June 27, 2015, the Company completed the disposition of J.L. Clark, Inc., which was the only operating company within the Company's Packaging segment. Prior to that disposition, in the Packaging segment the Company's principal competitors included several manufacturers that often competed on a regional basis only and whose specialty packaging segments were smaller than the Company's. Prior to that disposition, the Company also faced strong competition by manufacturers of paper, plastic and glass containers.

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, in fiscal year 2015 the Company opened the CLARCOR Innovation Center, a standalone research and development ("R&D") center in Columbia, Tennessee (the "CIC"). The CIC houses research scientists and engineers, research and testing laboratories, pilot and production lines, and training facilities, and serves as the Company's central R&D center in support of the Company's operating subsidiaries. Build-out of the facility was mostly completed in 2016.

The Company's laboratories, including 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 performance characteristics, broaden respective uses and counteract obsolescence.

In fiscal year 2016, the Company employed approximately 173 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 \$26.3 million on such activities as compared with \$21.7 million for fiscal year 2015 and \$18.1 million for fiscal year 2014.

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.

Table of Contents

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.

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 December 3, 2016, the Company had approximately 5,773 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 Q to our Consolidated Financial Statements. As noted therein, total international sales for the Company in fiscal years 2016, 2015 and 2014 were \$445.3 million, \$436.6 million and \$485.8 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.

CLARCOR's 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 2016 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 2016 Form 10-K.

Table of Contents

The first section of the risk factors below, “Risks Related to our Business,” sets forth risks faced by us as a standalone company and should be read in conjunction with the second section of the risk factors below, “Risks Related to the Pending Parker-Hannifin Transaction,” which sets forth risks we currently face in connection with the transactions contemplated by the Parker-Hannifin merger agreement.

Risks Related to our Business

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 market, the trucking market, and the energy market. Demand in the markets we serve fluctuates in response to overall economic conditions, although the replacement nature of our aftermarket products may help to 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 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, a 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 and an increase in the difficulty of collecting accounts receivable and the risk of excess and obsolete inventories, 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 continue to 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 negative economic conditions in these economies could adversely impact our earnings in any particular period.

Although the U.S. economy has improved in recent years, challenging macroeconomic conditions in the U.S. adversely affected our business in fiscal 2016, and the U.S. continues to face near term challenges such as excessive federal and state government debt and regulatory uncertainty.

Our business was also adversely impacted in fiscal 2016 by ongoing stagnant global macroeconomic conditions. Moreover, 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 stagnation may continue to 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 may be volatile and are beyond our control. If these conditions persist or deteriorate, 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 are used in such infrastructure projects.

We are subject to foreign currency exchange rate and other related risks.

We conduct operations in many areas of the world involving transactions denominated in a variety of currencies. We are subject to foreign currency exchange rate risk to the extent that our costs are denominated in currencies other than those in which we earn revenues. In addition, since our financial statements are denominated in U.S. dollars, changes in foreign currency exchange rates between the U.S. dollar and other currencies have had, and will continue to have, an impact on our results of operations. The U.S. dollar has strengthened in recent years and has resulted in material unfavorable impacts on our financial statements. If the

Table of Contents

U.S. dollar continues to strengthen against other currencies, we will continue to experience additional unfavorable impacts to our financial statements.

There can be no assurance that foreign currency exchange rate fluctuations will not adversely affect our results of operations. In addition, while the use of currency hedging instruments may provide us with some protection from adverse fluctuations in foreign currency exchange rates, by utilizing these instruments we potentially forego the benefits that might result from favorable fluctuations in foreign currency exchange rates. We also face risks arising from the imposition of foreign exchange controls and currency devaluations. Foreign exchange controls may limit our ability to convert foreign currencies into U.S. dollars or to remit dividends and other payments by our foreign subsidiaries or businesses located in or conducted within a country imposing controls. Currency devaluations result in a diminished value of funds denominated in the currency of the country instituting the devaluation.

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 the division of our Engine/Mobile Filtration segment that focuses on OEM customers, are to a relatively small number of OEMs, or to other filter companies servicing the OEM market, 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 (“GE”), including under our strategic supply partnership with GE described below. 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.

Our CLARCOR Industrial Air division is committed to significant efforts under its supply and development agreements with GE and we may be unable to receive the anticipated benefits under these agreements.

In September 2016, we, through our CLARCOR Industrial Air division, entered into certain agreements with GE, including (i) two supply agreements pursuant to which we will supply filters and all of the other key internal components (known as “SmartParts”) for the air inlet filtration systems of various GE’s gas turbine platforms (which agreements have ten year terms, subject to early termination under certain circumstances) and (ii) a development agreement pursuant to which we will work to develop a next-generation air inlet filtration system for GE’s “H-Class” advanced technology gas turbine platform (the “New System”). Under one of the supply agreements, GE will purchase 100% of its requirements of filters and SmartParts for its “H-Class” advanced technology gas turbines from us, which we will supply at substantial price discounts for a limited period of time (anticipated not to exceed four years). We may be unable to receive the anticipated benefits under these agreements, including as the result of any early termination of the supply agreements by GE, our and GE’s respective ability to develop the New System at a reasonable cost or at all, our and GE’s respective ability to commercially launch the New System, our expectations regarding H-Class turbine adoption rates and GE’s anticipated share of the advanced technology turbine market, our relationship with GE and the level of support that GE provides to us in connection with these agreements, and our ability to develop or retain ownership of intellectual property.

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.

Table of Contents

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 have greater financial resources than we do 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 guarantee that we will be successful. Any such failure could have a material adverse effect on our financial condition, results of operations, or business prospects. 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. 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:

- 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 2016 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. 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. Risks of doing business internationally include, among others:

- local economic, political and social conditions, including potential hyper-inflationary conditions and political instability in certain countries;

10

Table of Contents

- the impact on our business and results of operations from developments related to the potential exit of the United Kingdom from the European Union following the U.K. referendum held in June 2016;
- 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, which 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 or restrictions;
- credit risk of local customers and distributors;
- increased costs for transportation and shipping;
- difficulties in protecting intellectual property;
- increased risk of corruption, self-dealing or other unethical practices that may be difficult to detect or remedy;
- risk of nationalization of private enterprises by foreign governments;
- managing and obtaining support and distribution channels for overseas operations;
- hiring and retaining qualified management personnel for our overseas operations;
- imposition or increase of restrictions on investment; and
- required compliance with a variety of local laws and regulations which may be materially different than those to which we are subject in the United States.

As we continue to operate our business globally, our success will depend, in part, on our ability to anticipate and effectively manage these and other related risks, any of which could have a material adverse effect on our international operations or on our financial condition and results of operations.

We face significant competition in the markets we serve.

The markets in which we operate are highly competitive and highly fragmented. We compete worldwide with a number of other manufacturers and distributors that produce and sell similar products. Our products primarily compete on the basis of price, performance, speed of delivery, quality and customer support. Some of our competitors are companies, divisions or operating units of companies, that have greater financial and other resources than we do. In addition, large customers continue to seek productivity gains and lower prices from us and their other suppliers. We may lose business or our margins may be negatively impacted if we are unable to deliver the best value to our customers. Any failure by us to compete effectively in the markets we serve could have a material adverse effect on our business, results of operations and financial condition.

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

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

Our manufacturing operations are dependent upon third-party suppliers.

We obtain materials and manufactured components from third-party suppliers, and these suppliers, in turn, rely on other suppliers for raw materials and sub-components of the products they supply to us. Although the majority of the materials and components that we purchase can be obtained from multiple sources, this is not always the case, and even when such re-sourcing is possible, it may result in delays and increased costs to us. Any delay or disruption in the supply chain that provides us with necessary materials and components may affect our ability to manufacture or

supply products to our customers or to do so in a timely fashion. Delays or inability to obtain supplies may result from a number of factors affecting our suppliers, including unavailability of raw materials, 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. Moreover, if we are forced to seek alternative sources of raw materials or components, this may require us to qualify the products into which such materials and components are incorporated. Such qualification can be time consuming, costly and may not be successful. In such case, we may be unable to offer the affected products to our customers

Table of Contents

or be unable to supply the affected products at a profit, which could have a material adverse effect on our business and financial results.

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

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

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

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

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

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

Acquisitions, including our recent acquisitions of the Bekaert Business, CLARCOR Industrial Air, the Stanadyne Business, Filter Resources, TDC and FibeRio, involve a number of special risks and factors, such as:

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

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

We are a decentralized company, which presents certain risks.

The Company is relatively decentralized in comparison with its peers. While we believe this practice has catalyzed our growth and enabled us to remain responsive to opportunities and to our customers' needs, it necessarily places

significant control and decision-making powers in the hands of local management. This presents various risks, including the risk that we may be slower or less able to identify or react to problems affecting a key business than we would in a more centralized environment. In addition, it means that we may be slower to detect compliance related problems (e.g., a rogue employee undertaking activities that are

Table of Contents

prohibited by applicable law or by our internal policies) and that “company-wide” business initiatives, such as the integration of disparate information technology systems, are often more challenging and costly to implement, and their risk of failure higher, than they would be in a more centralized environment. Depending on the nature of the problem or initiative in question, such failure could materially adversely affect our business, financial condition or results of operations.

Our business operations may be adversely affected by information systems interruptions or intrusions.

We are dependent on various information technologies throughout our company to administer, store and support multiple business activities. If these systems are damaged, cease to function properly, or are subject to cyber-security attacks, such as those involving unauthorized access, malicious software and/or other intrusions, we could experience production downtimes, operational delays, other detrimental impacts on our operations or ability to provide products and services to our customers, the compromising of confidential or otherwise protected information, destruction or corruption of data, security breaches, other manipulation or improper use of our systems or networks, financial losses from remedial actions, loss of business or potential liability, and/or damage to our reputation. While we attempt to mitigate these risks by employing a number of measures, including technical security controls, employee training, comprehensive monitoring of our networks and systems, and maintenance of backup and protective systems, our systems, networks, products and services remain potentially vulnerable to known or unknown threats, any of which could have a material adverse effect on our business, financial condition or results of operations.

We may be subject to product liability risks.

The Company’s businesses expose it to potential product liability risks that are inherent in the design, manufacture and sale of its products and the products of third-party vendors that the Company uses or resells. Significant product liability claims could have a material adverse effect on the Company’s financial condition, liquidity and results of operations. Although the Company currently maintains what it believes to be suitable and adequate product liability insurance, there can be no assurance that the Company will be able to maintain its insurance on acceptable terms or that its insurance will provide adequate protection against all potential liabilities.

Our global operations are subject to laws and regulations that impose significant compliance costs and create reputational and legal risk.

Due to the international scope of our operations, we are subject to a complex system of commercial and trade regulations around the world, and our foreign operations are governed by laws, rules and business practices that often differ from those of the U.S. We cannot predict the nature, scope or effect of future regulatory requirements to which our operations might be subject or the manner in which existing laws might be administered or interpreted, which could have a material and negative impact on our business and our results of operation. For example, recent years have seen an increase in the development and enforcement of laws regarding trade compliance and anti-corruption, such as the U.S. Foreign Corrupt Practices Act and similar laws in other countries. While we maintain a variety of internal policies and controls and take steps, including periodic training and internal audits, that we believe are reasonably calculated to discourage, prevent and detect violations of such laws, we cannot guarantee that such actions will be effective or sufficient or that individual employees will not engage in inappropriate behavior in contravention of our policies and instructions. Such conduct, or even the allegation thereof, could result in costly investigations and the imposition of severe criminal or civil sanctions, could disrupt our business, and could materially and adversely affect our reputation, business and results of operations or financial condition.

The Company may be subject to risks relating to changes in its tax rates or exposure to additional income tax liabilities.

The Company is subject to income taxes in the United States and various non-U.S. jurisdictions. Domestic and international tax liabilities are subject to the allocation of income among various tax jurisdictions. The Company’s effective tax rate could be affected by changes in the mix of earnings among countries with differing statutory tax rates, changes in the valuation allowance of deferred tax assets or changes in tax laws or regulations. The amount of income taxes paid is subject to regular audits by United States federal, state and local tax authorities and by non-U.S. tax authorities. If these audits result in assessments different from amounts reserved, future financial results may include unfavorable adjustments to the Company’s tax liabilities, which could have an adverse effect on the Company’s results of operations and liquidity.

We face certain risks associated with potential labor disruptions.

Some of our employees around the world are covered by collective bargaining agreements and/or are represented by unions or workers' councils. While we believe that our relations with our employees are generally good, we cannot provide assurances that the Company will be completely free of labor disruptions such as work stoppages, work slowdowns, union organizing campaigns, strikes, lockouts or that any existing labor disruption will be favorably resolved. We could incur additional costs and/

13

Table of Contents

or experience work stoppages that could adversely affect our business operations through a loss of revenue and strained relationships with customers.

Changes in our product mix impact our financial performance.

We sell products that have varying profit margins. Our financial performance can be impacted depending on the mix of products we sell during a given period. Our outlook assumes a certain geographic mix of sales as well as a product mix of sales. If actual results vary from this projected geographic and product mix of sales, our results could be negatively impacted.

We face the challenge of accurately aligning our capacity with our demand.

We can experience capacity constraints and longer lead times for certain products in times of growing demand while we can also experience idle capacity as economies slow or demand for certain products decline. Accurately forecasting our expected volumes and appropriately adjusting our capacity have been, and will continue to be, important factors in determining our results of operations. We cannot guarantee that we will be able to increase manufacturing capacity to a level that meets demand for our products, which could prevent us from meeting increased customer demand and could harm our business. However, if we overestimate our demand and overbuild our capacity, we may have significantly underutilized assets and we may experience reduced margins. If we do not accurately align our manufacturing capabilities with demand, it could have a material adverse effect on our results of operations.

Our cost savings and restructuring initiatives could have adverse effects on our business.

Our ongoing cost savings and restructuring initiatives reduce our available talent, assets and other resources and could slow improvements in our products and services, adversely affect our ability to respond to customers and limit our ability to increase production quickly if demand for our products increases. In addition, the costs associated with any such cost reduction initiatives may be greater than anticipated, and we may be unable to realize anticipated cost savings or other contemplated benefits. Finally, we may delay or otherwise elect to put certain of our strategic cost savings initiatives on hold pending the completion of the Parker-Hannifin transaction. Any of the circumstances described above could adversely impact our business.

Risks Related to the Pending Parker-Hannifin transaction

The pending Parker-Hannifin transaction may not be completed on a timely basis, or at all, and the failure to complete the merger could adversely affect our business, financial results and stock price.

We can provide no assurance that the pending Parker-Hannifin transaction will be consummated or consummated on a timely basis. The merger is subject to a number of conditions, including the approval of our stockholders and receipt of specified required regulatory approvals, which are not within our control. There can be no assurance as to when, or if, the conditions to closing of the merger will be satisfied or waived or that other events will not intervene to delay the merger or result in the termination of the Parker-Hannifin merger agreement, including as the result of the possibility that a governmental entity may prohibit, delay or refuse to grant a necessary regulatory approval in connection with the proposed transaction.

Any failure to complete the merger could have a negative impact on our business, financial results and stock price, as well as on our relationships with our customers, suppliers and employees. In addition, if the Parker-Hannifin merger agreement is terminated, in certain circumstances, we may be required to pay Parker-Hannifin a termination fee of \$113.0 million.

Our business and financial results could be adversely impacted during the pendency of the merger, particularly if there is a delay in the completion of the merger.

The pending Parker-Hannifin transaction may cause disruptions to our business or business relationships and create uncertainty surrounding our ongoing business operations, which could materially and adversely impact on our business, results of operations and financial condition, regardless of whether the merger is completed, including as a result of the following (all of which could be exacerbated by a delay in completion of the merger):

- the attention of our management may be directed to transaction-related considerations and may be diverted from the day to-day operations of our business;
- our employees may experience uncertainty about their future roles with us, which may adversely affect our ability to hire, retain and motivate key personnel and other employees;

- customers, suppliers or other parties which we maintain business relationships may experience uncertainty prior to the closing of the merger and seek alternative relationships with third parties or seek to terminate or renegotiate their relationships with us; and

14

Table of Contents

the Parker-Hannifin merger agreement restricts us from engaging in certain actions without the consent of Parker-Hannifin, which could prevent us from pursuing business opportunities that may arise prior to the consummation of the merger.

In addition, we have incurred, and will continue to incur, significant costs, expenses, and fees for professional services and other transaction costs in connection with the pending Parker-Hannifin transaction, and many of these fees and costs are payable by us regardless of whether or not the merger is consummated.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

The various properties owned and leased by the Company and its operating units as of November 30, 2016, are considered by it to be in generally good repair and well maintained.

The following is a description of the real property owned or leased by the Company or its affiliated entities as of November 30, 2016, 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 26,084 square feet of office space under lease to the Company. The Company also owns approximately 62,500 square feet of office and R&D space in Columbia, Tennessee, which is occupied by the CIC. The Company also owns a parcel of undeveloped land in Rockford, Illinois totaling 6 acres, which parcel of land is classified as an asset held for sale at November 30, 2016 (refer to Note A to the Consolidated Financial Statements for related information).

Engine/Mobile Filtration Segment

United States Facilities

Location	Approximate Size	Owned or Leased
East Hartford, CT	47,900 sq ft of office and R&D space	Leased
Gothenburg, NE	19 acre site with 100,000 sq ft of manufacturing space	Owned
Kearney, NE	42 acre site with 982,800 sq ft of manufacturing and warehousing space, 25,000 sq ft of research and development space and 53,000 sq ft of office space	Owned
Lancaster, PA	11.4 acre site with 168,000 sq ft of manufacturing and office space	Owned
Washington, NC	185,000 sq ft of manufacturing and office space	Owned
Yankton, SD	283,600 sq ft of manufacturing space	Owned

Table of Contents

International Facilities

Location	Approximate Size	Owned or Leased
Capetown, South Africa	127,000 sq ft of manufacturing, warehousing and office space	Owned
Casablanca, Morocco	4 acre site with 150,700 sq ft of manufacturing, warehousing and office space	Owned
El Marques, Mexico	3 acre site with 78,000 sq ft of manufacturing, warehousing and office space	Owned
Runcorn, Cheshire, England	152,000 sq ft of manufacturing, warehousing and office space	Owned
Weifang, People's Republic of China	14 buildings, constituting 348,000 sq ft of manufacturing, warehousing and office space	Leased

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

Table of Contents

Industrial/Environmental Filtration Segment

United States Facilities

Location	Approximate Size	Owned or Leased
Auburn Hills, MI	32,300 sq ft of warehousing and office space	Leased
Campbellsville, KY	100 acre site with 250,401 sq ft of manufacturing and office space	Owned
Cincinnati, OH	17 acre site with 154,000 sq ft of manufacturing and office space	Owned
Corona, CA	179,790 sq feet of manufacturing, warehousing and office space	Leased
Dallas, TX	144,824 sq feet of manufacturing, warehousing and office space	Leased
Greensboro, NC	21 acre site with 75,000 sq ft of manufacturing, warehousing and office space	Owned
Greensboro, NC	100,000 sq ft of manufacturing, warehousing and office space	Owned
Goodlettsville, TN	35,000 sq ft of warehouse space	Owned
Houston, TX	80,000 sq ft of manufacturing, warehousing and office space	Leased
Houston, TX	10,500 sq ft of warehouse space	Leased
Houston, TX	4,000 sq ft of warehousing and office space	Leased
Houston, TX	10,300 sq ft of warehousing space	Leased
Houston, TX	29,200 sq ft of manufacturing space	Leased
Jeffersonville, IN	607,500 sq feet of manufacturing, warehousing and office space	Leased
Lake Charles, LA	21,000 sq ft of manufacturing space	Leased
Lee's Summit, MO	49,250 sq ft of manufacturing, warehousing and office space	Owned
Lenexa, KS	17,800 sq ft of warehousing and office space	Leased
Mineral Wells, TX	46 acre site with 308,947 sq feet of manufacturing, warehousing and office space	Owned
Mineral Wells, TX	30,000 sq ft of manufacturing space	Leased
Mineral Wells, TX	19,950 sq ft of warehousing space	Owned
Mineral Wells, TX	16,500 sq ft of manufacturing and warehousing space	Owned
Mineral Wells, TX	35,000 sq ft of warehousing space	Leased
Ottawa, KS	41,000 sq ft of manufacturing and office space	Owned
Ottawa, KS	22,500 sq ft of warehousing space	Leased
Overland Park, KS	38,800 sq ft of office space	Leased
Pittston, PA	250,000 sq feet of manufacturing, warehousing and office space	Leased
Pelham, AL	20,000 sq ft of warehouse space	Leased
Sacramento, CA	36,000 sq feet of manufacturing, warehousing and office space	Owned
Salisbury, MO	53,400 sq ft of warehousing space	Owned
Shelby, NC	48,000 sq ft of manufacturing, warehousing and office space	Owned
Slater, MO	55,000 sq ft of manufacturing, warehousing and office space	Owned
Slater, MO	217,000 sq ft of manufacturing, warehousing and office space	Owned
Stilwell, OK	11 acre site with 132,000 sq feet of manufacturing, warehousing and office space	Leased
Tulsa, OK	38,000 sq ft of manufacturing and office space	Leased
Vineland, NJ	78,100 sq ft of manufacturing, warehousing and office space	Owned/Leased

Table of Contents

International Facilities

Location	Approximate Size	Owned or Leased
Alton, United Kingdom	64,400 sq ft of manufacturing, warehousing and office space	Owned/Leased
Calgary, Alberta, Canada	25,200 sq feet of manufacturing, warehousing and office space	Owned
Karawang, Indonesia	47,360 sq ft of manufacturing, warehousing and office space	Owned
La Coruña, Spain	4 acre site with 64,600 sq ft of manufacturing and office space	Owned
Pujiang City, People's Republic of China	54,000 sq ft of manufacturing, warehousing and office space	Leased
Queretaro, Mexico	5 acre site with 82,500 sq ft of manufacturing, warehousing and office space	Owned
Quzhou, People's Republic of China	205,400 sq ft of manufacturing, warehousing and office space	Leased
Sprimont, Belgium	45,800 sq ft of manufacturing, warehousing and office space	Owned
St. Catharines, Ontario, Canada	6,250 sq ft of warehouse space	Leased

In addition to the above properties, the Industrial/Environmental Filtration segment leases and operates smaller facilities in the following locations in order to manufacture, distribute and/or service filtration products: United States: Atlanta, GA; Auburn, WA; Evansville, WY; Chantilly, VA; Charleston, SC; Columbus, OH; Denver, CO; Carrollton, TX; Dalton, GA; Farmington, NM; Fresno, CA; Gonzales, LA; Hayward, CA; Kansas City, MO; Louisville, KY; Nederland, TX; Ontario, CA; Shakopee, MN; Phoenix, AZ; Portland, OR; Vernal, UT; Wichita, KS; West Chester, OH; Williston, ND; Maryland Heights, MO. International: Brazil; China; France; Germany; India; Italy; Malaysia; Netherlands; United Arab Emirates; United Kingdom; Japan; Mexico.

Item 3. Legal Proceedings.

See the disclosure under the heading "Legal Contingencies" in Note N included in the consolidated financial statements of the Company included in this 2016 Form 10-K which is incorporated by reference in this Part I, Item 3.

Item 4. Mine Safety Disclosures.

Not applicable.

Table of Contents

ADDITIONAL ITEM: Executive Officers of the Registrant

The following individuals are the executive officers of the Company as of January 27, 2017:

Name	Age at 11/30/2016	Year Elected to Office
<p>Christopher L. Conway Chairman of the Board, President and Chief Executive Officer. Mr. Conway has been employed by the Company or its affiliates since 2006, when he was named Vice President of Manufacturing of Baldwin Filters, Inc. In September 2007, Mr. Conway was promoted to the position of President of Facet USA, Inc., another affiliate of the Company. He was then named President of the Company's PECOFacet division in December 2007 and continued in that role until being named as President and Chief Operating Officer of the Company in May 2010. On December 13, 2011, Mr. Conway assumed the position of President and Chief Executive Officer. Prior to joining the Company or its affiliates, Mr. Conway served for two years as the Chief Operating Officer of Cortron Corporation, Inc., a small manufacturing start-up based in Minneapolis, Minnesota.</p>	61	2010
<p>David J. Fallon Vice President-Finance & Chief Financial Officer. Mr. Fallon has been employed by the Company since 2009, when he was elected Vice President-Finance. He was elected Chief Financial Officer in 2010. Prior to joining the Company, Mr. Fallon held various positions for Noble International, Ltd. and its affiliates, including the position of Chief Financial Officer of Noble International, Ltd. immediately prior to his employment with the Company.</p>	46	2010
<p>David J. Lindsay Vice President-Administration and Chief Administrative Officer. Mr. Lindsay has been employed by the Company in various administrative positions since 1987. He was elected Vice President-Group Services in 1991, Vice President-Administration in 1994 and Vice President-Administration and Chief Administrative Officer in 1995.</p>	61	1995
<p>Jacob Thomas President-CLARCOR Engine/Mobile Filtration Group. Mr. Thomas joined the Company in September 2015, in his current role. Prior to joining CLARCOR, Mr. Thomas served as President of the Diaphragm and Dosing Pumps Group of IDEX Corporation from 2014 to 2015.</p>	49	2015
<p>Keith White President-CLARCOR Industrial Air Filtration Group. Mr. White has been employed by the Company since 2013, when he was elected President-CLARCOR Industrial Air. He was elected President-CLARCOR Industrial Air Filtration Group in 2014. Prior to joining the Company, Mr. White held various positions for General Electric Company and its affiliates from 2001 to December 2013. He was most recently with GE Power & Water - Filtration beginning in 2011, where he was General Manager and then President.</p>	45	2014
<p>Richard M. Wolfson Vice President-General Counsel and Secretary. Mr. Wolfson was employed by the Company and elected Vice President, General Counsel and Secretary in 2006. Prior to joining the Company, he was a principal of the InterAmerican Group, an advisory services and private equity firm, from 2001 until 2006.</p>	50	2006

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

accordance with the Company's By-Laws.

Table of Contents

PART II

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

The Company's Common Stock is listed on the New York Stock Exchange; it is traded under the symbol CLC. The following table sets forth the high and low market prices as quoted during the relevant periods on the New York Stock Exchange and dividends per share paid for each quarter of the last two fiscal years.

Quarter Ended	Market Price		Dividends
	High	Low	
February 27, 2016	\$53.55	\$44.13	\$ 0.2200
May 28, 2016	\$59.80	\$47.98	\$ 0.2200
August 27, 2016	\$66.10	\$56.70	\$ 0.2200
December 3, 2016	\$82.94	\$58.84	\$ 0.2500
Total Dividends			\$ 0.9100

Quarter Ended	Market Price		Dividends
	High	Low	
February 28, 2015	\$68.72	\$60.52	\$ 0.2000
May 30, 2015	\$67.10	\$60.95	\$ 0.2000
August 29, 2015	\$64.68	\$53.17	\$ 0.2000
November 28, 2015	\$56.70	\$46.05	\$ 0.2200
Total Dividends			\$ 0.8200

As set forth above, the quarterly dividend rate was increased in fiscal year 2016, and the Company currently expects to continue making dividend payments to the Company's stockholders through the closing of the pending Parker-Hannifin transaction in accordance with the terms of the Parker-Hannifin merger agreement. The Company's ability to make dividend payments is subject to restrictions contained in the credit agreement to which the Company is a party. The Company has never been prevented from making dividend payments under its past credit agreements or its current credit agreement and does not anticipate being so restricted in the foreseeable future.

The approximate number of holders of record of the Company's Common Stock at January 24, 2017 was 1,017.

On June 27, 2016, upon the expiry of the previous three-year repurchase program, our Board of Directors authorized a \$250.0 million stock repurchase program of our common stock in the open market and through private transactions over a three-year period. Pursuant to the new authorization, we may purchase shares from time to time in the open market or through privately negotiated transactions through June 30, 2019. We have no obligation to repurchase shares under the authorization, and the timing, actual number and values of shares to be purchased will depend on our stock price, general economic and market conditions and other factors.

The Company repurchased 1,385,401 shares of its common stock, at an average price of \$53.34 per share, and an aggregate cost of approximately \$73.9 million, during fiscal year 2016. As set forth in the following table, the Company repurchased 132,000 shares of its common stock during the fourth quarter of fiscal year 2016. The average price per share for the shares repurchased in the fourth quarter was \$64.40 with an aggregate cost of approximately \$8.5 million. The Company had remaining authorization of approximately \$219.3 million to repurchase shares as of December 3, 2016 under its stock repurchase program.

Table of Contents

COMPANY PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of shares purchased	(b) Average price paid per share	(c) Total number of shares purchased as part of the Company's publicly announced plan	(d) Maximum approximate dollar value of shares that may yet be purchased under the Plan
August 28, 2016 through October 1, 2016	48,000	1 \$ 64.14	48,000	\$ 224,759,301
October 2, 2016 through October 29, 2016	40,000	1 \$ 62.39	40,000	\$ 222,263,740
October 30, 2016 through December 3, 2016	44,000	1 \$ 66.50	44,000	\$ 219,337,594
Total	132,000		132,000	

1 - Represents shares repurchased by the Company pursuant to a Rule 10b5-1 plan entered into by the Company during the third quarter of fiscal 2016.

5-Year Performance of the Company

The following Performance Graph compares the Company's cumulative total return on its Common Stock for a five-year period (November 30, 2010 to December 3, 2016) with the cumulative total return of the S&P SmallCap 600 Index and the S&P 500 Industrial Machinery Index.

TOTAL RETURN TO SHAREHOLDERS

Comparison of Five-Year Cumulative Total Return Among the Company, S&P SmallCap 600 Index and S&P 500 Industrial Machinery Index - Assumes Initial Investment of \$100 and Reinvestment of All Dividends

Table of Contents

Item 6. Selected Financial Data.

The information required hereunder is included as Exhibit 13 to this 2016 Form 10-K.

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

The information presented in this discussion should be read in conjunction with other financial information provided in the Consolidated Financial Statements and Notes thereto. The analysis of operating results focuses on the Company's three reportable business segments: Engine/Mobile Filtration, Industrial/Environmental Filtration and Packaging. On June 27, 2015, the Company completed the disposition of J.L. Clark, which was the sole operating company within the Packaging business segment. The financial results presented herein reflect the results of J.L. Clark through the date of disposition. Except as otherwise set forth herein, references to particular years refer to the applicable fiscal year of the Company.

On December 1, 2016, the Company entered into the Parker-Hannifin merger agreement with Parker-Hannifin and Merger Sub, pursuant to which, upon the closing of the merger, Merger Sub will cease to exist, and the Company will survive as a wholly owned subsidiary of Parker-Hannifin. Upon the closing of this merger, each share of the Company's common stock, par value \$1.00 per share (other than treasury stock and any shares of the Company's common stock owned by the Company, Parker-Hannifin, Merger Sub, any of their wholly owned subsidiaries, or any person who properly demands statutory appraisal of their shares) will be converted into the right to receive an amount in cash equal to \$83.00 without interest. Upon completion of the merger, the Company's common stock will no longer be publicly traded and will be delisted from the New York Stock Exchange.

The pending Parker-Hannifin transaction is expected to be completed by the end of the first quarter of calendar year 2017, and is subject to customary closing conditions, including approval of the merger by the Company's stockholders and receipt of applicable foreign regulatory approvals.

EXECUTIVE SUMMARY

Management Discussion Snapshot
(In thousands except per share data)

	2016	2015	2014	2016 vs 2015		
				\$ Change	% Change	
Net sales	\$1,389,573	\$1,481,026	\$1,512,854	\$(91,453)	(6)%	
Cost of sales	927,674	992,397	1,015,819	(64,723)	(7)%	
Gross profit	461,899	488,629	497,035	(26,730)	(5)%	
Selling and administrative expenses	281,011	290,682	286,607	(9,671)	(3)%	
Operating profit	180,888	197,947	210,428	(17,059)	(9)%	
Other income (expense)	20,718	18	1,135	20,700		
Provision for income taxes	62,216	63,052	67,380	(836)	(1)%	
Net earnings attributable to CLARCOR	\$139,266	\$134,704	\$144,084	\$4,562	3%	
Weighted average diluted shares	49,060	50,429	50,871	(1,369)	(3)%	
Diluted earnings per common share attributable to CLARCOR	\$2.84	\$2.67	\$2.83	\$0.17	6%	
Percentages:						
Gross margin	33.2	% 33.0	% 32.9	%	0.2	pt

Edgar Filing: CLARCOR INC. - Form 10-K

Selling and administrative percentage	20.2	%	19.6	%	18.9	%	0.6	pt
Operating margin	13.0	%	13.4	%	13.9	%	(0.4)	pt
Effective tax rate	30.9	%	31.9	%	31.8	%	(1.0)	pt
Net earnings margin	10.0	%	9.1	%	9.5	%	0.9	pt

22

Table of Contents

2016 versus 2015

Net Sales

Net sales decreased \$91.5 million, or 6%, in 2016 compared to 2015. Components of the \$91.5 million decrease in net sales are as follows:

(Dollars in millions)	Net Sales
Divestiture of J.L. Clark	\$(40.9)
Industrial/Environmental Filtration segment volume	(26.3)
Foreign exchange	(25.1)
Engine/Mobile Filtration segment volume	(11.3)
Pricing	1.1
TDC acquisition	11.0
Decrease in consolidated net sales	\$(91.5)

The change in net sales in 2016 compared to 2015 was driven primarily by the following factors:

Decreased net sales of \$40.9 million, or 3%, due to the June 2015 divestiture of J.L. Clark, the sole operating company within our Packaging segment.

Decreased net sales volume of \$26.3 million, or 2%, at our Industrial/Environmental Filtration segment. This decrease in sales volume resulted primarily from decreased sales volume of natural gas filtration vessels and aftermarket filters of approximately \$39.0 million and decreased sales volume of industrial air filtration products of approximately \$18.9 million primarily consisting of bag house air filtration sales to the coal, cement, and metal industries. Additionally, the Company experienced decreased sales volume of approximately \$5.3 million in industrial metals and polymer filtration products primarily reflecting lower sales in the fluid processing and synthetic fiber markets as well as oil and gas sand control filters driven by lower demand from oil and gas customers and approximately \$0.5 million of other sales volume decreases. These sales volume decreases were partially offset by higher sales volume of HVAC air filters of approximately \$22.1 million related to air filtration products for animal husbandry applications to certain customers in the Middle East and sales of heating, ventilation and air conditioning filters to various commercial and industrial customers in the United States. Additionally offsetting the overall decreased sales volume were higher sales volume of gas turbine air intake filtration systems and aftermarket of approximately \$15.3 million.

Decreased net sales volume of \$11.3 million, or 1%, at our Engine/Mobile Filtration segment. This net sales volume decrease resulted primarily from an approximately \$8.0 million decrease in sales volume of original equipment and replacement fuel filtration products for heavy-duty diesel engines used in off-road, agricultural and construction applications reflecting lower demand for off-highway, agricultural and construction equipment and replacement parts, an approximately \$5.1 million decrease in sales volume to other filtration companies as the result of what we believe to be broader adverse macroeconomic dynamics, particularly within the oil and gas markets, an approximate \$4.7 million decrease in sales volume of light-duty engine filtration aftermarket products principally driven from our exit of lower margin automotive filtration business, and an approximate \$3.2 million reduction in sales volume of private-branded heavy-duty engine filtration aftermarket products to a significant retail customer initially obtained at the beginning of 2015. These decreases were offset by an approximately \$5.5 million increase in international and export heavy-duty engine filter sales volume, an approximate \$1.4 million increase in sales volume of heavy-duty engine filtration aftermarket products to the original equipment supply channel reflecting more stable demand in these end markets, an approximate \$0.6 million increase in locomotive filter sales volume, and an approximate \$2.2 million increase in other sales volume increases.

Changes in product pricing favorably impacted net sales by approximately \$1.1 million, primarily due to selling price increases implemented on certain of our heavy-duty engine filtration products in 2016.

Increased net sales of \$11.0 million, or 1%, resulting from our TDC acquisition in the first quarter of 2016.

Changes in the average exchange rates for foreign currencies versus the U.S. Dollar unfavorably impacted our translated U.S. Dollar value of net sales by \$25.1 million, or 2%, in 2016 compared to 2015, due to the strengthening of the U.S.

Table of Contents

dollar against the British pound, the Mexican peso, the Chinese yuan and several other foreign currencies where our foreign income and cash flows are derived.

Changes in net sales above reflect an approximately 2% positive impact resulting from the fact that fiscal year 2016 included fifty-three weeks while fiscal year 2015 included fifty-two weeks.

Cost of Sales

Cost of sales decreased \$64.7 million, or 7%, in 2016 compared to 2015. This 7% decrease in cost of sales was slightly more than the 6% decrease in net sales. As a result, our gross margin increased to 33.2% in 2016 from 33.0% in 2015. This 0.2 percentage point increase in gross margin percentage reflects an approximately 1.1 percentage point improvement in gross margin resulting from the benefits of previously announced restructuring activities and other cost reduction initiatives, an approximately 0.2 percentage point improvement in gross margin from lower freight costs, and an approximately 0.2 percentage point improvement due to the favorable impact on sales mix from the divestiture of the J.L. Clark business in 2015. These favorable effects were partially offset by a 0.9 percentage point reduction in gross margin resulting from lower fixed cost absorption due to lower sales volume and unfavorable sales mix at certain of our businesses, a 0.2 percentage point reduction in gross margin resulting from a \$3.1 million increase in upfront expenses impacting costs of sales incurred in 2016 related to cost reduction initiatives in our Industrial/Environment Filtration segment, and a 0.2 percentage point decrease in gross margin resulting from inventory reserve adjustments primarily due to facility movements and closures associated with cost reduction initiatives in our Industrial/Environment Filtration segment.

Selling and Administrative Expenses

Selling and administrative expenses decreased \$9.7 million, or 3%, in 2016 compared to 2015. This decrease was primarily the result of a \$14.5 million reduction in costs resulting from previously announced restructuring actions and other cost reduction initiatives, primarily reflecting reduced headcount and discretionary spend, a \$6.3 million reduction in bad debt expense pursuant to improving past due accounts receivable collections, a \$4.8 million reduction due to the divestiture of J.L. Clark, a \$4.5 million reduction in costs related to restructuring charges recognized in 2015 related to a reduction-in-force executed by the Company as a part of a broader effort to more closely align operating expenses with the Company's long-term strategic initiatives and recent macroeconomic business conditions, \$2.5 million of favorable foreign currency translation impacts, a \$2.3 million reduction in costs related to stock-based compensation and \$1.1 million related to the adjustment to the Filter Resources contingent earn-out liability in the second quarter of 2016. These decreases were partially offset by an approximately \$7.4 million increase in compensation expense related to our company-wide profit sharing programs, a \$7.4 million increase related to legal and other consulting costs incurred in connection with the pending Parker-Hannifin transaction, approximately \$6.1 million of increased costs related to strategic growth initiatives (primarily reflecting costs related to research and development and information technology systems and support services), an approximately \$3.2 million increase due to a gain on sale of a facility in 2015 which did not recur in 2016, \$1.2 million increase due to higher rent expense, and \$1.0 million increase in net other costs. Since selling and administrative expenses decreased 3% while net sales decreased 6%, our selling and administrative expenses as a percentage of net sales increased to 20.2% in 2016 from 19.6% in 2015.

2015 versus 2014

Net Sales

Net sales decreased \$31.8 million, or 2%, in 2015 compared to 2014. Components of the \$31.8 million decrease in net sales are as follows:

(Dollars in millions)	Net Sales
Business acquisitions	\$61.7
Industrial/Environmental Filtration segment volume	11.0
Pricing	4.2
Engine/Mobile Filtration segment volume	(26.1)
Divestiture of J.L. Clark	(35.0)
Foreign exchange	(47.6)
Decrease in consolidated net sales	\$(31.8)

Table of Contents

The change in net sales in 2015 compared to 2014 was driven primarily by the following factors:

Increased net sales of \$42.1 million due to the May 2014 acquisition of the Stanadyne business (now operated as CLARCOR Engine Mobile Solutions), which is included in the Company's Engine/Mobile Filtration segment from the date of acquisition. Net sales for this business decreased approximately 22% in 2015 in comparison to the prior year, including the portion of that prior year during which the business was owned by Stanadyne Corporation. This 22% decrease reflects a decline of approximately 30% in sales of first-fit fuel filter assemblies and a decline of approximately 12% in sales of replacement filter elements, due to decreased demand from off-highway original equipment manufacturers and dealers, which we believe primarily reflects decreased end-user demand in off-road, agricultural and construction applications.

Increased net sales of \$19.6 million due to the December 2014 acquisition of Filter Resources, which is included in the Company's Industrial/Environmental Filtration segment from the date of acquisition.

Increased net sales volume of \$11.0 million, or 1%, at our Industrial/Environmental Filtration segment in 2015 compared to 2014. This 1% increase was primarily driven by an increase in sales of filter systems, housings and aftermarket elements for oil and natural gas applications, higher sales of dust collector systems and air pollution control products, higher HVAC air filter sales and increased filter sales through our Total Filtration Services ("TFS") distribution business, partly offset by lower sales of first-fit gas turbine filtration systems and filter cartridges.

Changes in product pricing favorably impacted net sales by approximately \$4.2 million, primarily due to selling price increases implemented on certain of our air filtration products and heavy-duty engine filtration products in 2015.

Decreased net sales volume of \$26.1 million, or 4%, at our Engine/Mobile Filtration segment in 2015 compared to 2014. This 4% decrease was primarily driven by a 13% decline in foreign net sales volume, reflecting reduced sales of heavy-duty engine filters in China, reduced export sales of heavy-duty engine filters to the Middle East, Canada, Southeast Asia and South America and reduced export sales of first-fit fuel filter assemblies and replacement filter elements to off-highway original equipment manufacturers and dealers, partially offset by increased sales of heavy-duty engine filters in Europe. This 13% decline in foreign net sales volume was partially offset by a 1% increase in sales volume within the U.S., which resulted primarily from sales of heavy-duty engine filters to a significant customer with whom we previously contracted to supply a full line of private-branded aftermarket products for sale through this customer's national retail network, partly offset by a 3% decrease in sales of heavy-duty engine filters to U.S. independent distributors.

Net sales volume decreased \$35.0 million, or 46%, at our Packaging segment, primarily due to the divestiture of J.L. Clark, the sole operating company within our Packaging segment, which the Company sold on June 27, 2015.

Changes in the average exchange rates for foreign currencies versus the U.S. Dollar unfavorably impacted our translated U.S. Dollar value of net sales by \$47.6 million in 2015 compared to 2014, due to the strengthening of the U.S. Dollar compared to several foreign currencies in 2015.

Cost of Sales

Cost of sales decreased \$23.4 million, or 2%, in 2015 compared to 2014. This approximately 2% decrease in cost of sales was slightly more than the approximately 2% decrease in net sales. As a result, our gross margin increased to 33.0% in 2015 from 32.9% in 2014. This 0.1 percentage point increase in gross margin percentage reflects a 0.4 percentage point increase in gross margin due to the impact of \$6.0 million of increased cost of sales in 2014 resulting

from the step-up of inventory values to reflect their estimated fair values as of the respective dates of acquisition of the GE Air Filtration business and the Stanadyne Business, which did not recur in 2015. Gross margin was also favorably impacted in 2015 by approximately 0.3 percentage points from increases in the selling prices of our products, by approximately 0.3 percentage points from lower material costs, and by 0.3 percentage points due to the favorable impact on sales mix from the divestiture of the J.L. Clark business in 2015. These favorable effects were partly offset by a 1.0 percentage point decrease in gross margin due primarily to lower fixed cost leverage and unfavorable sales mix at certain of our businesses, including our Engine/Mobile Filtration business.

Selling and Administrative Expenses

Selling and administrative expenses increased \$4.1 million, or 1%, in 2015 compared to 2014. This increase was primarily the result of \$8.9 million of increased operating costs (including \$4.8 million of increased intangible asset amortization) related to the May 2014 acquisition of the Stanadyne business, reflecting our ownership of this business for the entire year in 2015 in

Table of Contents

comparison to only seven months of ownership in 2014 and \$4.2 million of increased operating costs (including \$0.8 million of increased intangible asset amortization) related to our ownership of Filter Resources following its acquisition in December 2014. Other selling and administrative expense increases in 2015 compared to 2014 include \$4.6 million of restructuring charges recognized in 2015 related to a reduction-in-force executed by the Company as a part of a broader effort to more closely align operating expenses with the Company's long-term strategic initiatives and macroeconomic business conditions, \$4.0 million of increased charges related to allowances for uncollectible accounts receivable and \$3.7 million of increased costs related to strategic growth initiatives (including costs related to research and development and information technology systems and support services). These increases were partly offset by approximately \$11.3 million of decreased compensation expense related to our company-wide profit sharing program, a \$7.8 million decrease resulting from legal, investment advisory and other professional services costs incurred in 2014 related to the acquisitions of the Stanadyne business and the GE Air Filtration business, which did not recur in 2015, and \$2.9 million of decreased costs as a result of the divestiture of the J.L. Clark business in June 2015. Since selling and administrative expenses increased 1% while net sales decreased 2%, our selling and administrative expenses as a percentage of net sales increased to 19.6% in 2015 from 18.9% in 2014. Of this 0.7 percentage point increase, approximately 0.4 percentage points was driven by a \$5.6 million increase in intangible asset amortization related to the acquisitions of the Stanadyne business and the Filter Resources business.

Other Items

Other significant items impacting the comparison between 2016 and 2015 are as follows:

Fifty-third week

As noted above, fiscal year 2016 included fifty-three weeks while fiscal year 2015 included fifty-two weeks.

Business acquisitions

On January 29, 2016, the Company acquired certain assets of TDC Filter Manufacturing, Inc., for a purchase price of approximately \$11.3 million. TDC is now operated as part of CLARCOR Industrial Air which is included in the Company's Industrial/Environmental Filtration segment.

On March 3, 2016, the Company acquired certain assets of FibeRio Technology Corporation, a technology company focused on the research, development and commercialization of nonwoven nanofiber media, for a purchase price of approximately \$11.9 million. The acquired assets have been merged into the CLARCOR Innovation Center, located near the Company's headquarters in Franklin, Tennessee, which supports the Company's global growth and innovation initiatives including research & development.

Business dispositions

On June 27, 2015, the Company sold 100% of the outstanding shares of J.L. Clark. J.L. Clark's results, which were reported within our Packaging segment, until the date of disposition on our net sales and operating profit in 2016 compared to 2015 was as follows:

(Dollars in millions)	2016	2015	Change
Net sales	\$	-\$40.9	\$(40.9)
Operating profit	—	2.1	(2.1)

The sale of J.L. Clark resulted in a gain of approximately \$12.1 million, after netting transaction-related costs of approximately \$3.2 million, which primarily included legal, investment advisory and other professional services costs

related to the marketing and execution of the transaction, which is included in Other, net in the Consolidated Statements of Earnings for the year ended November 30, 2015.

Table of Contents

Foreign exchange

The average exchange rate for foreign currencies versus the U.S. dollar unfavorably impacted our translated U.S. dollar value of net sales and operating profit in 2016 and 2015 as follows:

(Dollars in millions)	2016	2015
Net sales	\$(25.1)	\$(47.6)
Operating profit	(3.5)	(4.4)

Other income (expense)

Interest expense

Net interest expense was \$7.0 million in 2016 and \$5.2 million in 2015. Net interest expense was related to borrowings under the Company's credit agreement, which borrowings were originally undertaken to fund a portion of the purchase price of the Company's 2014 acquisitions of the GE Air Filtration business and the Stanadyne business. The increase in interest expense is due to increased LIBOR rates in 2016, higher spread on our credit agreement which was amended and restated on November 2, 2015, and higher commitment fees due to an increased revolving credit facility. At November 30, 2016, we had \$192.5 million of outstanding term loans and \$85.0 million of outstanding revolver loans under the amended and restated credit agreement.

Foreign currency gains and losses

Changes in foreign currency transaction gains and losses favorably impacted other income (expense) by \$0.9 million in 2016 versus 2015. We recognized foreign currency gains of \$0.7 million in 2016 and foreign currency losses of \$0.2 million in 2015 primarily from the translation of inter-company loans — in cases where such loans are expected to be settled in cash at some point in the future — and from the translation of cash accounts at certain foreign subsidiaries denominated in currencies other than their functional currency, primarily driven by foreign holdings of U.S. dollars.

Changes in foreign currency transaction gains and losses unfavorably impacted other income (expense) by \$1.5 million in 2015 versus 2014. We recognized foreign currency losses of \$0.2 million in 2015 and foreign currency gains of \$1.3 million in 2014 primarily from the translation of inter-company loans — in cases where such loans are expected to be settled in cash at some point in the future — and from the translation of cash accounts at certain foreign subsidiaries denominated in currencies other than their functional currency, primarily driven by foreign holdings of U.S. dollars.

Other income (expense)

Changes in other, net items recognized in other, net income (expense) favorably impacted other income (expense) by \$21.6 million in 2016 versus 2015. We recognized other, net items in other, net income of \$27.0 million in 2016 and other, net income of \$5.4 million in 2015. Other, net income of \$27.0 million in 2016 primarily reflects the Company's receipt of \$27.3 million from 3M Company in satisfaction of the patent judgment against 3M Company during the second quarter of 2016 with respect to the TransWeb litigation matter. Please refer to Note N to the Consolidated Financial Statements for related discussion. Other, net income of \$5.4 million in 2015 primarily reflects a gain of \$12.1 million (after netting transaction-related costs of \$3.2 million) resulting from the sale of J.L. Clark on June 27, 2015. This income was partially offset by a loss of \$6.7 million in 2015 resulting from the impairment of the Company's investments in BioProcess H2O LLC ("H2O") and BioProcessAlgae LLC ("Algae").

Changes in other, net items recognized in other, net income (expense) favorably impacted other income (expense) by \$2.2 million in 2015 versus 2014. We recognized other, net income of \$5.4 million in 2015 and other, net income of \$3.2 million in 2014. Other, net income of \$5.4 million in 2015 primarily reflects a gain of \$12.1 million (after netting transaction-related costs of \$3.2 million) resulting from the sale of J.L. Clark on June 27, 2015. This income was partially offset by a loss of \$6.7 million in 2015 resulting from the impairment of the Company's investments in H2O and Algae. Based on business developments at Algae in 2015, including a significant adverse change in the anticipated effectiveness and commercial scalability of Algae's technology platform, in the third quarter of 2015, the Company reviewed the \$3.8 million carrying value of its investment in Algae for recoverability and determined that the investment, which was accounted for under the cost method of accounting, was fully impaired. Based on operating losses and other factors at such time, including the negative

Table of Contents

developments with respect to Algae, the Company also reviewed the \$2.7 million carrying value of its investment in H2O for recoverability and determined that the investment, which was accounted for under the equity method of accounting, was fully impaired. Other, net income of \$3.2 million in 2014 primarily reflects a \$2.8 million bargain purchase gain that resulted from the Company's acquisition of the Bekaert business in the first quarter of 2014. As the Company maintained a permanent reinvestment strategy for these foreign operations, this gain was not subject to tax.

Provision for income taxes

Our effective tax rate in 2016 was 30.9% compared with 31.9% in 2015. This decrease was primarily driven by a change in assertion on the permanent reinvestment of foreign earnings in the current year as well as the favorable impact of the renewed research and development tax credit during the current year, partially offset by the non-deductibility of certain transaction costs related to the pending Parker-Hannifin transaction.

Shares outstanding

Average diluted shares outstanding decreased by approximately 1.4 million shares in 2016 as compared to 2015 and by approximately 0.4 million shares in 2015 as compared to 2014, as the number of incremental dilutive shares related to the exercise of stock options and the issuance of stock awards and restricted shares was less than the number of shares repurchased and retired pursuant to our stock repurchase program in both 2016 and 2015.

SEGMENT ANALYSIS

(Dollars in thousands)	2016		2015		2014	
	2016	% Total	2015	% Total	2014	% Total
Net sales:						
Engine/Mobile Filtration	\$586,029	42 %	\$605,474	41 %	\$603,805	40 %
Industrial/Environmental Filtration	803,544	58 %	834,643	56 %	833,100	55 %
Packaging	—	— %	40,909	3 %	75,949	5 %
	\$1,389,573	100 %	\$1,481,026	100 %	\$1,512,854	100 %
Gross profit:						
Engine/Mobile Filtration	\$201,070	44 %	\$209,797	43 %	\$214,146	43 %
Industrial/Environmental Filtration	260,829	56 %	271,877	56 %	270,446	54 %
Packaging	—	— %	6,955	1 %	12,443	3 %
	\$461,899	100 %	\$488,629	100 %	\$497,035	100 %
Operating profit:						
Engine/Mobile Filtration	\$103,056	57 %	\$108,259	55 %	\$122,365	58 %
Industrial/Environmental Filtration	77,832	43 %	87,545	44 %	83,351	40 %
Packaging	—	— %	2,143	1 %	4,712	2 %
	\$180,888	100 %	\$197,947	100 %	\$210,428	100 %
Gross margin:						
Engine/Mobile Filtration	34.3	%	34.7	%	35.5	%
Industrial/Environmental Filtration	32.5	%	32.6	%	32.5	%
Packaging	—	%	17.0	%	16.4	%
	33.2	%	33.0	%	32.9	%
Operating margin:						
Engine/Mobile Filtration	17.6	%	17.9	%	20.3	%
Industrial/Environmental Filtration	9.7	%	10.5	%	10.0	%
Packaging	—	%	5.2	%	6.2	%
	13.0	%	13.4	%	13.9	%

Table of Contents

Engine/Mobile Filtration Segment

	2016	2015	2014	2016 v 2015		2015 v 2014		
(Dollars in thousands)	2016	2015	2014	\$	%	\$	%	
				Change	Change	Change	Change	
Net sales	\$586,029	\$605,474	\$603,805	\$(19,445)	(3)%	\$1,669	—%	
Cost of sales	384,959	395,677	389,659	(10,718)	(3)%	6,018	2%	
Gross profit	201,070	209,797	214,146	(8,727)	(4)%	(4,349)	(2)%	
Selling and administrative expenses	98,014	101,538	91,781	(3,524)	(3)%	9,757	11%	
Operating profit	\$103,056	\$108,259	\$122,365	\$(5,203)	(5)%	\$(14,106)	(12)%	
Gross margin	34.3	% 34.7	% 35.5	%	(0.4)	pt	(0.8)	pt
Selling and administrative percentage	16.7	% 16.8	% 15.2	%	(0.1)	pt	1.6	pt
Operating margin	17.6	% 17.9	% 20.3	%	(0.3)	pt	(2.4)	pt

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

2016 versus 2015

Net Sales

The \$19.4 million, or 3%, decrease in net sales for our Engine/Mobile Filtration segment in 2016 from 2015 is detailed in the following tables:

Organic volume	(2)%
Foreign exchange	(1)%
Pricing	—%
	(3)%

(Dollars in millions)	Net Sales
2015	\$ 605.5
U.S. net sales	(13.3)
Foreign net sales (including export)	3.3
Foreign exchange	(9.5)
Net decrease	(19.5)
2016	\$ 586.0

Table of Contents

The net decrease in U.S. net sales for the Engine/Mobile Filtration segment in 2016 from 2015 is detailed as follows:

(Dollars in millions)	Net Sales
Heavy-duty engine filtration aftermarket -- other filtration companies	\$(5.1)
Heavy-duty engine diesel fuel filter assemblies and replacement filters	(4.8)
Light-duty (automotive) engine filtration aftermarket	(4.7)
Heavy-duty engine filtration aftermarket -- retail channel	(3.2)
Heavy-duty engine filtration aftermarket -- independent distributors	(0.3)
Heavy-duty engine filtration aftermarket -- original equipment supply channel	1.4
Locomotive filters	1.7
All other, net	1.7
Decrease in U.S. net sales	\$(13.3)

Our U.S. net sales decreased approximately 3% in 2016 compared with 2015. This decrease reflected approximately \$5.1 million, or 14%, decline in sales to other filtration companies as the result of what we believe to be broader adverse macroeconomic dynamics, particularly within the oil and gas markets, impacting many industrial companies, generally, and filtration companies, in particular. The net sales decrease was further driven by a \$4.8 million, or 10%, reduction in sales of original equipment and replacement fuel filtration products for heavy-duty diesel engines used in off-road, agricultural and construction applications reflecting lower demand for off-highway, agricultural and construction equipment and replacement parts, a \$4.7 million, or 20%, decrease in sales of light-duty engine filtration aftermarket products principally driven from our exit of lower margin automotive filtration business, and a \$3.2 million, or 9%, reduction in sales of private-branded heavy-duty engine filtration aftermarket products to a significant retail customer initially obtained at the beginning of 2015, which we believe resulted from a strategic reorganization taking place at this customer during 2016. These decreases were partially offset by a \$1.7 million, or 5%, increase in sales of locomotive filters and a \$1.4 million, or 4%, increase in sales of heavy-duty engine filtration aftermarket products to the original equipment supply channel reflecting more stable demand in these end markets.

The net decrease in foreign net sales (including export sales and changes in foreign currencies) for our Engine/Mobile Filtration segment in 2016 from 2015 is detailed as follows:

(Dollars in millions)	Net Sales
Impact of changes in foreign currency exchange rates	\$ (9.5)
Export sales of heavy-duty engine diesel fuel filter assemblies and replacement filters	(3.0)
Export sales to the Middle East, Australia, Southeast Asia and Latin America	2.5
Heavy-duty engine filter sales in China	2.4
Heavy-duty engine filter sales in Europe	1.6
All other, net	(0.2)
Decrease in foreign net sales	\$ (6.2)

Net sales outside the U.S. decreased approximately \$6.2 million, or 3%, in 2016 compared to 2015, including a negative impact of changes in foreign currencies of \$9.5 million, or 5%. Additionally contributing to the decrease in

net sales outside the U.S. was a decrease of \$3.0 million, or 8%, in export sales of diesel fuel filter assemblies and replacement filters, reflecting lower demand for off-highway, agricultural and construction equipment applications in various export markets. These decreases were partially offset by an increase of \$2.5 million of export sales of traditional Baldwin heavy-duty engine filtration products, primarily as the result of several new first-fit product introductions, a \$2.4 million increase in heavy-duty engine first-fit filtration sales in China, and a \$1.6 million increase in heavy-duty engine filter sales in Europe.

Cost of Sales

Cost of sales decreased \$10.7 million, or 2.7%, in 2016 from 2015. This 2.7% decrease in cost of sales was less than the 3.2% decrease in net sales resulting in our gross margin decreasing to 34.3% in 2016 from 34.7% in 2015. This 0.4 percentage point decrease in gross margin primarily reflects a 2.3 percentage point decrease in gross margin resulting from lower fixed cost leverage based on lower sales levels partly offset by a 1.9 percentage point favorable impact due to cost reductions resulting from

Table of Contents

the Company's previously announced restructuring actions and other cost reduction initiatives including material cost reductions (primarily resulting from our company-wide purchasing cost reduction initiative).

Selling and Administrative Expenses

Selling and administrative expenses decreased \$3.5 million, or 3.5%, in 2016 from 2015. This decrease was primarily the result of \$4.7 million of lower expense resulting from previously announced cost reduction initiatives, including headcount reductions, as well as reductions in travel, professional services and other costs through company-wide initiatives. Additionally contributing to the decrease in selling and administrative expenses were a \$1.9 million decrease in bad debt expense due to improved past due accounts receivable collections and a \$1.2 million reduction in unfavorable foreign currency transaction losses. These decreases were partially offset by \$3.9 million of higher allocated corporate costs, including costs related to research and development, information technology and other strategic growth initiatives and \$0.8 million higher incentive compensation expense related to our company-wide profit sharing program. With selling and administrative expenses in this segment decreasing 3.5% while segment net sales decreased 3.2%, selling and administrative expenses as a percentage of net sales in this segment decreased to 16.7% in 2016 from 16.8% in 2015.

2015 versus 2014

Net Sales

The \$1.7 million, or less than 1%, increase in net sales for our Engine/Mobile Filtration segment in 2015 from 2014 is detailed in the following tables:

Stanadyne business acquisition	7 %
Pricing	— %
Organic volume	(4)%
Foreign exchange	(3)%
	— %

(Dollars in millions)	Net Sales
2014	\$ 603.8
U.S. net sales	28.6
Foreign net sales (including export)	(10.4)
Foreign exchange	(16.5)
Net increase	1.7
2015	\$ 605.5

Table of Contents

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

(Dollars in millions)	Net Sales
Heavy-duty engine filtration aftermarket -- retail channel	\$36.6
Stanadyne business acquisition	24.3
Heavy-duty engine diesel fuel filter assemblies and replacement filters	(8.6)
Heavy-duty engine filtration aftermarket -- original equipment supply channel	(7.4)
Heavy-duty engine filtration aftermarket -- independent distributors	(5.9)
Light-duty (automotive) engine filtration aftermarket	(3.2)
Other	(7.2)
Increase in U.S. net sales	\$28.6

Our U.S. net sales increased approximately 7% in 2015 compared with 2014. This growth reflected approximately \$36.6 million of sales to a significant customer with whom we previously contracted to supply a full line of private-branded heavy-duty engine filtration aftermarket products through this customer's national retail network. Also, the Company's ownership of the Stanadyne business (now operated as CLARCOR Engine Mobile Solutions) for a full year in 2015 compared to ownership of this business for only seven months in 2014 (from the May 2014 date of acquisition onward) resulted in \$24.3 million of increased U.S. net sales in 2015. These increases were partially offset by a \$8.6 million, or 23%, reduction in sales of original equipment and replacement fuel filtration products for heavy-duty diesel engines used in off-road, agricultural and construction applications in 2015 as compared to 2014, reflecting lower demand for off-highway, agricultural and construction equipment and replacement parts. The increase in our U.S. net sales in 2015 compared to 2014 in this reporting segment was also partially offset by a \$7.4 million, or 10%, decline in sales of heavy-duty engine filter aftermarket sales to other original equipment suppliers and dealers and a \$5.9 million, or 3%, decline in heavy-duty engine filter aftermarket sales to U.S. independent distributors, primarily reflecting lower demand for off-highway, agricultural and oil and gas trucking applications. We also experienced a decline of approximately \$3.2 million, or 12%, in sales of light-duty engine filtration aftermarket products in 2015 compared to 2014, principally driven by lower demand for automotive applications.

The net decrease in foreign net sales (including export sales and changes in foreign currencies) for our Engine/Mobile Filtration segment in 2015 from 2014 is detailed as follows:

(Dollars in millions)	Net Sales
Export sales primarily to Canada, the Middle East, Southeast Asia and Latin America	\$(17.8)
Impact of changes in foreign currency exchange rates	(16.5)
Export sales of heavy-duty engine diesel fuel filter assemblies and replacement filters	(9.8)
Heavy-duty engine filter sales in China	(6.4)
Heavy-duty engine filter sales in Europe	3.2
Stanadyne business acquisition	17.8
All other, net	2.6
Decrease in foreign net sales	\$(26.9)

Net sales outside the U.S. decreased approximately \$26.9 million, or 12%, in 2015 compared to 2014, including a negative impact of changes in foreign currencies of \$16.5 million, or 7%. Additionally, this decrease principally resulted from a \$17.8 million, or 21%, decrease in export sales of heavy-duty engine filters and a \$9.8 million, or 35% decrease in export sales of diesel fuel filter assemblies and replacement filters by the Stanadyne business (now operated as CLARCOR Engine Mobile Solutions), reflecting lower demand for off-highway, agricultural and construction applications in various export markets. Net sales outside the U.S. were also adversely affected by a

decrease of \$6.4 million, or approximately 23%, in heavy-duty engine filter sales in China in 2015 compared to 2014, primarily due to continued slowing macroeconomic activity in China and lower end-market diesel engine sales. These effects were partly offset by an increase of \$3.2 million, or approximately 8%, in heavy-duty engine filtration sales in Europe, reflecting a modest recovery in end-user demand in 2015 from depressed levels in 2014.

Table of Contents

Cost of Sales

Cost of sales increased \$6.0 million, or 2%, in 2015 from 2014. This 2% increase in cost of sales was more than the less than one percent increase in net sales. As a result, our gross margin decreased to 34.7% in 2015 from 35.5% in 2014. This 0.8 percentage point decrease in gross margin primarily reflects a 1.6 percentage point decrease in gross margin resulting from lower fixed cost leverage based on lower sales levels and increased fixed costs resulting from investments related to strategic growth initiatives (including costs related to additional capacity, new customers and the start-up of operations in India), as well as a 0.9 percentage point decrease in gross margin resulting from unfavorable changes in sales mix. These impacts were partly offset by a 1.1 percentage point benefit from improved manufacturing efficiencies and lower material costs (partly resulting from our ongoing cost reduction and continuous improvement initiatives), a 0.4 percentage point benefit resulting from increases in the selling prices of our products, and a 0.2 percentage point benefit resulting due to \$1.4 million of increased cost of sales in 2014 related to the step-up of inventory values to reflect their estimated fair values as of the Stanadyne business purchase date, which did not recur in 2015.

Selling and Administrative Expenses

Selling and administrative expenses increased \$9.8 million, or 11%, in 2015 from 2014. This increase was primarily the result of \$8.9 million of increased selling and administrative expenses at our CLARCOR Engine Mobile Solutions business, including approximately \$4.8 million of increased intangible asset amortization expense, reflecting our ownership of this business for the full year in 2015 compared to seven months of ownership in 2014 (from the date of acquisition in May 2014 onward). The remaining increase of approximately \$0.8 million, or less than one percent, in selling and administrative costs in 2015 from 2014 was primarily the result of \$4.0 million of higher allocated corporate costs, including costs related to research and development, information technology and other strategic growth initiatives, \$1.3 million of restructuring charges recognized in 2015 related to a reduction-in-force executed by the Company as a part of a broader effort to more closely align operating expenses with the Company's long-term strategic initiatives and macroeconomic business conditions, and \$1.5 million of other increased costs. These increased costs were partly offset by approximately \$3.0 million of lower compensation expense related to our company-wide profit sharing program and by a \$3.0 million reduction in selling and administrative expenses due to increased legal, investment advisory and other professional services costs incurred in 2014 in connection with the Stanadyne business acquisition, which did not recur in 2015. With selling and administrative expenses in this segment increasing 11% while segment net sales increased less than one percent, selling and administrative expenses as a percentage of net sales in this segment increased to 16.8% in 2015 from 15.2% in 2014.

Industrial/Environmental Filtration Segment

	2016	2015	2014	2016 v 2015		2015 v 2014		
(Dollars in thousands)	2016	2015	2014	\$	%	\$	%	
				Change	Change	Change	Change	
Net sales	\$803,544	\$834,643	\$833,100	\$(31,099)	(4)%	\$1,543	— %	
Cost of sales	542,715	562,766	562,654	(20,051)	(4)%	112	— %	
Gross profit	260,829	271,877	270,446	(11,048)	(4)%	1,431	1 %	
Selling and administrative expenses	182,997	184,332	187,095	(1,335)	(1)%	(2,763)	(2)%	
Operating profit	\$77,832	\$87,545	\$83,351	\$(9,713)	(11)%	\$4,194	5 %	
Gross margin	32.5	% 32.6	% 32.5		(0.1)	pt	0.1	pt
Selling and administrative percentage	22.8	% 22.1	% 22.5		0.7	pt	(0.4)	pt
Operating margin	9.7	% 10.5	% 10.0		(0.8)	pt	0.5	pt

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

Table of Contents

2016 versus 2015

Net sales

The \$31.1 million, or 4%, decrease in net sales for our Industrial/Environmental Filtration segment in 2016 compared to 2015 is detailed in the following tables:

Organic volume	(3)%
Foreign exchange	(2)%
Pricing	—%
TDC acquisition	1%
	(4)%

(Dollars in millions)	Net Sales
2015	\$ 834.6
U.S. net sales	(31.3)
Foreign exchange	(15.6)
Foreign net sales (including export)	15.8
Net decrease	(31.1)
2016	\$ 803.5

The net decrease in U.S. net sales for our Industrial/Environmental Filtration segment in 2016 from 2015 is detailed as follows:

(Dollars in millions)	Net Sales
Natural gas filtration vessels and aftermarket elements	\$ (32.3)
Industrial air filtration products	(18.5)
Gas turbine first-fit filters and systems	(2.0)
HVAC filtration products	10.4
TDC acquisition	11.0
All other, net	0.1
Decrease in U.S. net sales	\$ (31.3)

Our U.S. net sales decreased approximately 6% in 2016 as compared with 2015. This decrease reflected the following:

Lower sales of \$32.3 million in the natural gas market in 2016 compared with 2015 driven primarily by a 37% decline in natural gas filtration capital vessel sales resulting from decreased activity in extraction, transportation and processing of natural gas and natural gas liquids and benefits of natural gas shale extraction infrastructure projects in the prior year. This was partially offset by an 8% increase in natural gas aftermarket elements.

- A decrease of \$18.5 million in industrial air filtration products in 2016 as compared with 2015 due primarily to decreased sales of panel, cartridge, bag and other industrial air replacement filters in the coal, cement, and metal industries, partially reflecting several significant orders in the prior year period that did not recur in 2016.

Lower sales of \$2.0 million of gas turbine air intake filtration systems at CLARCOR Industrial Air in 2016 as compared to 2015 was driven primarily by the timing of large system sales and the geographic mix of customer orders.

-

An increase in sales of HVAC filtration products of \$10.4 million was driven by increased sales of heating, ventilation and air conditioning filters to various commercial and industrial customers.

Increased net sales of \$11.0 million resulting from our TDC acquisition in the first quarter of 2016.

Table of Contents

The net changes in foreign net sales (including export sales and changes in foreign currencies) for the Industrial/Environmental Filtration segment in 2016 as compared with 2015 is detailed as follows:

(Dollars in millions)	Net Sales
Gas turbine first-fit filters and systems	\$ 15.3
Export sales of HVAC filters	11.8
Natural gas filtration vessels and aftermarket filters	(6.7)
Industrial metals and polymer filtration products	(5.7)
Impact of changes in foreign currency exchange rates	(15.6)
All other, net	1.1
Increase in foreign net sales	\$ 0.2

Our foreign net sales increased less than 1% in 2016 as compared with 2015. This increase of \$0.2 million reflected the following:

Higher sales of \$15.3 million of gas turbine air intake filtration systems by CLARCOR Industrial Air in 2016 from 2015 driven primarily by the timing of large system sales which occurred in 2016 and the geographic mix of customer orders.

Higher export sales of HVAC filters of \$11.8 million primarily reflect increased sales of air filtration products for animal husbandry applications to certain customers in the Middle East.

Lower sales in the natural gas market of \$6.7 million in 2016 from 2015 driven primarily by a decline in natural gas filtration vessel sales resulting from decreased activity in extraction, transportation and processing of natural gas and natural gas liquids (such as ethane, propane, and butane).

A decrease in sales of \$5.7 million of industrial metals and polymer filtration products in 2016 from 2015 primarily reflected lower sales in the fluid processing and synthetic fiber markets as well as oil and gas sand control filters driven by lower demand from oil and gas customers, which we believe reflects lower oil and gas exploration and production activity resulting primarily from continued depressed prices of oil.

Net sales reflect a \$15.6 million reduction in 2016 from 2015 due to changes in foreign currency exchange rates, primarily reflecting the strengthening of the U.S. dollar against the British pound, the Mexican peso and several other foreign currencies where our foreign income and cash flows are derived.

Cost of Sales

Cost of sales decreased \$20.1 million, or 3.6%, in 2016 compared to 2015. This 3.6% decrease was slightly less than the 3.7% decrease in net sales. As a result, our gross margin decreased to 32.5% in 2016 from 32.6% in 2015. This 0.1 percentage point decrease in gross margin primarily reflects a 0.4 percentage point decrease in gross margin due to \$3.0 million increased expense related to inventory reserves, and the impact of a 0.3 percentage point decrease due to approximately \$2.3 million of upfront expenses impacting cost of sales for cost reduction initiatives incurred in 2016. The \$2.3 million of upfront expenses for cost reduction initiatives noted above were primarily related to severance and other employee termination payments pursuant to reductions in force. These unfavorable impacts were partly offset by a 0.6 percentage point increase in gross margin due to a 0.6 percentage point favorable impact due to \$4.8 million in material cost reductions (primarily resulting from our company-wide purchasing cost reduction initiative) and other cost reduction initiatives.

Selling and Administrative Expenses

Selling and administrative expenses decreased \$1.3 million, or 1%, in 2016 compared to 2015. This decrease was primarily the result of \$8.1 million of lower employee costs resulting primarily from previously announced cost reduction initiatives, \$2.9 million of other lower costs, including reductions in discretionary spending such as travel and professional services and a \$1.3 million favorable impact foreign currency transaction gains. These decreases were partially offset by \$8.8 million of higher allocated corporate costs, including costs related to research and development, information technology and other strategic growth initiatives, a \$2.4 million increase in year-over-year expense due to a gain realized in 2015 resulting from the sale of a facility primarily used for selling and administrative activities which did not recur in 2016, and \$1.7 million higher incentive compensation

Table of Contents

expense related to our company-wide profit sharing program. With selling and administrative expenses in this segment decreasing 1% while segment net sales decreased 4%, our selling and administrative expenses as a percentage of net sales in this segment increased to 22.8% in 2016 from 22.1% in 2015.

2015 versus 2014

Net sales

The \$1.5 million, or less than one percent, increase in net sales for our Industrial/Environmental Filtration segment in 2015 compared to 2014 is detailed in the following tables:

Filter Resources acquisition	2 %
Organic volume	2 %
Pricing	— %
Foreign exchange	(4)%
	— %

(Dollars in millions)	Net Sales
2014	\$ 833.1
U.S. net sales	34.1
Foreign net sales (including export)	(1.5)
Foreign exchange	(31.1)
Net increase	1.5
2015	\$ 834.6

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

(Dollars in millions)	Net Sales
Filter Resources acquisition	\$ 19.7
Dust collection and other industrial air filtration products	11.4
Natural gas filtration vessels and aftermarket elements	9.4
Gas turbine first-fit filters and systems	(3.8)
All other, net	(2.6)
Increase in U.S. net sales	\$ 34.1

The acquisition of Filter Resources in December 2014, whose operations have been merged into the Company's PECOFacet group of companies, resulted in approximately \$19.7 million of increased U.S. net sales in 2015 compared to 2014, reflecting sales of filtration vessels and replacement elements primarily for use in petrochemical, refining, pipeline and other industrial applications.

- Sales of dust collection and other industrial air filtration products increased \$11.4 million in 2015 compared to 2014 primarily due to increased sales of panel, cartridge, bag and other industrial air replacement filters.

Higher sales of filtration vessel and aftermarket filter products in the natural gas market in 2015 compared to 2014 were driven by an increase in extraction, transportation and processing of natural gas and natural gas liquids (such as ethane, propane and butane) throughout the U.S., including at various shale gas basins.

-

Sales of gas turbine first-fit filters and systems decreased by \$3.8 million, or approximately 17%, in 2015 from 2014, primarily due to the timing of large system sales.

Table of Contents

The net decrease in foreign net sales (including export sales and changes in foreign currencies) for the Industrial/Environmental Filtration segment in 2015 from 2014 is detailed as follows:

(Dollars in millions)	Net Sales
Dust collection and other industrial air filtration products	\$ 13.0
Export sales of HVAC filters	5.5
Natural gas filtration vessels and aftermarket filters	1.6
Gas turbine first-fit filters and systems	(22.3)
Impact of changes in foreign currency exchange rates	(31.1)
All other, net	0.7
Decrease in foreign net sales	\$ (32.6)

Higher foreign net sales of dust collection and other industrial air filtration products in 2015 compared to 2014 reflect increased sales through our CLARCOR Industrial Air subsidiary, including sales of BHA pleated filters, bag filters and other industrial air filters, increased sales of ClearCurrent® filters and replacement cartridge filters for the gas turbine air intake aftermarket, as well as higher sales by our United Air Specialists subsidiary due to increased sales of industrial dust, fume and oil mist collectors in China and Europe.

Higher foreign net sales of heating, ventilation and air conditioning filtration products in 2015 compared to 2014 primarily reflects increased export sales of HVAC products to commercial and industrial customers, including sales of air filtration systems and filters for use in livestock farming applications.

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

- Sales of first-fit gas turbine filters and systems decreased in 2015 from 2014 primarily due to the timing of large system sales.

Net sales reflect a \$31.1 million reduction in 2015 from 2014 due to changes in foreign currency exchange rates, primarily reflecting the strengthening of the U.S. dollar against the British pound, the Mexican peso and several other foreign currencies where our foreign income and cash flows are derived.

Cost of Sales

Cost of sales increased \$0.1 million, or less than one percent, in 2015 compared to 2014. This increase was slightly less than the less than one percent increase in net sales. As a result, our gross margin increased to 32.6% in 2015 from 32.5% in 2014. This 0.1 percentage point increase in gross margin primarily reflects a 0.5 percentage point increase in gross margin due to the impact of \$4.6 million of increased cost of sales in 2014 resulting from the step-up of inventory values due to our acquisitions of the GE Air Filtration business (now operated as CLARCOR Industrial Air) and the Bekaert business to reflect their estimated fair values as of each acquisition's purchase date, as well as a 0.1 percentage point increase due to approximately \$1.2 million of restructuring costs incurred in 2014 in our HVAC filtration business, both of which costs did not recur in 2015. These favorable impacts were partly offset by a 0.6 percentage point decrease in gross margin due to lower absorption of fixed manufacturing overhead and unfavorable sales mix across various businesses.

Selling and Administrative Expenses

Selling and administrative expenses decreased \$2.8 million, or 2%, in 2015 compared to 2014. This decrease was primarily the result of \$4.0 million of legal, investment advisory and consulting costs incurred in 2014 related to the

acquisition of the GE Air Filtration business, which is now operated as CLARCOR Industrial Air, which costs did not recur in 2015. The decrease in selling and administrative expenses in 2015 compared to 2014 also reflects a \$4.1 million decrease in compensation expense related to our company-wide profit sharing program, a \$1.9 million decrease in costs due to a gain realized in 2015 resulting from the sale of a facility primarily used for selling and administrative activities by one of our operating companies within this reporting segment, a \$1.0 million decrease in sales commissions and approximately \$2.2 million of other lower costs, including reductions in discretionary spending such as travel. These decreases were partially offset by \$4.8 million of increased costs related to strategic growth initiatives, including costs for research & development and information technology activities, \$4.2 million of increased costs resulting from the Filter Resources acquisition in December 2014, and \$1.4 million of restructuring charges recognized in 2015 related to a reduction-in-force executed by the Company as a part of a broader effort to more closely align operating expenses

Table of Contents

with the Company's long-term strategic initiatives and recent macroeconomic business conditions. With selling and administrative expenses in this segment decreasing 2% while segment net sales increased less than one percent, our selling and administrative expenses as a percentage of net sales in this segment decreased to 22.1% in 2015 from 22.5% in 2014.

Packaging Segment

	2016	2015	2014	2016 v 2015		2015 v 2014	
(Dollars in thousands)	2016	2015	2014	\$	%	\$	%
				Change	Change	Change	Change
Net sales	\$ —	\$40,909	\$75,949	\$(40,909)	(100)%	\$(35,040)	(46)%
Cost of sales	—	33,954	63,506	(33,954)	(100)%	(29,552)	(47)%
Gross profit	—	6,955	12,443	(6,955)	(100)%	(5,488)	(44)%
Selling and administrative expenses	—	4,812	7,731	(4,812)	(100)%	(2,919)	(38)%
Operating profit	\$ —	\$2,143	\$4,712	\$(2,143)	(100)%	\$(2,569)	(55)%
Gross margin	—%	17.0	% 16.4	%	(17.0) pt		0.6 pt
Selling and administrative percentage	—%	11.8	% 10.2	%	(11.8) pt		1.6 pt
Operating margin	—%	5.2	% 6.2	%	(5.2) pt		(1.0) pt

Prior to June 27, 2015, our Packaging segment manufactured and marketed consumer and industrial packaging products. As is discussed in Note C to the Consolidated Financial Statements, on June 27, 2015, the Company sold 100% of the outstanding shares of J.L. Clark. J.L. Clark was the sole operating company within the Packaging Segment. As a result of the sale, the Company has exited the packaging business, consistent with our strategic focus on being a leading global provider of filtration products, systems and services. The financial results presented above for the Packaging segment reflect the results of the J.L. Clark business, including its pro-rata share of allocated corporate administrative costs, through June 27, 2015, the date of closing of the disposition.

2015 versus 2014

Net Sales

The \$35.0 million, or 46%, decrease in net sales for our Packaging segment in 2015 compared to 2014 is detailed in the following tables:

Divestiture of J.L. Clark	(47)%
Volume	1 %
	(46)%

(Dollars in millions)	Net Sales
Divestiture of J.L. Clark	\$ (35.9)
All other, net	0.9
Decrease in net sales	\$ (35.0)

The 46% decrease in net sales at our Packaging segment in 2015 compared to 2014 primarily resulted from the divestiture of J.L. Clark on June 27, 2015 and our ownership of the business for approximately seven months in 2015 prior to such divestiture, in comparison to a full twelve months of ownership in 2014. Prior to the divestiture, packaging net sales increased 1%, or approximately \$0.9 million, versus the comparable prior year period. This increase was primarily due to higher sales of smokeless tobacco packaging, spice packaging and decorated flat sheet metal products.

Table of Contents

Cost of Sales

Cost of sales in this segment decreased \$29.6 million, or 47%, in 2015 compared to 2014. The decrease in cost of sales in 2015 compared to 2014 primarily resulted from the divestiture of J.L. Clark on June 27, 2015, and our ownership of this business for approximately seven months in 2015 prior to such divestiture, in comparison to a full year of ownership in 2014. The 47% decrease in cost of sales was greater than the 46% decrease in segment net sales. As a result, gross margin in this segment increased to 17.0% in 2015 from 16.4% in 2014. This 0.6 percentage point increase in gross margin mainly resulted from reduced variable manufacturing expenses, including lower utility costs and repair costs, improved absorption of fixed manufacturing costs due to higher sales volume, and lower production scrap costs prior to the divestiture of J.L. Clark.

Selling and Administrative Expenses

Selling and administrative expenses decreased \$2.9 million, or 38%, in 2015 compared to 2014. This decrease was primarily the result of a \$2.9 million decrease due to the divestiture of J.L. Clark on June 27, 2015, and our ownership of this business for approximately seven months in 2015 prior to such divestiture, in comparison to a full year of ownership in 2014. With selling and administrative expenses decreasing 38% while segment net sales decreased 46%, our selling and administrative expenses as a percentage of net sales in this segment increased to 11.8% in 2015 from 10.2% in 2014.

FINANCIAL CONDITION

Liquidity and Capital Resources

We believe that our operations will continue to generate cash and that sufficient cash, cash equivalents and borrowings under our credit agreement, including our five-year revolving credit facility ("Credit Facility"), will be available to fund operating needs, pay dividends, invest in the development of new products and filter media, fund planned capital expenditures, provide for interest and principal payments related to debt agreements, fund pension contributions and fund potential repurchases of our common stock.

We had cash and cash equivalents of \$134.9 million at the end of 2016. Approximately \$125.3 million of this cash was held at entities outside the U.S. Although we plan to use this cash at our non-U.S. entities, if we repatriated this cash to the U.S., we could incur significant tax expense since a majority of this cash is considered permanently invested for U.S. tax purposes. Cash and cash equivalents are held by financial institutions throughout the world.

Our current ratio of 3.1 at the end of 2016 was lower than the current ratio of 3.3 at the end of 2015. This decrease primarily reflects a \$37.2 million decrease in inventory and a \$28.5 million decrease in accounts receivable, primarily reflecting an active focus on optimizing the components of working capital. The decreases in inventory and accounts receivable were partially offset by a \$33.3 million increase in cash due to cash generated from operating activities and an \$11.5 million decrease in accrued liabilities.

On April 5, 2012, we entered into a five-year multicurrency revolving credit facility agreement with a group of financial institutions, under which the Company could borrow up to \$150.0 million under a selection of currencies and rate formulas. In November 2013, we entered into a credit facility agreement amendment to add a \$100.0 million term loan facility to the revolving credit facility agreement, and in May 2014, we entered into another credit agreement amendment to increase the size of the term loan facility to \$315.0 million. On November 2, 2015 we amended and restated the credit agreement, under which the Company may borrow up to \$700.0 million under senior credit facilities comprised of a \$500.0 million revolving credit facility (the "Revolving Credit Facility") and \$200.0 million

of term loans (the "Term Loans", and together with the Revolving Credit Facility, the "Credit Facility"). The Revolving Credit Facility includes a \$50.0 million swing line sub-facility and a \$50.0 million letter of credit sublimit, as well as an accordion feature that allows the Company to increase the Revolving Credit Facility by a total of up to \$100.0 million, subject to securing additional commitments from existing lenders or new lending institutions and other customary terms and conditions. We believe the financial institutions that are party to this agreement have adequate capital resources and will be able to fund future borrowings under the Credit Facility. At our election, borrowings under the Revolving Credit Facility and Term Loans bear interest at either a defined base rate, or LIBOR plus an applicable margin determined with reference to the Company's consolidated leverage ratio. Swing line borrowings bear interest at the defined base rate plus an applicable margin. Commitment fees and letter of credit fees are also payable under the Revolving Credit Facility. Borrowings under the Credit Facility are unsecured, but are guaranteed by substantially all of the Company's material domestic subsidiaries. The amended and restated credit agreement also contains certain covenants customary for such agreements, including covenants that place limits on our ability to incur additional debt, require us to maintain minimum levels of interest coverage, and restrict certain changes in ownership, as well as customary events of default. The principal balance outstanding under the Revolving Credit Facility is payable

Table of Contents

in full at maturity on November 1, 2020. Principal is payable in respect of the Term Loans in quarterly installments based on specified percentages of the initial principal amount of the Term Loans, and the entire outstanding principal balance on the Term Loans is payable in full at maturity on November 1, 2020.

At the end of 2016, we had \$192.5 million of outstanding Term Loans with a weighted average interest rate including margin of approximately 1.73% and \$85.0 million outstanding on the Revolving Credit Facility, with a weighted average interest rate including margin of approximately 1.66%. At November 30, 2016, we also had approximately \$7.4 million outstanding on the \$50.0 million letter of credit sub-facility. Accordingly, we had approximately \$407.6 million available for further borrowing at the end of 2016.

Total long-term debt of \$285.5 million at the end of 2016 included \$192.5 million of Term Loans, \$85.0 million outstanding under the Revolving Credit Facility, \$7.4 million outstanding on industrial revenue bonds and \$0.6 million of other long-term debt. At the end of 2016 we were in compliance with all financial covenant requirements of the Credit Facility. The ratio of total debt to total capitalization (defined as long-term debt plus total shareholders' equity) was 20.0% at the end of 2016 compared to 26.7% at the end of 2015, with the decrease attributable to lower total debt, due to repayment activity, and increased shareholders' equity, as described below, at the end of 2016 in comparison to the end of 2015.

We had 48.6 million shares of common stock outstanding at the end of 2016 compared with 49.1 million at the end of 2015. Shares of common stock outstanding decreased 0.5 million as shares issued pursuant to stock incentive plans in the 2016 was more than offset by the repurchase of 1.4 million shares during the same period. Shareholders' equity increased to \$1,141.5 million at the end of 2016 from \$1,110.5 million at the end of 2015. This \$31.0 million increase resulted mainly from net earnings of \$139.4 million and an increase related to stock-based compensation and option activity pursuant to incentive plans of \$44.9 million, partly offset by decreases to shareholders' equity of \$153.2 million resulting primarily from our repurchase and retirement of common stock of \$73.9 million, dividend payments of \$44.5 million and other comprehensive loss (primarily currency translation adjustments) of \$34.8 million.

Cash Flow 2016 versus 2015

Net cash provided by operating activities increased \$131.7 million in 2016 to \$285.4 million from \$153.7 million in 2015. Approximately \$18.1 million of this increase resulted from the 3M patent litigation award received in 2016, net of taxes. The remaining improvement was primarily the result of our ongoing focus on optimizing the components of working capital by employing several Lean techniques. For example, we lowered inventory levels by \$36.4 million, resulting in a \$58.5 million year-over-year improvement in cash from operations compared to a \$22.1 million increase in inventory in 2015. The improvement in operating cash generation in 2016 was also driven by an increase of \$16.0 million from improved management of accounts payable and accrued liabilities and an increase of \$16.6 million from reductions in prepaid expenses and other current assets. The improvement in net cash provided by operating activities in 2016 also reflects a \$26.0 million impact from lower cash taxes paid, primarily driven by the timing of tax payments in 2016 and 2015.

Net cash used in investing activities increased \$15.8 million in 2016 to \$49.0 million from \$33.2 million in 2015. There were two main drivers behind this increase. First, in 2015 net cash used in investing activities benefited from \$45.2 million of cash proceeds from the divestiture of J.L. Clark, which did not recur in 2016. Second, cash proceeds from the disposition of plant assets in 2016 were \$1.3 million, a reduction of \$6.1 million from the prior year. These impacts were partially offset by a \$33.6 million reduction in capital expenditures in 2016 compared to the prior year, primarily reflecting investments in 2015 related to several strategic growth initiatives that did not recur in 2016.

Net cash used in financing activities increased \$91.4 million in 2016 to \$202.0 million from \$110.6 million in 2015. This increase was primarily driven by \$119.5 million of net repayments under the Credit Facility and long-term debt

in 2016, compared to \$2.0 million of net borrowings under the Credit Facility in 2015, as we applied much of the year-over-year improvement in operating cash generation in 2016 to repay outstanding borrowings from the acquisitions of Stanadyne Corporation's diesel fuel filtration business (now operated as CLARCOR Engine Mobile Solutions) and the GE Air Filtration business (now operated as CLARCOR Industrial Air). The increase in cash used in financing activities also reflects \$3.4 million of increased cash dividends paid and \$3.1 million of increased payments for the repurchase of common stock in 2016 compared to 2015. These impacts were partly offset by a \$26.0 million increase in cash proceeds from the sale of capital stock under stock option and employee stock purchase plans in 2016 compared to 2015.

Cash Flow 2015 versus 2014

Net cash provided by operating activities decreased \$2.6 million in 2015 to \$153.7 million from \$156.3 million in 2014. This decrease was primarily attributable to a \$9.3 million decrease in net earnings, which was partly offset by a \$3.1 million reduction

Table of Contents

in net cash used to fund working capital, as the net effect on cash from changes in assets and liabilities, net of business acquisitions, improved to a \$37.9 million use of cash in 2015 from a \$41.0 million use of cash in 2014.

Net cash used in investing activities decreased \$631.0 million in 2015 to \$33.2 million from \$664.3 million in 2014, primarily due to a \$574.4 million decrease in payments related to business acquisitions. In 2015 net cash used in investing activities included \$20.9 million net cash paid for the acquisition of Filter Resources. In comparison, in 2014 net cash used in investing activities included \$327.7 million net cash paid for the acquisition of Stanadyne Corporation's diesel fuel filtration business (now operated as CLARCOR Engine Mobile Solutions), \$260.3 million net cash paid for the acquisition of the GE Air Filtration business (now operated as CLARCOR Industrial Air) and \$7.3 million net cash paid for the acquisition of the Bekaert business. In 2015 we also received \$45.2 million net cash as a result of the disposition of the J.L. Clark business, which was sold on June 27, 2015.

Net cash from financing activities decreased \$299.2 million to net cash used in financing activities of \$110.6 million in 2015 from net cash provided by financing activities of \$188.7 million in 2014. Net cash used in financing activities of \$110.6 million in 2015 primarily included \$70.8 million of payments for our repurchase of common stock, an increase of \$38.0 million from 2014, and \$41.0 million of cash dividends paid, an increase of \$5.2 million from 2014. Net cash provided by borrowings under our Credit Facility decreased to \$2.0 million of net borrowings in 2015, compared to \$245.0 million of net borrowings in 2014. This decrease was primarily due to \$315.0 million of borrowings in 2014 under our previous term loan facility to fund the majority of the cost of the acquisition of Stanadyne Corporation's diesel fuel filtration business, now operated as CLARCOR Engine Mobile Solutions, of which \$70.0 million was repaid in 2014.

Other items

In fiscal 2017, we expect capital expenditures to be between 45 million and 55 million, without giving effect to any changes that may occur following the completion of the pending Parker-Hannifin transaction.

We have no material long-term purchase commitments.

In June 2016, our Board of Directors authorized a \$250.0 million stock repurchase program of our common stock in the open market and through private transactions over a three-year period which replaced a prior three-year \$250 million stock repurchase program approved by our Board of Directors in June 2013 which was expiring. During 2016, we repurchased and retired 1.4 million shares of our common stock for \$73.9 million at an approximate average price of \$53.34 including 0.9 million shares for \$43.2 million under the prior stock repurchase program and 0.5 million shares for \$30.7 million under our current stock repurchase program. During 2015, we repurchased and retired 1.3 million shares of our common stock for \$70.8 million at an approximate average price of \$53.14 per share. At the end of 2016, there was approximately \$219.3 million available for repurchase under the current authorization.

The following table summarizes our current fixed cash obligations as of the end of fiscal year 2016 for the years indicated:

(Dollars in millions)	Payments Due by Period as of November 30, 2016				
	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
Pension plan and other post-retirement contributions	\$52.1	\$ 0.5	\$0.5	\$12.9	\$ 38.2
Operating leases	\$42.0	12.7	15.8	7.5	6.0
Open purchase orders	\$108.6	106.9	0.9	0.8	—
Long-term debt	\$285.5	17.7	40.2	220.1	7.5

Edgar Filing: CLARCOR INC. - Form 10-K

Interest on long-term debt	\$29.2	6.3	15.3	7.2	0.4
Total	\$517.4	\$ 144.1	\$72.7	\$248.5	\$ 52.1

Anticipated payments pursuant to our pension plans and for other post-retirement benefits as reflected in the table above are based upon the assumption that we make the minimum required contributions and also make additional contributions to maintain a funded percentage of at least 80% for each plan. Future estimates of our pension plan contributions may change significantly depending upon the actual rate of return on plan assets, discount rates and regulatory requirements.

Table of Contents

Interest payments on our variable rate debt as reflected in the table above are determined based upon current interest rates and for the Credit Facility are based on projected future interest rates and assume that no additional borrowings or payments will be made on our Credit Facility, other than scheduled term loan payments, during the periods presented.

At the end of fiscal year 2016, our gross liability for uncertain income tax provisions was \$4.1 million including interest and penalties. Due to the high degree of uncertainty regarding the timing of potential future cash outflows associated with these liabilities, we were unable to make a reasonably reliable estimate of the amount and period in which these remaining liabilities might be paid.

Off-Balance Sheet Arrangements

Our off-balance sheet arrangements relate to various operating leases as discussed in Note K to the Consolidated Financial Statements. We had no variable interest entity or special purpose entity agreements during 2016 or 2015.

OTHER MATTERS

Critical Accounting Policies and Estimates

Our critical accounting policies, including the assumptions and judgments underlying them, are disclosed in the Notes to the Consolidated Financial Statements. These policies have been consistently applied in all material respects and address such matters as revenue recognition, depreciation lives, inventory valuation, asset impairment recognition, business combination accounting, income taxes and pension and postretirement benefits.

While the estimates and judgments associated with the application of these critical accounting policies may be affected by different assumptions or conditions, we believe the estimates and judgments associated with the reported amounts are appropriate in the circumstances.

The following lists the most critical accounting estimates used in preparing the Consolidated Financial Statements which require us to use significant judgment and estimates of amounts that are inherently uncertain:

Goodwill and Indefinite-lived Intangible Assets – At December 3, 2016 we had \$581.8 million of goodwill and indefinite-lived intangible assets, representing 33.5% of our total assets. At November 28, 2015 we had \$581.8 million of goodwill and indefinite-lived intangible assets, representing 32.0% of our total assets. We review goodwill for impairment annually during the fourth quarter and more often if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. These reviews of fair value involve judgment and estimates of discount rates, terminal values, transaction multiples and future cash flows for the reporting units that may be impacted by future sales and operating results for the reporting units, market conditions and worldwide economic conditions. All goodwill is allocated to a reporting unit component at the time of acquisition. We have determined that the reporting unit components meet the criteria for aggregation into four reporting units. These reporting units are aggregated based upon similar economic characteristics, nature of products and services, nature of production processes, type of customers and distribution methods. In performing our impairment reviews, we estimated the fair values of the aggregated reporting units using a present value method that discounted future cash flows using market participant based assumptions. We further analyzed various discount rates, transaction and capital market multiples and cash flows for aggregated reporting units to assess the reasonableness of our estimates and assumptions. Using the relief-from-royalty method, we assess our trademarks and trade names for impairment on an annual basis during the fourth quarter or more often if an event occurs or changes in circumstances indicate that the carrying amount of indefinite-lived intangible assets may not be recoverable. These reviews of fair

value involve judgment and estimates, including projected revenues, royalty rates and discount rates. We believe our valuation techniques and assumptions are reasonable for this purpose. We have not materially changed our methodology for valuing goodwill and indefinite-lived intangible assets. The results of our analysis performed as of December 3, 2016 indicated that the estimated fair value of each reporting unit and indefinite-lived intangible asset was substantially in excess of its carrying value and, accordingly, no impairment existed. There were no goodwill or indefinite-lived intangible asset impairment charges recorded in fiscal years 2016, 2015 or 2014.

Definite-lived Intangible Assets – At December 3, 2016 we had \$224.0 million of definite-lived intangible assets, net of accumulated amortization, representing 12.9% of our total assets. At November 28, 2015 we had \$253.6 million of definite-lived intangible assets, net of accumulated amortization, representing 13.9% of our total assets. We review definite-lived intangible assets for impairment whenever events or changes in circumstances indicate that the carrying

Table of Contents

amount of the definite-lived intangible assets may not be recoverable. There were no definite-lived intangible asset impairment charges recorded in fiscal years 2016, 2015 or 2014.

Allowance for Losses on Accounts Receivable – Allowances for losses on customer accounts receivable balances are estimated based on economic conditions in the industries to which we sell and on historical experience by evaluating specific customer accounts for risk of loss, fluctuations in amounts owed and current payment trends. Our concentration of risk is also monitored and at the end of 2016, the largest outstanding customer account balance was \$19.6 million and the five largest account balances totaled \$37.8 million. 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.

Pensions – Our pension net periodic benefit expense and related obligations are determined using a number of significant actuarial assumptions, including those related to discount rates, long-term rates of return on pension plan assets and rates of compensation increases. The discount rate assumption is intended to reflect the rate at which the pension benefit obligations could be effectively settled on the measurement date, taking into account the nature and duration of the benefit obligations of the plans. The discount rates used for each plan were based on the Citigroup Pension Discount Curve. The projected benefit payments in each year were discounted using the appropriate spot rate from the curve. For each plan, a single discount rate was determined that produced the same total discounted value. That rate, rounded to 25 basis points, was the discount rate selected for the plan. At December 3, 2016 the 3.8% discount rate used for the qualified plans for U.S. employees and the 3.38% discount rate used for the non-qualified plans for U.S. employees were selected as the best estimates of the rates 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 plans using high-quality fixed-income investments currently available (rated Aa or better) and expected to be available during the period to maturity of the benefits. The 5.5% expected return on plan assets at December 3, 2016 was determined based on historical long-term investment returns as well as future expectations given target investment asset allocations and current economic conditions. The 4.0% rate of compensation increase represents the long-term assumption for expected increases in salaries among continuing active participants accruing benefits under the qualified plan. The mortality table for the qualified plans is determined based on the actuarial table that is most reflective of the expected mortality of the plan participants. The mortality table adopted (RP 2014 blend with MP-2016 mortality improvement scale) was developed for pension plans by a Society of Actuaries study. The mortality table used for the nonqualified pension plan is specified by the plan agreement. The assumptions are similarly determined for each pension obligation. Actual results and future obligations will vary based on changes in interest rates, stock and bond market valuations and employee compensation.

In 2017, a 0.25% reduction in the discount rate would result in additional expense of approximately \$0.3 million and a 0.25% reduction in the expected return on plan assets would result in additional expense of approximately \$0.4 million for our qualified defined benefit pension plans for U.S. covered employees. Interest rates and pension plan valuations may vary significantly based on worldwide economic conditions and asset investment decisions. The unrecognized net actuarial loss of \$63.0 million at year-end 2016 is due primarily to changes in assumptions related to discount rates and expected asset returns compared to actual asset returns. This actuarial loss will be recognized as pension expense in the future over the average remaining service period of the employees in the plans. See Note L to the Consolidated Financial Statements.

Income Taxes – We are required to estimate and record income taxes payable for each of the U.S. and international jurisdictions in which we operate. This process involves estimating actual current tax expense and assessing temporary differences resulting from differing accounting treatment between tax and book which result in deferred tax assets and liabilities. In addition, accruals are also estimated for federal, state and international tax transactions for which deductibility is subject to interpretation. Taxes payable and the related deferred tax differences may be impacted by changes to tax laws, changes in tax rates and changes in taxable profits and losses. Reserves are also

estimated for uncertain tax positions that are currently unresolved. We routinely monitor the potential impact of such situations and believe that we are properly reserved, where appropriate.

Environmental Matters and Climate Change and Energy Legislation Regulation

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

Table of Contents

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

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

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

Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2014-08, "Presentation of Financial Statements and Property, Plant and Equipment; Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." ASU 2014-08 modifies the requirements for reporting discontinued operations. Under ASU 2014-08, the definition of a discontinued operation has been modified to only include those disposals of an entity that represent a strategic shift that has (or will have) a major effect on an entity's operations and financial results. ASU 2014-08 also expands the disclosure requirements for disposals that meet the definition of a discontinued operation and requires entities to disclose information about disposals of individually significant components that do not meet the definition of discontinued operations. ASU 2014-08 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2014 (fiscal year 2016 for the Company). The Company has adopted ASU 2014-08 and has applied the guidance therein with respect to the disposal of the Company's J.L. Clark business, as discussed in Note C to the Consolidated Financial Statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." The purpose of ASU 2014-09 is to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and International Financial Reporting Standards. The amendments in ASU 2014-09 require a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2016 (fiscal year 2018 for the Company). Subsequently, in August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers (Topic 606) Deferral of the Effective Date," that moves the effective date out one year (fiscal 2019 for the Company). In March 2016, the FASB issued ASU 2016-08, "Principal versus Agent Considerations (Reporting Revenue Gross versus Net)," which clarifies the guidance in determining revenue recognition as principal versus agent. In April 2016, the FASB issued ASU 2016-10, "Identifying Performance Obligations and Licensing," which provides guidance in accounting for immaterial performance obligations and shipping and handling. In May 2016, the FASB issued ASU 2016-12, "Narrow-Scope Improvements and Practical Expedients," which provides clarification on assessing the collectability criterion, presentation of sales taxes, measurement date for noncash consideration and completed contracts at transition. Companies may use either a

full retrospective or a modified retrospective approach to adopt ASU 2014-09 and the related amendments and early adoption of one year prior to the required effective date is permitted. The Company has not yet determined the potential effects of the adoption of ASU 2014-09, ASU 2015-14, ASU 2016-08, ASU 2016-10, and ASU 2016-12 on its Consolidated Financial Statements.

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs," which requires that debt issue costs related to a recognized debt liability be presented on the balance sheet as a direct deduction from the amount of the debt liability, consistent with debt discounts and premiums. Amortization of such costs is still reported as interest expense. ASU 2015-03 is effective for fiscal years, and interim periods therein, beginning after December 15, 2015 (fiscal year 2017 for the Company), but early adoption is allowed. In August 2015, the FASB issued ASU 2015-15, "Presentation and Subsequent Measurement of Debt Issue Costs Associated with Line-of-Credit Arrangements." ASU 2015-15 supplements the requirements of ASU 2015-03 by allowing an entity to defer and present debt issue costs related to a line of credit arrangement as an asset and subsequently amortize the deferred costs ratably over the term of the line of credit arrangement. The Company had unamortized debt issue costs of \$2.0 million and \$2.8 million at November 30, 2016 and November 30, 2015, respectively. The Company will

Table of Contents

adopt the new guidance in the first quarter of fiscal 2017. Upon adoption, long-term debt issuance costs will be reclassified from other long-term assets to long-term debt on the Consolidated Balance Sheets.

In July 2015, the FASB issued ASU 2015-11, "Simplifying the Measurement of Inventory." Topic 330, Inventory, currently requires an entity to measure inventory at the lower of cost or market, with market value represented by replacement cost, net realizable value or net realizable value less a normal profit margin. The amendments in ASU 2015-11 requires an entity to measure inventory at the lower of cost or net realizable value. ASU 2015-11 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2016 (fiscal year 2018 for the Company). The Company does not expect the adoption of this guidance to have a material impact on its Consolidated Financial Statements.

In February 2016, the FASB issued ASU 2016-02, "Leases," which amends leasing guidance by requiring companies to recognize a right-of-use asset and a lease liability for all operating and capital (finance) leases with lease terms of greater than twelve months. The lease liability will be equal to the present value of lease payments. The lease asset will be based on the lease liability, subject to adjustment, such as for initial direct costs. For income statement purposes, leases will continue to be classified as operating or capital (finance), with lease expense in both cases calculated substantially the same as under the prior leasing guidance. The updated guidance is effective for interim and annual periods beginning after December 15, 2018 (fiscal year 2020 for the Company), and early adoption is permitted. The Company has not yet determined the potential effects of the adoption of ASU 2016-02 on its Consolidated Financial Statements.

In March 2016, the FASB issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting," which simplifies the accounting for share-based payment transactions, including accounting for income taxes, forfeitures, and classification in the statement of cash flows. ASU 2016-09 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2016 (fiscal year 2018 for the Company). The Company has not yet determined the potential effects of the adoption of ASU 2016-09 on its Consolidated Financial Statements.

In June 2016, the FASB issued ASU 2016-13, "Measurement of Credit Losses on Financial Statements," which requires companies to measure credit losses utilizing a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU 2016-13 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2019 (fiscal year 2021 for the Company). The Company has not yet determined the potential effects of the adoption of ASU 2016-13 on its Consolidated Financial Statements.

In August 2016, the FASB issued ASU 2016-15, "Classification of Certain Cash Receipts and Cash Payments," which aims to eliminate diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash Flows, and other Topics. Subsequently, in November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230), Restricted Cash, a consensus of the FASB Emerging Issues Task Force," which clarifies the guidance on the cash flow classification and presentation of changes in restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash or restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flow. ASU 2016-15 and ASU 2016-18 are effective for annual reporting periods, and interim periods therein, beginning after December 15, 2017 (fiscal year 2019 for the Company) The Company does not expect the adoption of ASU 2016-15 or ASU 2016-18 to have a material impact on its Consolidated Financial Statements.

In October 2016, the FASB issued ASU 2016-16, "Income Taxes (Topic 740), Intra-Entity Transfers of Assets Other Than Inventory," which requires companies to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. ASU 2016-16 is effective for annual reporting periods, and

interim periods therein, beginning after December 15, 2017 (fiscal year 2019 for the Company). The Company has not yet determined the potential effects of the adoption of ASU 2016-16 on its Consolidated Financial Statements.

Forward Looking Statements

This 2016 Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements made in this 2016 Form 10-K, other than statements of historical fact, are forward-looking statements. You can identify these statements from use of the words “may,” “should,” “could,” “potential,” “continue,” “plan,” “forecast,” “estimate,” “project,” “intent,” “anticipate,” “expect,” “target,” “is likely,” “will,” or the negative of these terms, and similar expressions. These statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may include, among other things:

Table of Contents

- statements and assumptions relating to anticipated future growth, earnings, earnings per share, future cash flows and other financial performance measures;
- statements regarding management's short-term and long-term performance goals;
- statements regarding anticipated order patterns and demand for products from our customers and our backlog or the anticipated economic conditions of the industries and markets that we serve;
- statements related to the performance of the U.S., China, Europe and other economies generally;
- statements relating to the anticipated effects on results of operations or financial condition from recent and expected developments or events, including the acquisitions of FibeRio, TDC, Filter Resources, the Stanadyne business, the GE Air Filtration business and the Bekaert business;
- statements regarding our current cost structure positions and ability to capitalize on anticipated development and growth initiatives, including the expansion of facilities and other planned capital expenditures;
- statements relating to our research and development activities, including the development of new products and filter media;
- statements related to future dividends or repurchases of our common stock;
- statements related to tax positions and unrecognized tax benefits;
- statements related to future repatriation or reinvestment of foreign earnings;
- statements related to our cash resources and borrowing capacity under the Credit Facility;
- statements related to cost savings or restructuring initiatives;
- statements regarding anticipated contributions and other payments pursuant to our pension plans and for other post-retirement benefits;
- statements related to potential liability for environmental matters;
- statements related to pending claims or litigation;
- statements relating to the availability of raw materials and other supplies;
- statements related to the pending Parker-Hannifin transaction; and
- any other statements or assumptions that are not historical facts.

We believe that our expectations are based on reasonable assumptions. However, these forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause our actual results, performance or achievements, or industry results, to differ materially from our expectations of future results, performance or achievements expressed or implied by these forward-looking statements. The Company's past results of operations do not necessarily indicate its future results. The Company's future results may differ materially from the Company's past results as a result of various risks and uncertainties, including, but not limited to, risks associated with global and national macroeconomic pressures, trends with respect to the health of the markets we serve, including with respect to challenging market conditions in various markets in the Engine/Mobile Filtration segment and the Industrial/Environmental Filtration segment, our ability to execute upon long-term strategic growth initiatives, ongoing cost savings and restructuring initiatives (including that the costs associated with any such initiatives may be greater than anticipated, that we may be unable to realize anticipated cost savings or other contemplated benefits, and that such initiatives may adversely impact our business), customer concentration issues in certain geographic locations and in respect of certain of our businesses, our ability to integrate the businesses we have acquired, currency fluctuations, particularly increases or decreases in the U.S. dollar against other currencies, commodity price increases and/or limited availability of raw materials and component products, including steel, compliance costs associated with environmental laws and regulations, political factors, our international operations, highly competitive markets, governmental laws and regulations, potential information systems interruptions and intrusions, potential global events resulting in instability and unpredictability in the world's markets, including financial bailouts of sovereign nations, political changes, military and terrorist activities, health outbreaks and other factors, changes in accounting standards or adoption of new accounting standards, adverse effects of natural disasters, legal challenges with respect to intellectual property, product liability exposure, changes in tax rates or exposure to additional income tax liabilities, potential labor disruptions, the impact on the Company's business and results of operations from developments related to the potential exit of the United Kingdom from the European Union, our potential inability to realize the anticipated

benefits of the strategic supply partnership with GE, other risks discussed in the "Risk Factors" section of this 2016 Form 10-K and other risks detailed from time to time in our filings with the SEC. In addition, there are various risks and uncertainties associated with the pending Parker-Hannifin transaction, including but not limited to, the occurrence of any event, change or other circumstances that could delay the closing of the pending Parker-Hannifin transaction; the possibility of non-consummation of the pending Parker-Hannifin transaction and termination of the Parker-Hannifin merger agreement; the risk that the Company could be required to pay a termination fee of \$113.0 million to Parker-Hannifin under certain circumstances pursuant to the terms of the Parker-Hannifin merger agreement; the failure to obtain Company stockholder approval of the pending Parker-Hannifin transaction or to satisfy any of the other conditions to the Parker-Hannifin merger agreement; the possibility that a governmental entity may prohibit, delay or refuse to grant a necessary regulatory approval in connection with the pending Parker-Hannifin transaction; the risk that stockholder litigation in connection with the pending Parker-Hannifin transaction may affect the timing or occurrence of the pending Parker-Hannifin transaction or result in significant costs of defense, indemnification and liability; the significant transaction costs which have been and may continue to be incurred by the Company related to the pending Parker-Hannifin transaction; and other potential risks to

Table of Contents

the Company associated with any failure to close the Parker-Hannifin transaction, including the potential distraction of employee and management attention during the pendency of the merger, uncertainty about the effect of the pending Parker-Hannifin transaction on the Company's relationships with employees, potential and existing customers and suppliers and other parties, and the impact that the failure of the pending Parker-Hannifin transaction to close could have on the trading price of shares of Company common stock and the Company's operating results.

You should not place undue reliance on any forward-looking statements. These statements speak only as of the date of this 2016 Form 10-K. Except as otherwise required by applicable laws, we undertake no obligation to publicly update or revise any forward-looking or other statements included in this 2016 Form 10-K, whether as a result of new information, future events, changed circumstances or any other reason.

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

Our market risk is primarily related to the potential loss arising from adverse changes in interest rates and foreign currency fluctuations. In the normal course of business, we may also be exposed to various market risks that arise from transactions entered into in the normal course of business related to items such as the cost of raw materials and changes in inflation. Certain contractual relationships with customers and vendors mitigate risks from changes in raw material costs and currency exchange rate changes that arise from normal purchasing and normal sales activities.

Interest Rates

We are exposed to changes in interest rates, primarily due to our financing and cash management activities, which include long and short-term debt as well as cash, cash equivalents and certain short-term, highly liquid investments. Interest rate fluctuations could affect earnings, cash flows or the fair value of our financial liabilities. Our debt obligations are primarily at variable rates and are denominated in U.S. dollars. To minimize the long-term costs of borrowing, we manage our interest rate risk by monitoring trends in rates as a basis for determining whether to enter into fixed rate or variable rate agreements and the duration of such agreements. From time-to-time, we have also made use of derivative financial instruments to manage certain interest rate risks, although we did not utilize any such derivative financial instruments in 2016 or 2015. The \$192.5 million of outstanding Term Loans at December 3, 2016 and the \$85.0 million of borrowings outstanding at December 3, 2016 on the Revolving Credit Facility bear interest at variable interest rates that fluctuate with market rates. In 2016, a hypothetical 1% increase in the interest rates that apply to the Term Loans and the borrowings outstanding on the Revolving Credit Facility could cause our annual interest expense to increase by approximately \$2.9 million. Our return on cash and cash equivalents is also subject to interest rate risk. Based upon the \$134.9 million in cash and cash equivalents at the end of 2016, a hypothetical 0.25% change in interest rates could impact annual interest income by approximately \$0.3 million. These hypothetical changes in interest expense and interest income would increase or decrease as cash and cash equivalents increase or decrease.

Foreign Currency

Since we operate through subsidiaries in several countries around the world, our reported financial results of operations, including the reported value of assets and liabilities, are exposed to foreign currency exchange rate risk when the financial statements of our subsidiaries, as stated in their functional currencies, are translated into the U.S. Dollar. The assets and liabilities of subsidiaries outside the U.S. are translated at period end rates of exchange for each reporting period. Earnings and cash flows are translated at weighted-average rates of exchange. Although these translation changes have no immediate cash impact, the translation changes may impact the overall value of net assets.

When we acquired CLARCOR Industrial Air in 2014, approximately \$50.0 million of the \$260.3 million purchase price was paid through a U.K. subsidiary of the Company, using funds advanced from one of our U.S. subsidiaries through a European holding company. We intend to settle the underlying inter-company advances in cash. Therefore, we are exposed to translation risk from changes in foreign currency rates on the outstanding inter-company advances. In 2016 and 2015 we made use of foreign currency forward contracts to manage this translational foreign exchange risk on outstanding balances of \$11.9 million and \$36.3 million at December 3, 2016 and November 28, 2015, respectively. From time to time, we also use foreign currency forward contracts to hedge against changes in foreign currency exchange rates on certain unrecognized firm sales commitments expected to be settled at future dates. Market risk arises from the potential adverse effects on the value of derivative instruments that result from a change in foreign currency exchange rates. We mitigate this market risk by establishing and monitoring parameters that limit the types and degrees of market risk that may be undertaken. We enter into derivative instruments for risk management purposes only. We do not hold or issue derivatives for trading or speculative purposes. For more information on derivative instruments and hedging activities, see Note G in the Notes to Consolidated Financial Statements.

Table of Contents

We are also exposed to transaction risk from changes in foreign currency rates through sales and purchasing transactions when we sell products in functional currencies different from the currency in which product and manufacturing costs were incurred. The functional currencies of our worldwide facilities primarily include U.S. Dollar, Euro, British Pound Sterling, Canadian Dollar, Chinese Yuan Renminbi, Australian Dollar, Malaysian Ringgit, Mexican Peso, Brazilian Real, Moroccan Dirham and South African Rand. As these currencies fluctuate against each other, and other currencies, we are exposed to foreign currency transaction risk on sales and purchasing transactions. Foreign currency exchange rate risk is reduced through the maintenance of local production facilities in several markets that we serve, which we believe creates a natural hedge to our foreign currency exchange rate risk. In 2016, the percentages of our net sales denominated in a currency other than the U.S. Dollar were as follows:

	Percentage of 2016 Net Sales	
Functional currency:		
British Pound	6	%
Euro	5	%
Chinese Yuan	3	%
Canadian Dollar	2	%
All other foreign currencies	6	%
	22	%

Currency exchange rates vary daily and often one currency strengthens against the U.S. Dollar while another currency weakens. Because of the complex interrelationship of the worldwide supply chains and distribution channels, it is difficult to quantify the impact of a particular change in exchange rates. However, if the U.S. Dollar strengthened or weakened 10% relative to the currencies where our foreign income and cash flows are derived, the estimated effect on operating profit would be approximately \$5.0 million based upon 2016 results. The effect of changes in the average foreign currency translation rates in 2016 compared to 2015 unfavorably impacted our operating profit by approximately \$3.5 million in 2016.

Commodity Prices

We are exposed to changing commodity prices, including but not limited to, steel, filter media, resins and other chemicals. Historically, since a large majority of our business units deal with aftermarket customers (as opposed to first-fit or OEM customers) where we have greater control of pricing, we have generally been able to successfully pass significant commodity price increases onto our customers. In addition, due to the nature of our aftermarket filtration products, we believe our customer demand is rather inelastic, meaning reasonable price increases do not significantly impact customer demand. In addition, our business units which manufacture filtration vessels or systems are typically able to time customer price quotations with steel purchases and are able to base quotations on actual steel costs. If we were not able to pass through commodity price increases to our customers, we estimate a 1% increase in the price of all the commodities we purchase would increase cost of sales and decrease operating profit by approximately \$5.5 million based upon 2016 results.

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 2016 Form 10-K beginning on page E-1.

Table of Contents

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 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, 2016, the end of the period covered by this 2016 Form 10-K.

Management's Report on Internal Control Over Financial Reporting

The management of the Company 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 (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, the Company's management concluded that the Company's internal control over financial reporting was effective as of December 3, 2016.

There have been no changes in our internal control over financial reporting during the fourth quarter of the fiscal year ended December 3, 2016, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

The effectiveness of the Company's internal control over financial reporting as of December 3, 2016, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears on page F-2 of this 2016 Form 10-K.

Item 9B. Other Information.

None.

Table of Contents

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

To the extent required, the Company will include the information required by Part III, Item 10, except as otherwise provided in the paragraph below, in an amendment to this 2016 Form 10-K to be filed with the SEC within 120 days of the Company's fiscal year ended December 3, 2016.

The Company has adopted a Code of Ethics for Senior Financial Officers applicable to the Company's Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer, Vice President - Internal Audit, and any other person performing the duties of such officials. The Code of Ethics for Senior Financial Officers is available in the Corporate Governance section of the Company's website at www.clarcor.com. A copy of the Code of Ethics for Senior Financial Officers can also be obtained, free of charge, upon written request to the Corporate Secretary, CLARCOR Inc., 840 Crescent Centre Drive, Suite 600, Franklin, TN 37067. The Company intends to post amendments to or waivers, if any, from its Code of Ethics for Senior Financial Officer at this location on its website.

Item 11. Executive Compensation.

To the extent required, the Company will include the information required by Part III, Item 11 in the amendment to this 2016 Form 10-K to be filed with the SEC within 120 days of the Company's fiscal year ended December 3, 2016.

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

To the extent required, the Company will include the information required by Part III, Item 12 in the amendment to this 2016 Form 10-K to be filed with the SEC within 120 days of the Company's fiscal year ended December 3, 2016.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

To the extent required, the Company will include the information required by Part III, Item 13 in the amendment to this 2016 Form 10-K to be filed with the SEC within 120 days of the Company's fiscal year ended December 3, 2016.

Item 14. Principal Accounting Fees and Services.

To the extent required, the Company will include the information required by Part III, Item 14 in the amendment to this 2016 Form 10-K to be filed with the SEC within 120 days of the Company's fiscal year ended December 3, 2016.

Table of Contents

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a)(1) Financial Statements

	Page No.
Report of Independent Registered Public Accounting Firm	<u>F-2</u>
Consolidated Statements of Earnings for the years ended November 30, 2016, 2015 and 2014	<u>F-3</u>
Consolidated Statements of Comprehensive Earnings for the years ended November 30, 2016, 2015 and 2014	<u>F-4</u>
Consolidated Balance Sheets at November 30, 2016 and 2015	<u>F-5</u>
Consolidated Statements of Shareholders' Equity for the years ended November 30, 2016, 2015 and 2014	<u>F-6</u>
Consolidated Statements of Cash Flows for the years ended November 30, 2016, 2015 and 2014	<u>F-8</u>
Notes to Consolidated Financial Statements	<u>F-9</u>

(a)(2) Financial Statement Schedule

II. Valuation and Qualifying Accounts and Reserves F-50

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.

Table of Contents

(a)(3) Exhibits

- 2.2 Purchase Agreement, dated as of November 5, 2013, by and between the Company and General Electric Company. Incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed November 5, 2013.
- 2.2(a) Amendment to Purchase Agreement, dated as of December 14, 2013, by and between the Company and General Electric Company. Incorporated by reference to Exhibit 2.2(a) to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2013.
- 2.3 Stock Purchase Agreement, dated as of April 28, 2014, by and among the Company, Clean Seller, LLC, Stanadyne Holdings, Inc. and Stanadyne Corporation. Incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed April 28, 2014.
- 2.4 Agreement and Plan of Merger, dated as of December 1, 2016, by and among the Company, Parker and Merger Sub. Incorporated by reference to Annex A to the Company's Definitive Proxy Statement relating to the pending Parker-Hannifin transaction filed on January 20, 2017.
- 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 December 1, 2007.
- 3.2 The registrant's Second Amended and Restated By-Laws. Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed June 29, 2015.
- 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 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.
- 10.1 The registrant's Amended and Restated Deferred Compensation Plan for Directors of CLARCOR dated January 1, 2008. Incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K for the fiscal year ended November 28, 2009. +
- 10.2 The registrant's Amended and Restated CLARCOR Deferred Compensation Plan dated January 1, 2008. Incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K for the fiscal year ended November 28, 2009. +
- 10.2(a) The registrant's Supplemental Retirement Plan. Incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 1984. +
- 10.2(b) The registrant's Amended and Restated Executive Retirement Plan dated December 20, 1999 (the "Grandfathered Plan"). Incorporated by reference to Exhibit 10.2(b) to the Company's Annual Report on Form 10-K for the fiscal year ended November 28, 2009. +
- 10.2(c) The registrant's Amended and Restated CLARCOR Executive Retirement Plan dated January 1, 2009 (the "Later ERP"). Incorporated by reference to Exhibit 10.2(c) to the Company's Annual Report on Form 10-K for the fiscal year ended November 28, 2009. +
- 10.2(d) Amendment No. 1 to the Grandfathered Plan effective as of December 14, 2009. Incorporated by reference to Exhibit 10.2(d) to the Company's Annual Report on Form 10-K for the fiscal year ended November 28, 2009. +
- 10.2(e) Amendment No.1 to the Later ERP dated and effective as of December 14, 2009. Incorporated by reference to Exhibit 10.1 to the Company's Current Report filed on Form 8-K on December 17, 2009. +
- 10.2(f) The registrant's Amended and Restated CLARCOR Supplemental Pension Plan dated January 1, 2008. Incorporated by reference to Exhibit 10.2(f) to the Company's Annual Report on Form 10-K for the fiscal year ended November 28, 2009. +
- 10.2(g) The registrant's Supplemental Retirement Plan (as amended and restated effective December 1, 1994). Incorporated by reference to Exhibit 10.2(c) to the Company's Annual Report on Form 10-K for the fiscal year ended December 3, 1994. +
- 10.4 Form of Change in Control Agreement with each of the Company's executive officers (other than Jacob Thomas and Keith White) and other Company executives. Incorporated by reference to Exhibit 10.1 to the

Edgar Filing: CLARCOR INC. - Form 10-K

- Company's Current Report filed on Form 8-K on December 30, 2008 (the "2008 8-K"). +
- 10.4(a) Trust Agreement dated December 1, 1997. Incorporated by reference to Exhibit 10.4(d) to the Company's Annual Report on Form 10-K for the fiscal year ended November 29, 1997 (the "1997 10-K"). +
- 10.4(b) Executive Benefit Trust Agreement dated December 22, 1997. Incorporated by reference to Exhibit 10.4(e) to the 1997 10-K. +
- 10.4(c) Form of Change of Control Agreement with Jacob Thomas and Keith White. Incorporated by reference to Exhibit 10.4(c) to the Company's Annual Report on Form 10-K for the fiscal year ended November 28, 2015. +
- 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. +

Table of Contents

10.5(c)	Amendment 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. +
10.6(a)	Amended and Restated Credit Agreement, dated as of November 2, 2015, by and among the Company, CLARCOR EM Holdings, Inc., CLARCOR Engine Mobile Solutions, LLC, the lenders party thereto and Bank of America, N.A., as administrative agent, as swing line lender and as a letter of credit issuer. Incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K filed November 3, 2015.
10.7	Form of Stock Option Agreement used by Company for all employees receiving stock option awards, including grants to executive officers, made under the 2004 Plan. Incorporated by reference to Exhibit 10.7 to the Company’s Annual Report on Form 10-K for the fiscal year ended December 2, 2006 (the “2006 10-K”). +
10.7(a)	Form of Stock Option Agreement used by Company for certain executive officers and certain other senior members of Company management receiving stock option awards made under the 2004 Plan. Incorporated by reference to Exhibit 10.7(a) to the Company’s Annual Report on Form 10-K for the fiscal year ended December 1, 2007. +
10.7(b)	Form of Agreement for the Issuance of Restricted Stock Units used by Company for all employees receiving restricted stock units, including executive officers, made under the 2004 Plan. Incorporated by reference to Exhibit 10.7(b) to the Company’s Annual Report on Form 10-K for the fiscal year ended November 28, 2009. +
10.7(c)	Form of Stock Option Agreement used by Company for all employees receiving stock option awards, including grants to executive officers, made under the 2009 Plan and the 2014 Plan. Incorporated by reference to Exhibit 10.7(c) to the Company’s Annual Report on Form 10-K for the fiscal year ended November 30, 2013. +
10.7(d)	Form of Agreement for the Issuance of Restricted Stock Units used by Company for all employees receiving restricted stock units, including executive officers, made under the 2009 Plan and the 2014 Plan. Incorporated by reference to Exhibit 10.7(d) to the Company’s Annual Report on Form 10-K for the fiscal year ended November 30, 2013. +
10.8	CLARCOR Value Added Incentive Plan. Incorporated by reference to Exhibit A to the Company’s Proxy Statement dated February 9, 2007 for the Annual Meeting of Shareholders held on March 26, 2007. +
10.9	CLARCOR Inc. 2009 Incentive Plan (the “2009 Plan”). Incorporated by reference to Appendix A to the Company’s Proxy Statement dated February 13, 2009 for the Annual Meeting of Shareholders held on March 23, 2009. +
*10.10	Summary of Compensation Paid to Non-Employee Directors and Executive Officers. +
10.11	CLARCOR Inc. 2014 Incentive Plan (the “2014 Plan”). Incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K filed March 26, 2014. +
10.11(a)	Form of Agreement for the Issuance of Performance-Based Restricted Stock Units used by the Company for executive officers and certain other senior members of Company management receiving performance-based restricted stock units, made under the 2014 Incentive Plan. Incorporated by reference to Exhibit 10.7(e) to the Company’s Quarterly Report on Form 10-Q filed March 20, 2015. +
*10.12	Form of Agreement for the Issuance of Restricted Stock Units for all employees receiving restricted stock units, including executive officers, in fiscal 2017, made under the 2014 Plan. +
*12.1	Statement Re Computation of Certain Ratios.
*13	The “11-Year Financial Review.”
*21	Subsidiaries of the Registrant.
*23	Consent of Independent Registered Public Accounting Firm.
*31.1	Certification of Christopher L. Conway, President and Chief Executive Officer of the Company, pursuant to Rule 13a-14(a) of the Exchange Act.
*31.2	Certification of David J. Fallon, Chief Financial Officer and Chief Accounting Officer of the Company, pursuant to Rule 13a-14(a) of the Exchange Act.

Edgar Filing: CLARCOR INC. - Form 10-K

- *32.1 Certification of Christopher L. Conway, 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 David J. Fallon, Chief Financial Officer and Chief Accounting Officer of the Company, pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code.
- **101.INS XBRL Instance Document
- **101.SCH XBRL Taxonomy Extension Schema Document
- **101.CAL XBRL Taxonomy Extension Calculation Linkbase
- **101.LAB XBRL Taxonomy Extension Label Linkbase
- **101.PRE XBRL Taxonomy Extension Presentation Linkbase
- **101.DEF XBRL Taxonomy Extension Definition Linkbase

* Filed or furnished herewith.

** Submitted electronically with this 2016 Annual Report on Form 10-K

+ Management contract or compensatory plan or arrangement

Table of Contents

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: January 27, 2017

CLARCOR Inc.

(Registrant)

By: /s/ CHRISTOPHER L. CONWAY

Christopher L. Conway

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: January 27, 2017 By: /s/ CHRISTOPHER L. CONWAY

Christopher L. Conway

Chairman of the Board, President & Chief Executive Officer

Date: January 27, 2017 By: /s/ DAVID J. FALLON

David J. Fallon

Chief Financial Officer & Chief Accounting Officer

Date: January 27, 2017 By: /s/ JAMES W. BRADFORD, JR.

James W. Bradford, Jr.

Director

Date: January 27, 2017 By: /s/ ROBERT J. BURGSTHALER

Robert J. Burgstahler

Director

Date: January 27, 2017 By: /s/ WESLEY M. CLARK

Wesley M. Clark

Director

Date: January 27, 2017 By: /s/ NELDA CONNORS

Nelda Connors

Director

Date: January 27, 2017 By: /s/ PAUL DONOVAN

Paul Donovan

Director

Date: January 27, 2017 By: /s/ MARK A. EMKES

Mark A. Emkes

Director

Date: January 27, 2017 By: /s/ THOMAS W. GIACOMINI

Thomas W. Giacomini

Director

Date: January 27, 2017 By: /s/ ROBERT H. JENKINS
Robert H. Jenkins
Director

Date: January 27, 2017 By: /s/ PHILLIP R. LOCHNER, JR.
Phillip R. Lochner, Jr.
Director

Date: January 27, 2017 By: /s/ JAMES L. PACKARD
James L. Packard
Director

54

Table of Contents

CLARCOR Inc.
CONSOLIDATED FINANCIAL STATEMENTS
For the years ended November 30,
2016, 2015 and 2014

F-1

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of CLARCOR Inc.

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of CLARCOR Inc. and its subsidiaries at December 3, 2016 and November 28, 2015 and the results of their operations and their cash flows for each of the three years in the period ended December 3, 2016 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. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 3, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included 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. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide 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 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.

/s/ PricewaterhouseCoopers LLP
Nashville, Tennessee
January 27, 2017

F-2

Table of Contents

CLARCOR Inc.

CONSOLIDATED STATEMENTS OF EARNINGS

For the years ended November 30, 2016, 2015 and 2014

(Dollars in thousands except share data)

	2016	2015	2014
Net sales	\$1,389,573	\$1,481,026	\$1,512,854
Cost of sales	927,674	992,397	1,015,819
Gross profit	461,899	488,629	497,035
Selling and administrative expenses	281,011	290,682	286,607
Operating profit	180,888	197,947	210,428
Other income (expense):			
Interest expense	(7,538)	(5,629)	(3,700)
Interest income	551	443	420
Other, net	27,705	5,204	4,415
	20,718	18	1,135
Earnings before income taxes	201,606	197,965	211,563
Provision for income taxes	62,216	63,052	67,380
Net earnings	139,390	134,913	144,183
Net earnings attributable to noncontrolling interests, net of tax	(124)	(209)	(99)
Net earnings attributable to CLARCOR Inc.	\$139,266	\$134,704	\$144,084
Net earnings per common share attributable to CLARCOR Inc. - Basic	\$2.86	\$2.70	\$2.86
Net earnings per common share attributable to CLARCOR Inc. - Diluted	\$2.84	\$2.67	\$2.83
Weighted average number of shares outstanding - Basic	48,690,560	49,981,118	50,405,549
Weighted average number of shares outstanding - Diluted	49,059,758	50,429,454	50,871,249

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

F-3

CLARCOR Inc.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

For the years ended November 30, 2016, 2015 and 2014

(Dollars in thousands)

	2016	2015	2014
Net earnings	\$ 139,390	\$ 134,913	\$ 144,183
Other comprehensive income:			
Pension and other postretirement benefits liability adjustments, net of deferred taxes of \$1,779, \$(1,163) and \$4,645, respectively	(3,148)	1,664	(7,789)
Foreign currency translation loss	(31,639)	(35,636)	(16,477)
Net gain on hedging derivatives	177	—	—
Comprehensive earnings	104,780	100,941	119,917
Comprehensive loss (earnings) attributable to non-redeemable noncontrolling interests	38	(59)	(184)
Comprehensive loss attributable to redeemable noncontrolling interests	—	155	249
Comprehensive earnings attributable to CLARCOR Inc.	\$ 104,818	\$ 101,037	\$ 119,982

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

F-4

Table of Contents

CLARCOR Inc.

CONSOLIDATED BALANCE SHEETS

November 30, 2016 and 2015

(Dollars in thousands except share data)

	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 134,878	\$ 101,529
Accounts receivable, less allowance for losses of \$10,593 for 2016 and \$14,765 for 2015	229,762	258,280
Inventories	237,627	274,825
Income taxes receivable	1,237	3,781
Prepaid expenses and other current assets	21,842	26,380
Total current assets	625,346	664,795
Property, plant and equipment, at cost, less accumulated depreciation	294,602	301,019
Asset held for sale	533	533
Goodwill	502,908	506,265
Acquired intangibles, less accumulated amortization	302,901	329,155
Deferred income taxes	3,157	3,651
Other noncurrent assets	9,645	13,038
Total assets	\$ 1,739,092	\$ 1,818,456
LIABILITIES		
Current liabilities:		
Current portion of long-term debt	\$ 17,700	\$ 7,788
Accounts payable	89,303	87,546
Accrued liabilities	94,894	106,410
Income taxes payable	1,913	1,956
Total current liabilities	203,810	203,700
Long-term debt, less current portion	267,753	397,368
Long-term pension and postretirement healthcare benefits liabilities	37,175	31,577
Deferred income taxes	75,147	64,908
Other long-term liabilities	13,694	10,438
Total liabilities	597,579	707,991
Contingencies (<u>Note N</u>)		
SHAREHOLDERS' EQUITY		
Capital stock:		
Preferred, par value \$1, authorized 5,000,000 shares, none issued	—	—
Common, par value \$1, authorized 120,000,000 shares, issued 48,567,471 for 2016 and 49,110,898 for 2015	48,567	49,111
Capital in excess of par value	—	—
Accumulated other comprehensive loss	(122,662)	(88,052)
Retained earnings	1,214,922	1,148,510
Total CLARCOR Inc. equity	1,140,827	1,109,569
Noncontrolling interests	686	896
Total shareholders' equity	1,141,513	1,110,465
Total liabilities and shareholders' equity	\$ 1,739,092	\$ 1,818,456

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

F-5

CLARCOR Inc.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the years ended November 30, 2016, 2015 and 2014

(Dollars in thousands except share data)

	CLARCOR Inc. Shareholders					Total CLARCOR Inc. Equity	Non- controlling Interests	Total
	Common Stock Issued Number of Shares	Amount	Capital in Excess of Par Value	Accumulated Other Comprehensive Loss	Retained Earnings			
Balance, November 30, 2013	50,370,541	\$ 50,371	\$ 22,278	\$ (29,814)	\$ 989,013	\$ 1,031,848	\$ 1,025	\$ 1,032,873
Net earnings (excludes redeemable noncontrolling interests)	—	—	—	—	144,084	144,084	233	144,317
Other comprehensive loss (excludes redeemable noncontrolling interests)	—	—	—	(24,266)	—	(24,266)	(49)	(24,315)
Stock options exercised	322,473	322	10,416	—	—	10,738	—	10,738
Tax benefit applicable to stock options	—	—	2,668	—	—	2,668	—	2,668
Tax benefit applicable to restricted stock	—	—	101	—	—	101	—	101
Issuance and expense of stock under award plans	47,186	47	2,441	—	—	2,488	—	2,488
Purchase and retire stock	(535,703)	(536)	(32,286)	—	—	(32,822)	—	(32,822)
Stock option expense	—	—	5,026	—	—	5,026	—	5,026
Cash dividends - \$0.7100 per common share	—	—	—	—	(35,805)	(35,805)	(166)	(35,971)
Balance, November 30, 2014	50,204,497	\$ 50,204	\$ 10,644	\$ (54,080)	\$ 1,097,292	\$ 1,104,060	\$ 1,043	\$ 1,105,103
Net earnings (excludes	—	—	—	—	134,704	134,704	228	134,932

redeemable noncontrolling interests)									
Other comprehensive loss (excludes redeemable noncontrolling interests)	—	—	—	(33,972	) —	(33,972	) (169	) (34,141)
Stock options exercised	176,103	176	6,432	—	—	6,608	—	6,608	
Tax benefit applicable to stock options	—	—	1,032	—	—	1,032	—	1,032	
Tax benefit applicable to restricted stock	—	—	215	—	—	215	—	215	
Issuance and expense of stock under award plans	62,239	62	3,147	—	—	3,209	—	3,209	
Purchase and retire stock	(1,331,941)	(1,331	) (26,845	) —	(42,601	) (70,777	) —	(70,777)
Stock option expense	—	—	5,375	—	—	5,375	—	5,375	
Other	—	—	—	—	87	87	—	87	
Cash dividends - \$0.8200 per common share	—	—	—	—	(40,972	) (40,972	) (206	) (41,178)
Balance, November 30, 2015	49,110,898	\$49,111	\$—	\$ (88,052	) \$1,148,510	\$1,109,569	\$ 896	\$1,110,465	

(Continued)

CLARCOR Inc.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the years ended November 30, 2016, 2015 and 2014

(Dollars in thousands except share data)

	CLARCOR Inc. Shareholders							
	Common Stock Issued Number of Shares	Amount	Capital Excess of Par Value	Accumulated Other Comprehensive Loss	Retained Earnings	Total CLARCOR Inc. Equity	Non- controlling Interests	Total
Balance, November 30, 2015	49,110,898	\$49,111	\$ —	\$(88,052)	\$1,148,510	\$1,109,569	\$ 896	\$1,110,465
Net earnings (excludes redeemable noncontrolling interests)			—	—	139,266	139,266	124	139,390
Other comprehensive loss (excludes redeemable noncontrolling interests)			—	(34,610)	—	(34,610)	(162)	(34,772)
Stock options exercised	782,237	782	32,073	—	—	32,855	—	32,855
Tax benefit applicable to stock options	—	—	2,006	—	—	2,006	—	2,006
Tax provision applicable to restricted stock	—	—	(109)	—	—	(109)	—	(109)
Issuance and expense of stock under award plans	65,040	65	6,743	—	—	6,808	—	6,808
Purchase and retire stock	(1,385,401)	(1,386)	(44,030)	—	(28,485)	(73,901)	—	(73,901)
Stock option expense	—	—	3,317	—	—	3,317	—	3,317
Other	(5,303)	(5)	—	—	6	1	—	1
Cash dividends - \$0.9100 per common share	—	—	—	—	(44,375)	(44,375)	(172)	(44,547)
Balance, November 30, 2016	48,567,471	\$48,567	\$ —	\$(122,662)	\$1,214,922	\$1,140,827	\$ 686	\$1,141,513

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

F-7

Table of Contents

CLARCOR Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended November 30, 2016, 2015 and 2014

(Dollars in thousands)

	2016	2015	2014
Cash flows from operating activities:			
Net earnings	\$ 139,390	\$ 134,913	\$ 144,183
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation	34,022	31,075	30,065
Amortization	24,580	25,528	20,362
Other noncash items	(4,337)	(268)	995
Net loss (gain) on disposition of assets	927	(2,144)	67
Net gain on disposition of J.L. Clark	—	(12,132)	—
Impairment of investments	—	6,729	—
Bargain purchase gain	—	—	(2,815)
Stock-based compensation expense	6,507	9,093	7,278
Excess tax benefit from stock-based compensation	(2,194)	(1,246)	(2,769)
Deferred income taxes	6,126	3,452	911
Changes in assets and liabilities, net of business acquisitions:			
Accounts receivable	27,679	31,782	(28,748)
Inventories	36,416	(22,058)	(7,846)
Prepaid expenses and other current assets	3,151	(13,490)	(7,004)
Other noncurrent assets	1,903	(10,809)	(2,384)
Accounts payable, accrued liabilities and other liabilities	(2,188)	(18,221)	2,591
Pension and postretirement healthcare liabilities, net	941	1,207	915
Income taxes	12,475	(9,666)	545
Net cash provided by operating activities	285,398	153,745	156,346
Cash flows from investing activities:			
Restricted cash	(143)	—	1,339
Business acquisitions, net of cash acquired	(19,299)	(20,882)	(595,328)
Business dispositions, net of cash paid	—	45,232	—
Payments for purchase of property, plant and equipment	(30,924)	(64,535)	(69,681)
Proceeds from disposition of plant assets	1,323	7,469	491
Investment in affiliates	—	(525)	(1,073)
Net cash used in investing activities	(49,043)	(33,241)	(664,252)
Cash flows from financing activities:			
Net borrowings (payments) under revolving credit agreement	(112,000)	197,000	(50,000)
Borrowings under term loan facility	—	—	315,000
Payments on term loan facility	(7,500)	(195,000)	(20,000)
Payments on long-term debt, including business acquisition-related seller financing	(305)	(8,665)	(1,620)
Payments of financing costs	—	(50)	(752)
Sale of capital stock under stock option and employee purchase plans	34,075	8,106	12,076
Acquisition of noncontrolling interest	—	(1,239)	—
Payments for repurchase of common stock	(73,901)	(70,777)	(32,822)
Excess tax benefit from stock-based compensation	2,194	1,246	2,769
Dividend paid to noncontrolling interests	(172)	(206)	(166)
Cash dividends paid	(44,375)	(40,972)	(35,805)

Edgar Filing: CLARCOR INC. - Form 10-K

Net cash (used in) provided by financing activities	(201,984)	(110,557)	188,680
Net effect of exchange rate changes on cash	(1,022)	(2,482)	1,728
Net change in cash and cash equivalents	33,349	7,465	(317,498)
Cash and cash equivalents, beginning of period	101,529	94,064	411,562
Cash and cash equivalents, end of period	\$134,878	\$101,529	\$94,064
Cash paid during the period for interest	\$6,762	\$4,874	\$3,028
Cash paid during the period for income taxes, net of refunds	\$44,151	\$70,146	\$67,534

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

F-8

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

A. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

CLARCOR Inc. and its subsidiaries (collectively, the “Company” or “CLARCOR”) is a global provider of filtration products, filtration systems and services, and consumer and industrial packaging products. As discussed further in Note Q, the Company has three reportable segments: Engine/Mobile Filtration, Industrial/Environmental Filtration and, formerly, Packaging. On June 27, 2015, the Company completed the disposition of J.L. Clark, Inc., which was the sole operating company within the Company's Packaging segment. The Consolidated Financial Statements include all domestic and foreign subsidiaries that were more than 50% owned and controlled as of each respective reporting period presented. All intercompany accounts and transactions have been eliminated.

Pending Acquisition by Parker-Hannifin Corporation

On December 1, 2016, the Company entered into an Agreement and Plan of Merger (the “Parker-Hannifin merger agreement”) with Parker-Hannifin Corporation (“Parker-Hannifin”) and Parker Eagle Corporation, a wholly owned subsidiary of Parker-Hannifin (“Merger Sub”), pursuant to which, upon the closing of the merger, Merger Sub will cease to exist, and the Company will survive as a wholly owned subsidiary of Parker-Hannifin (the “pending Parker-Hannifin transaction”). Upon the closing of this merger, each share of the Company’s common stock, par value \$1.00 per share (other than treasury stock and any shares of the Company’s common stock owned by the Company, Parker-Hannifin, Merger Sub, any of their wholly owned subsidiaries, or any person who properly demands statutory appraisal of their shares) will be converted into the right to receive an amount in cash equal to \$83.00 without interest. Upon completion of the Merger, the Company's common stock will no longer be publicly traded and will be delisted from the New York Stock Exchange.

The pending Parker-Hannifin transaction is expected to be completed by the end of the first quarter of calendar year 2017, and is subject to customary closing conditions, including approval of the merger by the Company’s stockholders and receipt of applicable foreign regulatory approvals.

Accounting Period

The Company's fiscal year-end is the Saturday closest to November 30, typically resulting in a fifty-two week year, but occasionally giving rise to an additional week, resulting in a fifty-three week year. The fiscal year ended December 3, 2016 was comprised of fifty-three weeks while the fiscal years ended November 28, 2015 and November 29, 2014 were both comprised of fifty-two weeks. For clarity of presentation in the Consolidated Financial Statements, all fiscal years are shown to begin as of December 1 and end as of November 30.

Use of Management's Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) 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 will differ from those estimates.

Foreign Currency Translation and Transactions

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 and equity accounts are translated at historical rates. Net exchange gains or losses resulting from the translation of foreign financial statements are presented in the Consolidated Statements of Comprehensive Earnings. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations as incurred. Other, net, included in Other income (expense), included net foreign currency transaction gains (losses) of \$672, \$(215), and \$1,251 in fiscal years 2016, 2015 and 2014, respectively.

F-9

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

Cash and Cash Equivalents and Restricted Cash

Highly liquid investments with an original maturity of three months or less when purchased and that are readily saleable are considered to be cash and cash equivalents. Restricted cash represents funds held in escrow and cash balances held by banks as collateral for certain guarantees of overseas subsidiaries. Restricted cash classified as current corresponds to funds held in escrow that will be used within one year or guarantees that expire within one year. The Company had \$143 of current restricted cash recorded in prepaid expenses and other current assets as of November 30, 2016. The Company had no current restricted cash as of November 30, 2015. The Company had \$1,294 of noncurrent restricted cash recorded in Other noncurrent assets as of November 30, 2016 and 2015, corresponding to guarantees and escrow agreements that expire longer than one year from the dates of the Consolidated Balance Sheets.

Cash and cash equivalents and restricted cash represent financial instruments with potential credit risk. The Company mitigates the risk by investing the assets with institutions it believes to be financially sound.

Derivative Instruments and Hedging Activities

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

All derivatives are recorded at fair value in the Consolidated Balance Sheets. Each derivative is designated as either a fair value hedge, cash flow hedge or remains undesignated. Changes in the fair value of derivatives that are designated and effective as fair value hedges are recognized currently in net income. These changes are offset in net income to the extent the hedge was effective by fair value changes related to the risk being hedged on the hedged item. For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings. Changes in fair value of undesignated hedges are recognized currently in net income. All ineffective changes in derivative fair values are recognized currently in net income.

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

Accounts Receivable and Allowance for Losses

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. Trade accounts receivable represent financial instruments with potential credit risk. 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 ninety days and over a specified amount are reviewed individually for collectability. Account balances are charged off against the allowance when it is probable the receivable will not be recovered.

F-10

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

Inventories

Inventories are valued at the lower of cost or market primarily determined on the first-in, first-out (“FIFO”) method of inventory costing, which approximates current cost. The Company periodically assesses its inventories for potential excess, slow movement and obsolescence and adjusts inventory values accordingly. Inventories are summarized as follows:

	2016	2015
Raw materials	\$90,606	\$99,129
Work in process	30,872	43,907
Finished products	116,149	131,789
	\$237,627	\$274,825

Property, Plant and Equipment

Depreciation is determined 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, the shorter of the asset life or the life of the lease for leasehold improvements and leased equipment and 3 to 15 years for machinery and equipment). It is the Company’s policy to capitalize the cost of 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 operating profit.

Plant assets classified as held for sale are initially measured at the lesser of the assets' carrying amount or the fair value less costs to sell. Gains or losses are recognized for any subsequent changes in the fair value less cost to sell; however, gains are only recognized to the extent of cumulative losses previously recognized. Plant assets classified as Assets held for sale are not depreciated. As of November 30, 2016 and 2015, property, plant and equipment of \$533 related to property held in Rockford, Illinois was classified as an Asset held for sale.

Goodwill and Acquired 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 at the reporting unit level on an annual basis during the fourth quarter and any time events or changes in circumstances indicate that the carrying amount of goodwill and acquired intangible assets might not be recoverable. Impairment losses would be recognized whenever the implied fair value of goodwill is less than its carrying value.

The Company recognizes an acquired intangible asset 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 asset other than goodwill is amortized over its estimated useful life unless that life is determined to be indefinite. Most of the Company’s trade names and trademarks have indefinite useful lives and are subject to impairment testing. All other acquired intangible assets, including patents which have an average 14 year life, and other identifiable intangible assets with original lives ranging from 1 to 30 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 intangible assets at least annually during the fourth quarter, and if necessary, impairment losses are recognized if the carrying amount of an intangible asset 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 plant assets, associated identifiable intangible assets and goodwill, when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For the years ended November 30, 2016, 2015 and 2014, the Company had no significant impairment losses related to plant assets, identifiable intangible assets and goodwill.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

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. The Company does not provide deferred taxes on unremitted foreign earnings from certain foreign affiliates that are intended to be indefinitely reinvested to finance operations and expansion outside the United States.

The Company accounts for uncertain tax positions in accordance with guidance issued by the Financial Accounting Standards Board ("FASB"). This guidance applies broadly to all tax positions taken by a company, including decisions to not report income in a tax return or to classify a transaction as tax exempt. The approach is a two-step benefit recognition model. The amount of benefit to recognize is measured as the largest amount of tax benefit that is greater than 50% likely of being ultimately realized upon settlement. The tax position is derecognized when it is no longer more likely than not of being sustained. The Company recognizes interest and penalties related to unrecognized benefits in income tax expense.

Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss, net of tax, consists of foreign currency translation adjustments, unrecognized gains and losses related to the effective portion of cash flow hedges and pension related gains and losses, prior service costs and credits and any remaining transition amounts that have not yet been recognized through net periodic benefit costs. Changes in Accumulated other comprehensive loss by component are as follows:

	Pension Benefits	Foreign Currency Translation Adjustments	Derivative Financial Instruments	Total
Balance at November 30, 2014, net of tax	\$(37,667)	\$ (16,413)	\$ —	\$(54,080)
Other comprehensive loss before reclassifications and tax	(637)	(a)(35,636)	—	(36,273)
Tax benefit	257	—	—	257
Other comprehensive loss before reclassifications, net of tax	(380)	(35,636)	—	(36,016)
Reclassifications, before tax	3,464	(b)—	—	3,464
Tax expense	(1,420)	—	—	(1,420)
Reclassifications, net of tax	2,044	—	—	2,044
Other comprehensive gain (loss), net of tax	1,664	(35,636)	—	(33,972)
Balance at November 30, 2015, net of tax	\$(36,003)	\$ (52,049)	\$ —	\$(88,052)
Other comprehensive (loss) gain before reclassifications and tax	(8,597)	(31,660)	385	(39,872)
Tax benefit (expense)	3,106	21	(139)	2,988
Other comprehensive (loss) gain before reclassifications, net of tax	(5,491)	(31,639)	246	(36,884)
Reclassifications, before tax	3,670	(b)—	(108)	3,562
Tax benefit (expense)	(1,327)	—	39	(1,288)
Reclassifications, net of tax	2,343	—	(69)	2,274
Other comprehensive gain (loss), net of tax	(3,148)	(31,639)	177	(34,610)
Balance at November 30, 2016, net of tax	\$(39,151)	\$ (83,688)	\$ 177	\$(122,662)

(a) Includes gains of \$3,988 related to a curtailment and re-measurement of the assets and liabilities of the Company's qualified U.S. pension plan resulting from the disposal of J.L. Clark. See Note L for related information.

(b) Includes amortization of prior service cost and net actuarial loss included in net periodic benefit cost that were reclassified from accumulated other comprehensive loss to selling and administrative expenses. See Note L for related information.

F-12

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

Stock-based Compensation

Stock-based employee compensation cost is recognized using the fair-value based method for all awards granted on or after the beginning of fiscal year 2006. The Company issues stock option awards and restricted stock unit awards to employees and issues shares of common stock to non-employee directors under its stock-based incentive plans. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. Compensation cost related to restricted stock units is recorded based on the market price of the Company's common stock on the grant date. The Company recognizes compensation expense from the date of grant on a straight-line basis over the vesting period of the award, which is typically a four year period, or to the date retirement eligibility is achieved, whichever is shorter. For those who are already retirement eligible on the date of grant, compensation expense for the full award is recognized immediately.

The Company also issues performance-based restricted stock unit awards to employees. Fair value of performance-based restricted stock unit awards is determined based on the market price of the stock on the grant date. The Company recognizes compensation expense for performance-based restricted stock unit awards ratably over the period in which the stock units are earned, based on a periodic determination of the probable performance outcome.

Revenue Recognition

Revenue is recognized when product ownership and risk of loss have transferred to the customer or performance of services is complete and the Company has no remaining obligations regarding the transaction. Estimated discounts, rebates and sales returns 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. The related shipping and handling expenses are included in Cost of sales.

The Company uses the percentage of completion accounting revenue recognition method for qualifying contracts under which products are manufactured to customer specifications. Approximately \$37,075, \$42,338 and \$35,537 of the Company's total revenue for fiscal years 2016, 2015 and 2014, respectively, was recognized under the percentage of completion accounting method. Project billings netted against inventory for projects in process were \$2,167 as of November 30, 2016. Revenue is recognized on contracts utilizing the percentage of completion method based on costs incurred as a percentage of estimated total costs. Revenue recognized on uncompleted contracts in excess of amounts billed to customers is reflected as a current asset. Amounts billed to customers in excess of revenue recognized on uncompleted contracts are reflected as a current liability. Unearned revenue and Unbilled accounts receivable are as follow:

	2016	2015
Unearned revenue	\$7,790	\$10,308
Unbilled accounts receivable	1,343	4,317

When it is estimated that a contract will result in a loss, the entire amount of the estimated loss is accrued. The effect of revisions in costs and profit estimated for contracts is reflected in the accounting period in which the facts requiring the revisions become known.

Product Warranties

The Company provides for estimated warranty costs when the related products are recorded as sales or for specific items at the time existence of the claims 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 were approximately \$26,345 in 2016, \$21,650 in 2015 and \$18,102 in 2014.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

Insurance

Insurance coverage is obtained for certain property and casualty exposures, workers' compensation and general liability, as well as risks that require insurance by law or contract. The Company self-insures for certain other insurable risks, primarily employee medical coverage, which the Company carries insurance for certain losses above specified amounts. Liabilities are determined using estimates, including actuarial where applicable, of the aggregate liability for claims incurred and an estimate of incurred but not reported claims, on an undiscounted basis.

Guarantees

At November 30, 2016 and 2015, the Company had letters of credit totaling \$18,191 and \$24,581, respectively, issued 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 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.

Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2014-08, "Presentation of Financial Statements and Property, Plant and Equipment; Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." ASU 2014-08 modifies the requirements for reporting discontinued operations. Under ASU 2014-08, the definition of a discontinued operation has been modified to only include those disposals of an entity that represent a strategic shift that has (or will have) a major effect on an entity's operations and financial results. ASU 2014-08 also expands the disclosure requirements for disposals that meet the definition of a discontinued operation and requires entities to disclose information about disposals of individually significant components that do not meet the definition of discontinued operations. ASU 2014-08 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2014 (fiscal year 2016 for the Company). The Company has adopted ASU 2014-08 and has applied the guidance therein with respect to the disposal of the Company's J.L. Clark business, as discussed in Note C to the Consolidated Financial Statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." The purpose of ASU 2014-09 is to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and International Financial Reporting Standards. The amendments in ASU 2014-09 require a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2016 (fiscal year 2018 for the Company). Subsequently, in August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers (Topic 606) Deferral of the Effective Date," that moves the effective date out one year (fiscal 2019 for the Company). In March 2016, the FASB issued ASU 2016-08, "Principal versus Agent Considerations (Reporting Revenue Gross versus Net)," which clarifies the guidance in determining

revenue recognition as principal versus agent. In April 2016, the FASB issued ASU 2016-10, "Identifying Performance Obligations and Licensing," which provides guidance in accounting for immaterial performance obligations and shipping and handling. In May 2016, the FASB issued ASU 2016-12, "Narrow-Scope Improvements and Practical Expedients," which provides clarification on assessing the collectability criterion, presentation of sales taxes, measurement date for noncash consideration and completed contracts at transition. Companies may use either a full retrospective or a modified retrospective approach to adopt ASU 2014-09 and the related amendments and early adoption of one year prior to the required effective date is permitted. The Company has not yet determined the potential effects of the adoption of ASU 2014-09, ASU 2015-14, ASU 2016-08, ASU 2016-10, and ASU 2016-12 on its Consolidated Financial Statements.

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs," which requires that debt issue costs related to a recognized debt liability be presented on the balance sheet as a direct deduction from the amount of the debt liability, consistent with debt discounts and premiums. Amortization of such costs is still reported as interest expense. ASU 2015-03 is effective for fiscal years, and interim periods therein, beginning after December 15, 2015 (fiscal year 2017 for the Company), but early adoption is allowed. In August 2015, the FASB issued ASU 2015-15, "Presentation and Subsequent Measurement of Debt Issue Costs Associated with Line-of-Credit Arrangements." ASU 2015-15 supplements the requirements of ASU 2015-03 by allowing an entity to defer and present debt issue costs related to a line of credit arrangement as an asset and

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

subsequently amortize the deferred costs ratably over the term of the line of credit arrangement. The Company had unamortized debt issue costs of \$1,988 and \$2,756 at November 30, 2016 and November 30, 2015, respectively. The Company will adopt the new guidance in the first quarter of fiscal 2017. Upon adoption, long-term debt issuance costs will be reclassified from other long-term assets to long-term debt on the Consolidated Balance Sheets.

In July 2015, the FASB issued ASU 2015-11, "Simplifying the Measurement of Inventory." Topic 330, Inventory, currently requires an entity to measure inventory at the lower of cost or market, with market value represented by replacement cost, net realizable value or net realizable value less a normal profit margin. The amendments in ASU 2015-11 requires an entity to measure inventory at the lower of cost or net realizable value. ASU 2015-11 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2016 (fiscal year 2018 for the Company). The Company does not expect the adoption of this guidance to have a material impact on its Consolidated Financial Statements.

In February 2016, the FASB issued ASU 2016-02, "Leases," which amends leasing guidance by requiring companies to recognize a right-of-use asset and a lease liability for all operating and capital (finance) leases with lease terms of greater than twelve months. The lease liability will be equal to the present value of lease payments. The lease asset will be based on the lease liability, subject to adjustment, such as for initial direct costs. For income statement purposes, leases will continue to be classified as operating or capital (finance), with lease expense in both cases calculated substantially the same as under the prior leasing guidance. The updated guidance is effective for interim and annual periods beginning after December 15, 2018 (fiscal year 2020 for the Company), and early adoption is permitted. The Company has not yet determined the potential effects of the adoption of ASU 2016-02 on its Consolidated Financial Statements.

In March 2016, the FASB issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting," which simplifies the accounting for share-based payment transactions, including accounting for income taxes, forfeitures, and classification in the statement of cash flows. ASU 2016-09 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2016 (fiscal year 2018 for the Company). The Company has not yet determined the potential effects of the adoption of ASU 2016-09 on its Consolidated Financial Statements.

In June 2016, the FASB issued ASU 2016-13, "Measurement of Credit Losses on Financial Statements," which requires companies to measure credit losses utilizing a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU 2016-13 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2019 (fiscal year 2021 for the Company). The Company has not yet determined the potential effects of the adoption of ASU 2016-13 on its Consolidated Financial Statements.

In August 2016, the FASB issued ASU 2016-15, "Classification of Certain Cash Receipts and Cash Payments," which aims to eliminate diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash Flows, and other Topics. Subsequently, in November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230), Restricted Cash, a consensus of the FASB Emerging Issues Task Force," which clarifies the guidance on the cash flow classification and presentation of changes in restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash or restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flow. ASU 2016-15 and ASU 2016-18 are effective for annual reporting periods, and interim periods therein, beginning after December 15, 2017 (fiscal year 2019 for the Company) The Company does not expect the adoption of ASU 2016-15 or ASU 2016-18 to have a material impact on its Consolidated Financial Statements.

In October 2016, the FASB issued ASU 2016-16, "Income Taxes (Topic 740), Intra-Entity Transfers of Assets Other Than Inventory," which requires companies to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. ASU 2016-16 is effective for annual reporting periods, and

interim periods therein, beginning after December 15, 2017 (fiscal year 2019 for the Company). The Company has not yet determined the potential effects of the adoption of ASU 2016-16 on its Consolidated Financial Statements.

B. BUSINESS ACQUISITIONS, INVESTMENTS AND REDEEMABLE NONCONTROLLING INTERESTS

Business Acquisitions

FibeRio

On March 7, 2016, the Company acquired certain assets of FibeRio Technology Corporation (“FibeRio”), a technology company focused on the research, development and commercialization of performance fabric and filtration media, for a purchase

F-15

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

price of approximately \$11,918 consisting of \$8,031 in cash and \$3,887 in contingent earn-out liability. The assets of FibeRio were acquired primarily to expand the Company's capabilities in filtration media research and product development. Goodwill recorded in connection with the acquisition, which is deductible for tax purposes, represents the estimated future value of such opportunities. The assets acquired and the activities of FibeRio have been merged into the Company's Innovation Center, located near the Company's headquarters in Franklin, Tennessee, which supports the Company's global growth and innovation activities including research and development.

A contingent liability, ranging from \$1,250 up to \$17,000, for a potential earn-out payment to the former owners, based on sales of products generated by or through processes utilizing FibeRio's technology during the five years subsequent to the acquisition date, was initially recorded in Other long-term liabilities in the Consolidated Balance Sheet at its acquisition-date estimated fair value of \$3,887. At November 30, 2016 the estimated fair value of the potential earn-out payments was adjusted to \$3,732 based upon the most current earn-out projections as a reduction of Selling and administrative expenses.

An allocation of the purchase price to the assets acquired was made based on available information and incorporated management's best estimates. Assets acquired in the transaction were recorded at their estimated acquisition date fair values, consisting primarily of \$5,000 of in-process research and development, \$3,023 of machinery and equipment, and \$3,895 of goodwill.

TDC

On January 29, 2016, the Company acquired certain assets of TDC Filter Manufacturing, Inc. ("TDC"), a manufacturer and supplier of pleated filter bags, dust collection cartridges and gas turbine air filters, for a purchase price of approximately \$11,268. The assets of TDC were acquired primarily to expand the Company's product line and distribution channels within its target industrial air filtration markets. Goodwill recorded in connection with the acquisition, which is deductible for tax purposes, represents the estimated future value of such opportunities. The operations of TDC have been merged into the Company's CLARCOR Industrial Air business, headquartered in Overland Park, Kansas, which is part of the Company's Industrial/Environmental Filtration segment.

An allocation of the purchase price to the assets acquired was made based on available information and incorporated management's best estimates. Assets acquired in the transaction were recorded at their estimated acquisition-date fair values, consisting primarily of \$3,200 of customer relationships, \$2,400 of inventory, \$1,926 of machinery and equipment, and \$3,604 of goodwill.

Filter Resources

On December 17, 2014, the Company acquired 100% of the outstanding shares of Filter Resources, Inc., Filtration, Inc. and Fabrication Specialties, Inc. (collectively, "Filter Resources"). The purchase price for Filter Resources was approximately \$21,861, which the Company funded with borrowings under the Company's revolving credit facility. The Company assumed long-term debt of the business of \$1,250, which was immediately repaid in connection with the closing.

Filter Resources has operating facilities located in the Texas gulf coast and Louisiana region, with approximately 75 total employees. The business is engaged in the manufacture and distribution of filtration products for petrochemical, refinery, pipeline and other industrial applications. The operations of Filter Resources have been merged into the Company's PECOFacet group of companies, headquartered in Mineral Wells, Texas. Its results are included as a part of the Company's Industrial/Environmental Filtration segment from the date of acquisition.

A contingent liability for a potential earn-out payment to the former owners, based on adjusted earnings from certain capital projects, was initially recorded at its acquisition-date estimated fair value of \$1,154 and was being accreted to its face value of \$1,350 ratably through the conclusion of the earn-out period in 2016. The earn-out period expired in 2016 with a final earn-out payment of \$6 which was paid in September 2016. The reduction to the contingent liability was offset as a reduction of Selling and administrative expenses and Interest expense in the Consolidated Statements of Earnings. There is no remaining contingent liability included in Accrued liabilities in the Consolidated Balance Sheet at November 30, 2016.

An allocation of the purchase price to the assets acquired and liabilities assumed was made based on available information and incorporated management's best estimates. Assets acquired and liabilities assumed in the transaction were recorded at their estimated acquisition-date fair values, while transaction costs associated with the acquisition were expensed as incurred. The allocation of the purchase price to assets acquired and liabilities assumed was finalized as of November 30, 2015. The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition of Filter Resources:

F-16

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

Accounts receivable	\$3,180
Inventories	2,042
Other current assets	118
Property, plant and equipment	574
Goodwill	11,938
Intangible assets	10,880
Total assets acquired	28,732
Current liabilities	2,670
Noncurrent liabilities	4,201
Net assets acquired	\$21,861

Filter Resources was acquired primarily to expand the Company's access to petrochemical and refinery customers, particularly in the U.S. gulf coast region. Goodwill of \$11,938 recorded in connection with the acquisition, which is not deductible for tax purposes, represents the estimated value of such future opportunities. A summary of the intangible assets acquired is shown in the following table:

Identifiable intangible assets	Estimated Weighted average Amortization		
	Value	Useful life	Method
Customer relationships	\$ 10,800	15 years	Straight-line
Trademarks	80	1 year	Straight-line
	\$ 10,880		

Net sales and operating profit attributable to Filter Resources for 2016 were \$23,205 and \$3,466, respectively, and from December 17, 2014 (the date of the closing of the acquisition) through November 30, 2015 were \$19,666 and \$1,898, respectively.

CLARCOR Engine Mobile Solutions

On May 1, 2014, the Company acquired Stanadyne Corporation's diesel fuel filtration business (the "Stanadyne Business") through the acquisition of the stock of Stanadyne Holdings, Inc. The business, which now operates as "CLARCOR Engine Mobile Solutions," is a leading supplier of original equipment and replacement fuel filtration products, primarily for heavy-duty diesel engines used in off-road, agricultural and construction equipment applications.

CLARCOR Engine Mobile Solutions has approximately 200 employees and is headquartered in East Hartford, Connecticut, with manufacturing operations in Washington, North Carolina. Its results are included as part of the Company's Engine/Mobile Filtration segment from the date of acquisition. The purchase price paid was approximately \$327,719 in cash, which the Company funded with cash on hand, a \$315,000 term loan and \$10,000 borrowed under the Company's revolving credit facility (see Note J).

An allocation of the purchase price to the assets acquired and liabilities assumed was made based on available information and incorporated management's best estimates. Assets acquired and liabilities assumed in the transaction were recorded at their estimated acquisition date fair values, while transaction costs associated with the acquisition were expensed as incurred. During the quarter ended May 30, 2015, the Company completed the allocation of the purchase price to the assets acquired and liabilities assumed and, as a result, retrospectively adjusted the valuation of certain assets and liabilities with a corresponding adjustment to goodwill as of the acquisition date. The retrospective adjustments were approximately \$7,378 in aggregate and primarily related to updated deferred tax attributes based on the completion of the pre-acquisition tax return filings of the Stanadyne Business.

F-17

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

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

Accounts receivable	\$ 19,098
Inventories	7,257
Deferred income taxes	4,445
Property, plant and equipment	10,176
Goodwill	187,611
Intangible assets	146,430
Total assets acquired	375,017
Current liabilities	9,105
Other noncurrent liabilities	2,000
Deferred income taxes	36,193
Net assets acquired	\$ 327,719

The Stanadyne Business was acquired to significantly increase CLARCOR's presence in the design, manufacture and supply of original equipment diesel fuel filtration products and the related original equipment services aftermarket, while also providing enhanced scale and market presence to support growth for CLARCOR's other Engine/Mobile Filtration businesses — including the heavy-duty fuel, oil, hydraulic and air filtration products manufactured and marketed by Baldwin Filters — through original equipment customers and services channels. Goodwill of \$187,611 recorded in connection with the acquisition, which is not deductible for tax purposes, represents the estimated value of such future opportunities. A summary of the intangible assets acquired is shown in the following table:

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

Net sales and operating profit attributable to CLARCOR Engine Mobile Solutions for the years ended November 30, 2016, November 30, 2015 and November 30, 2014 were as follows:

	2016	2015	2014
Net sales	\$ 78,012	\$ 88,255	\$ 65,701
Operating profit	14,335	17,659	11,604

CLARCOR Industrial Air

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

of acquisition. The purchase price paid was approximately \$260,312 in cash (cash to GE of \$263,758, net of \$3,446 cash acquired), which the Company funded with cash on hand, a \$100,000 term loan and \$50,000 of cash borrowed under the Company's revolving credit facility (see Note J).

CLARCOR Industrial Air operates primarily in three markets — gas turbine filtration, industrial air filtration, and specialty membranes. In gas turbine filtration, CLARCOR Industrial Air designs high performance inlet filter houses and designs and

F-18

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

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

An allocation of the purchase price to the assets acquired and liabilities assumed was made based on available information and incorporated management's best estimates. Assets acquired and liabilities assumed in the transaction were recorded at their estimated acquisition date fair values, while transaction costs associated with the acquisition were expensed as incurred. The allocation of the purchase price to the assets acquired and liabilities assumed was finalized as of February 28, 2015.

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

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

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

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

Net sales and operating profit attributable to CLARCOR Industrial Air for the years ended November 30, 2016, November 30, 2015 and November 30, 2014 were as follows:

	2016	2015	2014
Net sales	\$194,302	\$208,036	\$226,709
Operating profit	27,213	18,995	13,984

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

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

The following unaudited pro forma information for the twelve month period ended November 30, 2014 presents the combined results of operations of CLARCOR, CLARCOR Industrial Air and CLARCOR Engine Mobile Solutions as if both acquisitions had been completed on the first day of fiscal 2013. The pro forma information is presented for informational purposes only and does not purport to be indicative of the results of operations or future results that would have been achieved if the acquisitions and related borrowings had taken place at the beginning of fiscal 2013. The pro forma information combines the historical results of CLARCOR with the historical results of CLARCOR Industrial Air and CLARCOR Engine Mobile Solutions for the period presented.

Prior to acquisition by CLARCOR, the business now operated as CLARCOR Industrial Air was a wholly-owned business of GE's Power and Water division, and the business now operated as CLARCOR Engine Mobile Solutions was a wholly-owned business of Stanadyne Corporation. As such, neither business was a stand-alone entity for financial reporting purposes. Accordingly, the historical operating results of CLARCOR Industrial Air and CLARCOR Engine Mobile Solutions may not be indicative of the results that might have been achieved, historically or in the future, if CLARCOR Industrial Air and CLARCOR Engine Mobile Solutions had been stand-alone entities.

The unaudited pro forma results for the twelve months ended November 30, 2014 include adjustments to amortization charges for acquired intangible assets, depreciation expense, interest expense and transaction costs incurred, as well as adjustments to cost of sales related to the step-up of inventory to estimated acquisition-date fair values, other income and related tax effects. The unaudited pro forma results do not give effect to any synergies, operating efficiencies or cost savings that may result from these acquisitions. These pro forma amounts are based on an allocation of the purchase price to the estimated fair values of the assets acquired and liabilities assumed. The pro forma amounts include the Company's determination of purchase accounting adjustments based on available information and certain assumptions that the Company believes are reasonable.

Twelve Months Ended November 30, 2014

	CLARCOR Inc. As reported	CLARCOR Engine Mobile Solutions	CLARCOR Industrial Air	CLARCOR Inc. Pro forma
Net sales	\$1,512,854	\$ 46,837	\$ 15,422	\$1,575,113
Operating profit	210,428	17,677	(a)8,814	(b)236,919
Net earnings attributable to CLARCOR	144,084	10,485	6,551	161,120
Diluted earnings per share	\$2.83	\$ 0.21	\$ 0.13	\$3.17

(a) Includes adjustments to remove transaction costs of \$3,035 and cost of sales related to the step-up of inventory to its estimated acquisition-date fair value of \$1,368, which have been pushed back to the twelve months ended November 30, 2013 for pro forma presentation. Also includes adjustments to intangible asset amortization, depreciation expense and interest expense.

(b) Includes adjustments to remove transaction costs of \$2,089 and cost of sales related to the step-up of inventory to its estimated acquisition-date fair value of \$4,342, which have been pushed back to the twelve months ended November 30, 2013 for pro forma presentation. Also includes adjustments to intangible asset amortization, depreciation expense and interest expense.

Bekaert Business

On December 3, 2013, the Company acquired from NV Bekaert SA 100% of the outstanding shares of Bekaert Advanced Filtration SA (Belgium), 100% of the outstanding shares of PT Bekaert Advanced Filtration (Indonesia)

and certain other assets in India, China and the U.S. (collectively, the “Bekaert Business”). The purchase price was approximately \$7,297 in cash (net of cash acquired), which the Company paid with cash on hand.

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

F-20

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

An allocation of the purchase price to the assets acquired and liabilities assumed was made based on available information and incorporated management's best estimates. Assets acquired and liabilities assumed in the transaction were recorded at their estimated acquisition date fair values, while transaction costs associated with the acquisition were expensed as incurred. The allocation of the purchase price to the assets acquired and liabilities assumed was finalized as of February 28, 2015. Acquired finite-lived intangible assets of \$2,057 were recorded in connection with the purchase. The \$2,815 excess of the fair value of the identifiable assets acquired and liabilities assumed over the purchase price was recorded as a bargain purchase gain and is included in "Other, net" income in the Consolidated Statements of Earnings for the year ended November 30, 2014. Prior to recording this gain, the Company reassessed its identification of assets acquired and liabilities assumed, including the use of independent valuation experts to assist the Company in appraising the personal property, real property and intangible assets acquired. The Company believes there were several factors that contributed to this transaction resulting in a bargain purchase gain, including the business falling outside of NV Bekaert SA's core activities and historical losses incurred by the business. Net sales and operating loss attributable to the Bekaert Business for the years ended November 30, 2016, November 30, 2015 and November 30, 2014 were as follows:

	2016	2015	2014
Net sales	\$12,522	\$11,824	\$13,926
Operating profit (loss)	714	(387)	(21)
Investments			

The Company owns 30.0% of BioProcess H2O LLC ("BPH"), a Rhode Island-based manufacturer of industrial waste water and water reuse filtration systems, with an original cost of \$4,000. The Company applies the equity method of accounting for this investment, under which the carrying value is adjusted each period to recognize the Company's share of the earnings or losses of BPH. Such adjustments are determined based on the Company's percentage of ownership, as well as the receipt of any dividends, and are included in Other, net income in the Consolidated Statements of Earnings. During the years ended November 30, 2016, 2015, and 2014 the Company did not make any additional investments in BPH or receive any dividends from BPH. Based on operating losses at BPH and other factors, including negative developments with respect to BioProcess Algae LLC as described below, during the three month period ended August 29, 2015 the Company determined that an other-than-temporary decrease in the value of its investment in BPH had occurred, and recorded an impairment charge of \$2,720, included in Other, net in the Consolidated Statement of Earnings for the year ended November 30, 2015, reflecting the expected lack of recoverability of this investment. The investment has a carrying amount of \$0 at both November 30, 2016 and 2015.

The Company also owns 2.9% of BioProcess Algae LLC ("Algae"), a Delaware-based company developing technology to grow and harvest algae which can be used to consume carbon dioxide and also be used as a renewable energy source. The Company applies the cost method of accounting for this investment, under which the Company recognizes dividends as income when received and reviews the cost basis of the investment for impairment if factors indicate that a decrease in value of the investment may have occurred. During the years ended November 30, 2016, 2015 and 2014, the Company invested an additional \$0, \$525 and \$1,073, respectively, in Algae. The Company did not receive any dividends from Algae during the years ended November 30, 2016, 2015, and 2014. Based on business developments at Algae during the three months ended August 29, 2015, including a significant adverse change in the anticipated effectiveness and commercial scalability of Algae's technology platform, the Company evaluated the carrying value of the investment for impairment. The Company determined that an other-than-temporary impairment had occurred, and recorded an impairment charge of \$3,802, included in Other, net in the Consolidated Statement of Earnings, for the year ended November 30, 2015, reflecting the expected lack of recoverability of this investment. The Company also wrote-off \$207 of amounts due from Algae during 2015. The investment has a carrying amount of \$0 at both November 30, 2016 and November 30, 2015.

Redeemable Noncontrolling Interests

In March 2007, the Company acquired an 80% ownership share in Sinfa SA ("SINFA"), a manufacturer of automotive and heavy-duty engine filters based in Casablanca, Morocco, which is included in the Engine/Mobile Filtration segment. As part of the purchase agreement, the Company and the noncontrolling owners each had the option to require the purchase of the remaining 20% ownership share by the Company after December 31, 2012. During the three month period ended May 30, 2015, the Company exercised its option and acquired the remaining 20% ownership share for approximately \$1,239, following which SINFA became a wholly-owned subsidiary. The difference between the amount paid and the carrying value of the noncontrolling interest was recorded to Retained earnings in the Consolidated Balance Sheet.

F-21

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

C. DISPOSITION OF J.L. CLARK

On June 27, 2015, the Company sold 100% of the outstanding shares of J.L. Clark, Inc. ("J.L. Clark") to CC Industries, Inc. ("CCI"), an affiliate of Chicago-based Henry Crown and Company, for \$45,232 in cash (cash from CCI of \$47,848 at closing, net of \$745 cash divested and a post-closing adjustment of \$1,871 related to the amount of working capital as of the closing date, as provided in the purchase agreement). Headquartered in Rockford, Illinois and with manufacturing facilities in Rockford, Illinois and Lancaster, Pennsylvania, J.L. Clark designs and manufactures specialty metal and plastic packaging for a variety of consumer products customers. Prior to its divestiture, J.L. Clark was the sole operating company within the Company's Packaging segment. The sale of J.L. Clark is consistent with the Company's strategic focus on being a global provider of filtration products, systems and services.

The Company and CCI elected to treat the transaction as a sale of the underlying business assets for income tax purposes as provided under the Internal Revenue Code. As such, the divestiture resulted in the current realization by the Company of the deferred tax assets and liabilities related to the J.L. Clark business operations. The sale resulted in a gain of \$12,131 (after netting transaction-related costs of \$3,187, which primarily included legal, investment advisory and other professional services costs related to the marketing and execution of the transaction) which is included in Other, net in the Consolidated Statements of Earnings for the year ended November 30, 2015.

Net sales and operating profit, which approximates earnings before income taxes, for J.L. Clark for the years ended November 30, 2016, November 30, 2015 and November 30, 2014 (which, in the case of the year ended November 30, 2015, includes the period from December 1, 2014 to June 27, 2015, the date of closing of the disposition) were as follows:

	2016	2015	2014
Net sales	\$	-\$40,909	\$75,949
Operating profit—		2,143	4,712

D. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment included the following assets at November 30, 2016 and 2015:

	2016	2015
Land	\$9,897	\$10,211
Buildings and building fixtures	166,793	163,731
Machinery and equipment	398,863	379,955
Construction in process	25,251	33,457
	600,804	587,354
Accumulated depreciation	(306,202)	(286,335)
	\$294,602	\$301,019

At November 30, 2016 and 2015, additions to property, plant and equipment totaling \$2,646 and \$3,456, respectively, were included in Accounts payable and \$2,081 and \$2,854, respectively, were included in Accrued liabilities. During the years ended November 30, 2016 and 2015, additions to property, plant and equipment of \$103 and \$258, respectively, were acquired under capitalized leases.

F-22

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

E. GOODWILL AND ACQUIRED INTANGIBLE ASSETS

The following table reconciles the activity for goodwill by segment for fiscal years 2016 and 2015. All goodwill is stated on a gross basis, as the Company has not recorded any impairment charges against goodwill.

	Engine/Mobile Filtration	Industrial/ Environmental Filtration	Corporate	Total
November 30, 2014	\$ 216,114	\$ 291,058	\$ —	\$ 507,172
Acquisitions	(7,377)	11,938	—	4,561
Disposals and write-offs	—	(491)	—	(491)
Currency translation adjustments	(1,200)	(3,777)	—	(4,977)
November 30, 2015	\$ 207,537	\$ 298,728	\$ —	\$ 506,265
Acquisitions and purchase accounting adjustments	—	3,604	3,895	7,499
Currency translation adjustments	(990)	(9,866)	—	(10,856)
November 30, 2016	\$ 206,547	\$ 292,466	\$ 3,895	\$ 502,908

The Company completed an annual impairment review at each fiscal year-end and concluded there was no impairment of goodwill. In performing the impairment reviews, the Company estimated the fair values of the 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 considering relevant market multiples.

In the third quarter of fiscal 2015, the Company exited certain international operations related to its HVAC air filtration business, which operations had not been integrated into the Company's broader industrial air filtration business. Pursuant to this exit, the Company wrote-off \$491 of related goodwill.

The following table summarizes acquired intangible assets by segment. Other acquired intangible assets include parts manufacturer regulatory approvals, developed technology, patents and noncompete agreements.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

	Engine/Mobile Filtration	Industrial/ Environmental Filtration	Corporate	Total
November 30, 2016				
Indefinite Lived Intangibles:				
Trademarks - indefinite lived	\$ 783	\$ 73,149	\$ —	\$73,932
Other acquired intangibles, gross	—	—	5,000	5,000
Total indefinite lived intangible assets	\$ 783	\$ 73,149	\$ 5,000	\$78,932
Finite Lived Intangibles:				
Trademarks - finite lived, gross	\$ 274	\$ 568	\$ —	\$842
Accumulated amortization	(145	) (449	) —	(594)
Trademarks - finite lived, net	\$ 129	\$ 119	\$ —	\$248
Customer relationships, gross	\$ 139,381	\$ 125,815	\$ —	\$265,196
Accumulated amortization	(29,244	) (48,500	) —	(77,744)
Customer relationships, net	\$ 110,137	\$ 77,315	\$ —	\$187,452
Other acquired intangibles, gross	\$ 11,243	\$ 59,832	\$ —	\$71,075
Accumulated amortization	(3,085	) (31,721	) —	(34,806)
Other acquired intangibles, net	\$ 8,158	\$ 28,111	\$ —	\$36,269
Total finite lived intangible assets, net	\$ 118,424	\$ 105,545	\$ —	\$223,969
Acquired intangible assets, less accumulated amortization	\$ 119,207	\$ 178,694	\$ 5,000	\$302,901
November 30, 2015				
Indefinite Lived Intangibles:				
Trademarks - indefinite lived	\$ 783	\$ 74,779	\$ —	—\$75,562
Other acquired intangibles, gross	—	—	—	—
Total indefinite lived intangible assets	\$ 783	\$ 74,779	\$ —	—\$75,562
Finite Lived Intangibles:				
Trademarks - finite lived, gross	\$ 274	\$ 568	\$ —	—\$842
Accumulated amortization	(132	) (435	) —	(567)
Trademarks - finite lived, net	\$ 142	\$ 133	\$ —	—\$275
Customer relationships, gross	\$ 139,476	\$ 130,032	\$ —	—\$269,508
Accumulated amortization	(18,680	) (38,975	) —	(57,655)
Customer relationships, net	\$ 120,796	\$ 91,057	\$ —	—\$211,853
Other acquired intangibles, gross	\$ 11,243	\$ 60,565	\$ —	—\$71,808
Accumulated amortization	(1,985	) (28,358	) —	(30,343)
Other acquired intangibles, net	\$ 9,258	\$ 32,207	\$ —	—\$41,465

Edgar Filing: CLARCOR INC. - Form 10-K

Total finite lived intangible assets, net	\$ 130,196	\$ 123,397	\$	—\$253,593
Acquired intangible assets, less accumulated amortization	\$ 130,979	\$ 198,176	\$	—\$329,155

F-24

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

The Company performed annual impairment tests on its indefinite-lived intangible assets at each fiscal year-end 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 intangible assets 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.

The following tables summarize actual amortization expense for the past three fiscal years and estimated amortization expense for the next five fiscal years.

Amortization expense for the fiscal years ended:

2016	\$24,580
2015	25,528
2014	20,362

Estimated amortization expense for the next five fiscal years:

2017	\$24,327
2018	23,747
2019	23,528
2020	23,249
2021	23,092

F. FAIR VALUE MEASUREMENTS

Fair Value Measurements

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

Level 1 – Quoted active market prices for identical assets;

Level 2 – Significant other observable inputs, such as quoted prices for similar (but not identical) instruments in active markets, quoted prices for identical or similar instruments in markets which are not active and model determined valuations in which all significant inputs or significant value-drivers are observable in active markets; and

Level 3 – Significant unobservable inputs, such as model determined valuations in which one or more significant inputs or significant value-drivers are unobservable.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

Assets or liabilities that have recurring fair value measurements are shown below:

	Fair Value Measurements at Reporting Date			
	Total	Level 1	Level 2	Level 3
November 30, 2016				
Restricted trust, included in Other noncurrent assets				
Mutual fund investments - equities	\$ 286	\$ 286	\$ —	\$ —
Mutual fund investments - bonds	288	288	—	—
Cash and equivalents	18	18	—	—
Total restricted trust	\$ 592	\$ 592	\$ —	\$ —
FibeRio contingent earn-out, included in Accrued liabilities	\$ 3,732	\$ —	\$ —	\$ 3,732
Foreign exchange contracts, included in Prepaid expenses and other current assets	\$ 461	\$ —	\$ 461	\$ —
Foreign exchange contracts, included in Accrued liabilities	\$ 284	\$ —	\$ 284	\$ —
November 30, 2015				
Restricted trust, included in Other noncurrent assets				
Mutual fund investments - equities	\$ 352	\$ 352	\$ —	\$ —
Mutual fund investments - bonds	363	363	—	—
Cash and equivalents	14	14	—	—
Total restricted trust	\$ 729	\$ 729	\$ —	\$ —
Filter Resources contingent earn-out, included in Accrued liabilities	\$ 1,285	\$ —	\$ —	\$ 1,285
Foreign exchange contracts, included in Prepaid expenses and other current assets	\$ 418	\$ —	\$ 418	\$ —
Foreign exchange contracts, included in Accrued liabilities	\$ 40	\$ —	\$ 40	\$ —

There were no changes in the fair value determination methods or significant assumptions used in those methods during the year ended November 30, 2016. There were no transfers between Level 1 and Level 2 and there were no transfers into or out of Level 3 during the years ended November 30, 2016 and 2015. The Company's policy is to recognize transfers on the actual date of transfer. The restricted trust, which is used to fund certain payments for the Company's U.S. combined nonqualified pension plans, consists of actively traded equity and bond funds.

The Company is liable for a contingent earn-out established in connection with the acquisition of FibeRio on March 7, 2016. This earn-out, which is payable to the former owners of FibeRio, was originally recorded at its estimated fair-value of \$3,887, in Other long-term liabilities in the Consolidated Balance Sheet. The contingent liability for the earn-out will continue to be accounted for within Selling and administrative expenses and measured at fair value through the end of the earn-out period which ends five years from the acquisition date. The fair value measurement of the earn-out payment is based on an option pricing approach, which contains significant inputs not observed in the market and thus uses a Level 3 measurement.

The Company was liable for a contingent earn-out established in connection with the acquisition of Filter Resources on December 17, 2014. This earn-out, which was payable to the former owners of Filter Resources, was recorded at its estimated fair value of \$1,285 at November 30, 2015 in Accrued liabilities in the Consolidated Balance Sheet. The contingent liability for the earn-out was accounted for and measured at fair value until the contingency was settled during the Company's fiscal year 2016

F-26

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

for \$6. The fair value measurement of the contingent earn-out payment was based on estimated adjusted earnings from certain capital projects, which represent significant inputs not observed in the market and thus represents a Level 3 measurement.

Fair Values of Financial Instruments

The fair values of the Company's financial instruments, which are cash and cash equivalents, restricted cash, accounts receivable, the restricted trust, derivative instruments and accounts payable and accrued liabilities, approximated the carrying values of those financial instruments at both November 30, 2016 and 2015. An expected present value technique is used to estimate the fair value of long-term debt, using a model that discounts future principal and interest payments at interest rates available to the Company at the end of the period for similar debt of the same maturity. A fair value estimate of \$281,827 and \$403,821 for long-term debt at November 30, 2016 and 2015, respectively, is based on a Level 2 measurement using the current interest rates available to the Company for debt with similar remaining maturities. The carrying value for the long-term debt at November 30, 2016 and 2015 is \$285,453 and \$405,156 respectively.

See Note G for information related to the fair values of hedging instruments.

G. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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

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

All derivatives are recognized on the balance sheet at fair value and classified based on the instrument's maturity date. The total notional amount of derivatives outstanding at November 30, 2016 and November 30, 2015 was \$30,228 and \$48,797, respectively, which consists of undesignated derivative instruments to manage translational foreign exchange risk related to inter-company advances, derivatives designated as cash flow hedges to hedge against the effect of exchange rate fluctuations on cash flows denominated in foreign currencies and derivatives designated as fair value hedges to manage the risk of changes in foreign currency exchange rates on certain firm sales commitments expected to be settled at future dates.

F-27

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

The following table presents the fair values of derivative instruments included within the Consolidated Balance Sheets at November 30, 2016 and 2015:

	2016	2015
Prepaid expenses and other current assets		
Designated as hedging instruments:		
Foreign exchange contracts	\$277	\$263
Unrecognized firm sales commitments	—	—
Total designated	\$277	\$263
Not designated as hedging instruments:		
Foreign exchange contracts	184	155
Total not designated	\$184	\$155
Total derivatives	\$461	\$418
Accrued liabilities		
Designated as hedging instruments:		
Foreign exchange contracts	\$—	\$—
Unrecognized firm sales commitments	52	384
Total designated	\$52	\$384
Not designated as hedging instruments:		
Foreign exchange contracts	284	40
Total not designated	\$284	\$40
Total derivatives	\$336	\$424

The following table presents the amounts affecting the Consolidated Statements of Earnings for the years ended November 30, 2016 and 2015:

	2016	2015
Fair value hedges		
Foreign exchange contracts - Selling and administrative expenses	\$(865)	\$816
Unrecognized firm sales commitments - Selling and administrative expenses	979	(971)
Total designated	\$114	\$(155)
Not designated as hedges		
Foreign exchange contracts - Selling and administrative expenses	\$(658)	\$24
Foreign exchange contracts - Other, net income (expense)	5,683	(854)
Total not designated	\$5,025	\$(830)

Fair Value Hedges

The Company is exposed to changes in foreign currency exchange rates on certain unrecognized firm sales commitments expected to be settled at future dates. The Company may use foreign currency forward contracts to manage certain such risks. The Company designates each such contract as a fair value hedge from the date the firm sales commitment and derivative contract are entered into through the date the related sale occurs, at which point the foreign currency forward contract is de-designated as a fair value hedging instrument. All realized and unrealized gains or losses on such foreign currency forward contracts are recognized in income as incurred. Changes in the fair value of the related unrecognized firm sales commitments that arise due to fluctuations in foreign currency exchange

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

F-28

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

The total notional amount of foreign currency contracts designated as fair value hedges outstanding at November 30, 2016 was \$1,569. The total notional amount of foreign currency contracts designated as fair value hedges outstanding at November 30, 2015 was \$5,326. The cash flows associated with the periodic settlement of the Company's fair value hedges are reflected as a component of Cash flows from operating activities in the Consolidated Statements of Cash Flows.

Cash Flow Hedges

The Company is exposed to changes in foreign currency exchange rates on certain foreign currency denominated sales. The Company enters into foreign exchange forward and option contracts to hedge against the effect of exchange rate fluctuations on cash flows denominated in foreign currencies. These transactions are designated as cash flow hedges. Under hedge accounting, the derivative carrying amount is measured at fair value each period and any resulting gain or loss is recorded in a separate component of shareholders' equity. Differences between the derivative and the hedged item may cause changes in their fair values to not offset completely, which is referred to as ineffectiveness. When the hedged transaction occurs, these amounts are released from shareholders' equity, in order that the transaction will be reflected in earnings at the rate locked in by the derivative. The effect of the hedge is reported in the same financial statement line item as the earnings effects of the hedged transaction. The cash flows associated with the periodic settlement of the Company's cash flow hedges are reflected as a component of Cash flows from operating activities in the Consolidated Statements of Cash Flows.

The total notional amount of foreign currency contracts designated as cash flow hedges outstanding at November 30, 2016 and November 30, 2015 was \$10,248 and \$0, respectively. During 2016, the Company re-classified \$108 from accumulated other comprehensive income to sales within the Consolidated Statement of Earnings. The Company had no cash flow hedges during any period in 2015.

Undesignated Derivative Instruments

The Company is exposed to changes in foreign currency exchange rates on certain inter-company advances. The Company may use foreign currency forward contracts to manage certain such risks. These forward contracts are not designated as hedging instruments under the accounting standards for derivatives and hedging. These undesignated instruments are recorded at fair value as an asset or liability on the Consolidated Balance Sheets and all realized and unrealized gains or losses on such foreign currency forward contracts are recognized in Other, net income on the Consolidated Statements of Earnings as incurred. The Company intends to settle the underlying inter-company advances in cash, therefore gains and losses on translation of the inter-company advances are also recognized in Other, net on the Consolidated Statements of Earnings as incurred. The cash flows associated with the periodic settlement of the Company's undesignated derivative instruments are reflected as a component of Cash flows from operating activities in the Consolidated Statements of Cash Flows.

The total notional amount of such foreign currency contracts not designated as hedging instruments outstanding as of November 30, 2016 was \$11,932. The total notional amount of such foreign currency contracts not designated as hedging instruments outstanding as of November 30, 2015 was \$36,529. The Company recorded realized and unrealized gain of \$5,962 on such forward currency contracts and losses of \$5,217 on translation of the underlying inter-company advances during the year ended November 30, 2016 and recorded realized and unrealized losses of \$854 on such forward currency contracts and losses of \$179 on translation of the underlying inter-company advances during the year ended November 30, 2015.

Additionally, the total notional amount of foreign currency contracts de-designated as fair value hedges outstanding at November 30, 2016 was \$6,479. The total notional amount of foreign currency contracts de-designated as fair value hedges outstanding as of November 30, 2015 was \$7,212.

Counterparty credit risk

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

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

H. ACCRUED LIABILITIES

Accrued liabilities at November 30, 2016 and 2015 were as follows:

	2016	2015
Accrued salaries, wages and commissions	\$21,707	\$16,498
Pension and postretirement healthcare benefits liabilities	197	204
Compensated absences	8,566	8,672
Accrued insurance liabilities	8,065	9,928
Warranties	6,159	7,870
Customer deposits	15,631	25,036
Other accrued liabilities	34,569	38,202
	\$94,894	\$106,410

No amounts within the Other accrued liabilities amount shown above exceed 5% of total current liabilities.

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

Warranties 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, or when a claim arises, and adjusted as needed, based primarily upon experience. Changes in the Company's warranty accrual for the years ended November 30, 2016, 2015 and 2014 are as follows:

	2016	2015	2014
Warranty accrual at beginning of period	\$7,870	\$9,405	\$1,599
Accruals for warranties issued during the period	2,234	2,778	2,187
Adjustments related to business acquisitions	—	100	10,946
Adjustments related to pre-existing warranties	(2,456)	(2,116)	818
Settlements made during the period	(1,153)	(1,717)	(5,872)
Other adjustments, including currency translation	(336)	(580)	(273)
Warranty accrual at end of period	\$6,159	\$7,870	\$9,405

I. RESTRUCTURING

The Company recorded net restructuring charges across each segment of \$4,356 during the twelve months ended November 30, 2016 of which \$4,315 is included in Cost of sales and \$41 is included in Selling and administrative expenses in the Consolidated Statements of Earnings. In fiscal 2015, the Company recorded restructuring charges across each segment of \$5,629, \$1,047 of which is included in Cost of sales and \$4,582 of which is included in Selling and administrative expenses in the Consolidated Statements of Earnings. The restructuring charges in 2015 consisted primarily of severance and other employee termination benefits. The restructuring expenses in 2016 consisted primarily of severance and other employee terminations benefits, facility closures costs including lease termination costs related to the exit of operating facilities, related to efforts to more closely align operating expenses with the

Company's long-term strategic initiatives and macroeconomic business conditions, and other upfront costs in connection with cost reduction initiatives. Substantially all of these costs are expected to be settled in cash. Approximately \$2,453 of the restructuring charges are included in Accrued liabilities in the Consolidated Balance Sheet at November 30, 2016, all of which are expected to be paid out in 2017. Approximately \$4,042 of the restructuring charges are included in Accrued liabilities in the Consolidated Balance Sheet at November 30, 2015, substantially all of which were paid out in 2016.

F-30

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

J. LONG-TERM DEBT

Long-term debt at November 30, 2016 and 2015 consisted of the following:

	2016	2015
Credit Facility:		
Revolving Credit Facility	\$85,000	\$197,000
Term Loans	192,500	200,000
Industrial Revenue Bonds, at weighted average interest rates of 0.64% and 0.30%, respectively, at November 30, 2016 and 2015	7,410	7,410
Other long-term debt	543	746
Total long-term debt	\$285,453	\$405,156
Current portion of long-term debt	\$17,700	\$7,788
Long-term debt, less current portion	\$267,753	\$397,368

On April 5, 2012, the Company entered into a five-year multicurrency revolving credit agreement with a group of financial institutions. The Company subsequently entered into credit agreement amendments on November 22, 2013 and on May 1, 2014 to add a term loan facility to the revolving credit agreement, and later to increase the size of the term loan facility. On November 2, 2015 the Company entered into an amended and restated credit facility, under which the Company may borrow up to \$700,000 under a senior credit facility comprised of a \$500,000 multicurrency revolving credit facility (the "Revolving Credit Facility") and \$200,000 of term loans (the "Term Loans" and together with the Revolving Credit Facility the "Credit Facility"). The Revolving Credit Facility includes a \$50,000 swing-line sub-facility, as well as an accordion feature that will allow the Company to increase the Revolving Credit Facility by a total of up to \$100,000, subject to securing additional commitments from existing lenders or new lending institutions. At the Company's election, borrowings under the Revolving Credit Facility and Term Loans bear interest at either (1) a defined base rate, which varies with the highest of the defined prime rate, a specified margin over the federal funds rate, or a specified margin over the London Interbank Offered Rate ("LIBOR"), provided that the defined base rate shall not be less than zero percent, or (2) LIBOR plus an applicable margin determined with reference to the Company's consolidated leverage ratio. Swing line borrowings bear interest at the defined base rate plus an applicable margin. Commitment fees and letter of credit fees are also payable under the Credit Facility. Borrowings under the Credit Facility are unsecured, but are guaranteed by substantially all of the Company's material domestic subsidiaries. The amended and restated credit agreement also contains certain covenants customary to such agreements, including covenants that place limits on the Company's ability to incur additional debt, require the Company to maintain minimum levels of interest coverage, and restrict certain changes in ownership, as well as customary events of default. The principal balance outstanding under the Revolving Credit Facility is payable in full at maturity on November 1, 2020. Principal is payable in respect of the Term Loans in quarterly installments based on specified percentages of the initial principal amount of the Term Loans, and the entire outstanding principal balance of the Term Loans is payable in full at maturity on November 1, 2020.

At November 30, 2016, there was \$192,500 of outstanding Term Loans with a weighted average interest rate of approximately 1.73%, there was \$85,000 outstanding on the Revolving Credit Facility, and the Company had a remaining borrowing capacity of \$407,590. The Credit Facility includes a \$50,000 letter of credit sub-facility, against which \$7,410 and \$7,521 in letters of credit had been issued at November 30, 2016 and 2015, respectively.

As of November 30, 2016 and 2015, industrial revenue bonds issued by the Company include \$7,410 issued in cooperation with the Campbellsville-Taylor County Industrial Development Authority (Kentucky) due May 1, 2031. The interest rates on these bonds are reset weekly.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

Principal maturities of long-term debt as of November 30, 2016 and for the next five fiscal years ending November 30 are as follows:

2017	\$17,700
2018	20,122
2019	20,079
2020	220,061
2021	9
Thereafter	7,482
	\$285,453

K. LEASES

The Company has various lease agreements for offices, warehouses, manufacturing plants and equipment that expire on various dates through December 2034. Some of these lease agreements contain renewal options and provide for payment of property taxes, utilities and certain other expenses. The following table summarizes rent expense for the past three fiscal years and commitments for minimum rentals under noncancelable leases having initial or remaining terms in excess of one year at November 30, 2016.

Rent expense for the years ended:

2016	\$20,436
2015	20,482
2014	20,251

Future minimum rentals under noncancelable leases:

2017	\$12,944
2018	8,828
2019	7,192
2020	4,395
2021	3,125
Thereafter	6,112

L. PENSION AND OTHER POSTRETIREMENT PLANS

The Company has defined benefit pension plans and a postretirement healthcare benefit plan covering certain current and retired employees. The Company has frozen participation in its defined benefit plans and postretirement healthcare benefit plan. For one of the plans, certain current plan participants continue to accrue benefits in the plan, while other current participants do not accrue future benefits under the plan but participate in the Company's defined contribution plan which offers an increased Company match.

The Company's policy is to contribute to its qualified U.S. and non-U.S. pension plans at least the minimum amount required by applicable laws and regulations, to contribute to the U.S. combined nonqualified plans when required for benefit payments, and to contribute to the postretirement healthcare benefit plan an amount equal to the benefit payments. The Company, from time to time, makes voluntary contributions in excess of the minimum amount required as economic conditions warrant. During 2016, 2015 and 2014, the Company made no voluntary

contributions to its qualified U.S. pension plans. The Company expects to contribute \$0 to its U.S. qualified plans, \$157 to its U.S. combined nonqualified plans, \$318 to its non-U.S. plan and \$39 to its postretirement healthcare benefit plan to pay benefits during 2017.

The projected benefit obligation ("PBO"), accumulated benefit obligation ("ABO") and fair value of plan assets for qualified pension plans with PBOs and ABOs in excess of plan assets were \$196,898, \$193,373 and \$162,231, respectively, at November 30, 2016.

F-32

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

The U.S. combined nonqualified plans are unfunded; therefore, there are no plan assets. However, the Company had funded \$592 and \$729 at November 30, 2016 and 2015, respectively, into a restricted trust for its U.S. combined nonqualified plans, see Note E. This trust is included in Other noncurrent assets in the Consolidated Balance Sheets. The PBO and ABO for the U.S. combined nonqualified plans were \$2,000 and \$1,884, at November 30, 2016, respectively.

A discount rate is used to calculate the present value of the PBO. 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 estimate, the Company looks at rates of return on high-quality fixed-income investments currently available and expected to be available during the period to maturity of the benefits. This process includes looking at the 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 difference in the discount rates between the qualified, the nonqualified and the other postretirement plans is due to different expectations as to the period of time in which plan members will participate in the various plans. In general, higher discount rates correspond to longer expected participation periods. 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. qualified plans.

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 Company considers the impact of profit-sharing payments, merit increases and promotions in setting the salary increase assumption as well as possible future inflation increases and its impact on salaries paid to plan participants at the locations where the Company conducts operations.

As is discussed further in Note C, on June 27, 2015 the Company disposed of J.L. Clark. This disposal resulted in a significant reduction in expected future service of J.L. Clark employees that participated in the Company's qualified U.S. pension plan. The resulting curtailment and re-measurement of the assets and liabilities of the Company's qualified U.S. pension plan as of the date of disposal resulted in a reduction of the projected benefit obligation and pension liability of approximately \$3,988, recorded through Accumulated other comprehensive loss.

The following tables show reconciliations of the changes in benefit obligations and plan assets for our pension plans and other postretirement benefits plan as of November 30, 2016 and 2015. The accrued pension benefit obligation includes an unfunded benefit obligation of \$2,000 and \$2,041 as of November 30, 2016 and 2015, respectively, related to the Company's U.S. combined nonqualified plans.

	Pension Benefits		Other Postretirement Benefits	
	2016	2015	2016	2015
Change in benefit obligation				
Benefit obligation at beginning of year	\$195,516	\$204,982	\$ 341	\$ 397
Currency translation	(1,711)	(450)	—	—
Service cost	1,481	1,905	—	—
Interest cost	6,197	7,676	8	12
Plan participants' contributions	15	18	—	—
Curtailment	—	(2,193)	—	—
Actuarial (gains) losses	5,915	(8,209)	(64)	(78)

Edgar Filing: CLARCOR INC. - Form 10-K

Benefits paid	(8,514)	(8,213)	(38)	(180)
Retiree contributions	—	—	47	190
Benefit obligation at end of year	\$ 198,899	\$ 195,516	\$ 294	\$ 341

F-33

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

	Pension Benefits		Other Postretirement Benefits	
	2016	2015	2016	2015
Change in plan assets				
Fair value of plan assets at beginning of year	\$ 164,488	\$ 172,280	\$ —	\$ —
Currency translation	(1,656)	(428)	—	—
Actual return on plan assets	7,621	343	—	—
Employer contributions	277	488	38	180
Plan participants' contributions	15	18	—	—
Benefits paid	(8,514)	(8,213)	(38)	(180)
Fair value of plan assets at end of year	\$ 162,231	\$ 164,488	\$ —	\$ —
Funded status	\$(36,668)	\$(31,028)	\$(294)	\$(341)
Accumulated benefit obligation at end of year	\$ 195,257	\$ 191,849	n/a	n/a
Assumptions:				
Discount rate - benefit obligations - qualified plans	3.80%	4.00%	3.25%	3.25%
Discount rate - service cost - qualified plans	3.47%	4.00%	n/a	3.25%
Discount rate - interest cost - qualified plans	3.23%	4.00%	2.53%	3.25%
Discount rate - benefit obligations - nonqualified plans	3.38%	3.25%	n/a	n/a
Discount rate - service cost - nonqualified plans	2.32%	3.25%	n/a	n/a
Discount rate - interest cost - nonqualified plans	2.67%	3.25%	n/a	n/a
Rate of compensation increase - qualified plans	4.00%	4.00%	n/a	n/a
Rate of compensation increase - nonqualified plans	4.00%	4.00%	n/a	n/a
Measurement date	11/30/2016	11/30/2015	11/30/2016	11/30/2015
	Pension Benefits		Other Postretirement Benefits	
	2016	2015	2016	2015
Amounts recognized in the Consolidated Balance Sheets as of November 30				
Accounts payable and accrued liabilities	\$(157)	\$(159)	\$(40)	\$(47)
Long-term pension and postretirement healthcare benefits liabilities	(36,511)	(30,869)	(254)	(294)
Funded status	\$(36,668)	\$(31,028)	\$(294)	\$(341)
Accumulated other comprehensive loss, pre-tax	\$ 62,974	\$ 58,137	\$(1,060)	\$(1,214)
Amounts recognized in Accumulated Other Comprehensive Loss, as of November 30				
Unrecognized net actuarial loss (gain)	\$ 62,974	\$ 58,136	\$(832)	\$(864)
Unrecognized net prior service credit	—	1	(228)	(350)
Accumulated other comprehensive loss, pre-tax	62,974	58,137	(1,060)	(1,214)
Deferred taxes	(23,127)	(21,380)	364	423
Accumulated other comprehensive loss, after-tax	\$ 39,847	\$ 36,757	\$(696)	\$(791)

F-34

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

The amounts affecting Accumulated other comprehensive loss for the years ended November 30, 2016 and 2015 are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2016	2015	2016	2015
Amortization of prior service (cost) credit, net of tax of \$0, \$(2) and \$(42), \$(43), respectively	\$(1)	\$—	\$ 81	\$ 79
Amortization of actuarial (losses) gains, net of tax of \$1,401, \$1,351 and \$(32), \$(30), respectively	(2,485)	(2,324)	62	57
Current year actuarial losses (gains), net of tax of \$(3,159), \$(1,081) and \$21, \$27, respectively	5,498	1,827	(40)	(51)
Curtailment gain, net of tax of \$0, \$797 and \$0, \$0, respectively	—	(1,396)	—	—
Effect of change in deferred tax rate	41	150	(8)	(6)
Total	\$3,053	\$(1,743)	\$ 95	\$ 79

The target allocation of invested assets for the U.S. plans is 40% equity securities and 60% debt securities. 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. Plan assets are diversified to achieve a balance between risk and return. The Company does not invest plan assets in private equity funds or hedge funds. The Company's expected long-term rate of return considers historical returns on plan assets as well as future expectation given the current and target asset 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 30 measurement dates, the fair values of actual pension asset allocations were as follows:

	2016	2015
Equity securities	41.7 %	40.3 %
Fixed income securities	57.9 %	59.2 %
Cash and cash equivalents	0.4 %	0.5 %
	100.0%	100.0%

The accounting guidance on fair value measurements specifies a fair value hierarchy based upon the observability of inputs used in valuation techniques (Level 1, 2 and 3). See Note F for a discussion of the fair value hierarchy. The following table summarizes the fair value of the pension plans' assets.

	Fair Value Measurements at Reporting Date			
	Total	Level 1	Level 2	Level 3
November 30, 2016				
U.S. equity securities funds	\$ 37,600	\$ 37,600	\$ —	\$ —
Non-U.S. equity securities funds	30,055	30,055	—	—
Fixed income securities funds	93,949	93,949	—	—
Cash and equivalents funds	627	627	—	—
Fair value of plan assets	\$ 162,231	\$ 162,231	\$ —	\$ —

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

	Fair Value Measurements at Reporting Date			
	Total	Level 1	Level 2	Level 3
November 30, 2015				
U.S. equity securities funds	\$ 45,744	\$ 45,744	\$ —	\$ —
Non-U.S. equity securities funds	20,466	20,466	—	—
Fixed income securities funds	97,373	97,373	—	—
Cash and equivalents funds	625	625	—	—
Total	\$ 164,208	\$ 164,208	\$ —	\$ —
Other items to reconcile to fair value of plan assets	280			
Fair value of plan assets	\$ 164,488			

U.S. equity securities funds consist primarily of large cap and small cap U.S. companies. Non-U.S. equity securities funds consist primarily of equities of non-U.S. developed markets. Fixed income securities funds consist primarily of bonds such as governmental agencies, investment grade credit, commercial mortgage backed, residential mortgage backed and asset backed. Funds that are traded on a national exchange are categorized as Level 1.

Other items to reconcile to fair value of plan assets are the net of interest receivable, amounts due for securities sold, amounts payable for securities purchased and interest payable.

The Company had no Level 2 or Level 3 assets for the years ended November 30, 2016 and 2015, respectively.

The components of net periodic benefit cost for pensions are shown below. Net periodic benefit cost is based on assumptions determined at the prior year-end measurement date. Increases in the liability due to changes in plan benefits are recognized in the net periodic benefit costs through straight-line amortization over the average remaining service period of employees expected to receive benefits.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

	Pension Benefits		
	2016	2015	2014
Components of net periodic benefit cost			
Service cost	\$1,481	\$ 1,905	\$ 1,990
Interest cost	6,197	7,676	7,704
Expected return on plan assets	(10,326)	(11,567)	(11,306)
Settlement costs	—	—	—
Curtailment	—	1	—
Amortization of unrecognized:			
Prior service cost	1	(4)	(10)
Net actuarial loss	3,817	3,676	2,884
Net periodic benefit cost	\$1,170	\$ 1,687	\$ 1,262
Assumptions:			
Discount rate - benefit obligations - qualified plans	3.97%	3.75%	4.50%
Discount rate - service cost - qualified plans	3.64%	3.75%	4.50%
Discount rate - interest cost - qualified plans	3.28%	3.75%	4.50%
Discount rate - benefit obligations - nonqualified plans	3.36%	3.00%	3.25%
Discount rate - service cost - nonqualified plans	2.49%	3.00%	3.25%
Discount rate - interest cost - nonqualified plans	2.59%	3.00%	3.25%
Expected return on plan assets	6.50%	7.00%	7.50%
Rate of compensation increase - qualified plans	4.00%	4.00%	4.00%
Rate of compensation increase - nonqualified plans	4.00%	4.00%	4.00%
Measurement date - qualified plans	11/30/2015	11/30/2014	11/30/2013
Measurement date - nonqualified plans	11/30/2015	11/30/2014	11/30/2013

For the determination of 2017 expense, the Company changed its assumptions as follows: (a) decreased the long-term expected return on assets for its qualified plans to 5.50%, (b) decreased the discount rates on its qualified plans, (c) left the rate of compensation increase unchanged, and (d) continued using mortality assumptions reflective of the 2014 Society of Actuaries ("SOA") mortality study, updated to reflect the SOA's latest projection scale, more specifically the RP 2014 blend with MP-2016 mortality improvement scale. For its U.S. combined nonqualified plans, the Company increased the discount rate and left the rate of compensation increase unchanged.

The changes in the fair value of plan assets, plan liabilities and in the assumptions will result in a net increase in fiscal year 2017 expense of approximately \$1,952 for the qualified U.S. pension plans. The Company also expects a net increase of approximately \$7 for the U.S. combined nonqualified plans in fiscal year 2017.

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 healthcare benefit cost increases, and future increases in healthcare 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 healthcare benefits for future years. The Company discontinued the prescription drug benefit portion of its plan effective January 31, 2006.

F-37

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

The components of net periodic benefit income for postretirement healthcare benefits are shown below.

	Other Postretirement Benefits		
	2016	2015	2014
Components of net periodic benefit income			
Interest cost	\$ 8	\$ 12	\$ 10
Amortization of unrecognized:			
Prior service cost	(123)	(122)	(122)
Net actuarial gain	(94)	(87)	(147)
Net periodic benefit income	\$(209)	\$(197)	\$(259)
Assumptions:			
Discount rate - benefit obligations	3.29 %	3.25 %	3.00 %
Discount rate - service cost	n/a	n/a	n/a
Discount rate - interest cost	2.41 %	3.25 %	3.00 %
Measurement date	11/30/2015	11/30/2014	11/30/2013

The Company froze participation in the postretirement healthcare plan to eligible retirees effective January 1, 2007. As a result, unrecognized prior service costs of \$1,708 are being amortized over the average remaining years of service for active plan participants. The Company expects to decrease its discount rate assumption at 3.25% in 2017 for its other postretirement benefits plan, which will not significantly affect the fiscal year 2017 expense.

The estimated amounts that will be amortized from Accumulated other comprehensive loss at November 30, 2016 into net periodic benefit cost, pre-tax, in fiscal year 2017 are as follows:

	Pension Benefits	Other Postretirement Benefits
Prior service credit	\$ —	\$ (123)
Actuarial loss (gain)	4,325	(96)
Total	\$ 4,325	\$ (219)

The expected cash benefit payments from the plans for the next ten fiscal years are as follows:

	Pension Benefits	Other Postretirement Benefits
2017	\$ 8,941	\$ 39
2018	9,272	36
2019	9,610	32
2020	9,987	29
2021	11,128	26
2022-2026	59,972	95

The Company also sponsors various defined contribution plans that provide employees with an opportunity to accumulate funds for their retirement. The Company may match, at its discretion, the contributions of participating employees in the respective plans. The Company recognized expense related to these plans for the past three fiscal years as follows:

2016\$7,563

20157,171

20147,945

F-38

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

M. INCOME TAXES

The following is a reconciliation of the beginning and ending amount of gross unrecognized tax benefits for uncertain tax positions, including positions which impact only the timing of tax benefits for the years ended November 30, 2016, 2015 and 2014.

	2016	2015	2014
Unrecognized tax benefits at December 1,	\$3,859	\$2,487	\$2,155
Additions for current period tax positions	571	388	465
Additions related to acquired tax positions	—	1,052	—
Additions for prior period tax positions	—	321	40
Reductions for prior period tax positions	—	—	—
Reductions for lapse of statute of limitations/settlements	(420)	(401)	(240)
Changes in interest and penalties	64	12	67
Unrecognized tax benefits at November 30,	\$4,074	\$3,859	\$2,487

At November 30, 2016 and 2015, the amount of unrecognized tax benefit, that would impact the effective tax rate if recognized, was \$3,117 and \$2,797, respectively. As of November 30, 2016 and 2015, the Company had \$323 and \$281, respectively, accrued for the payment of interest and penalties.

The Company believes it is reasonably possible that the total amount of unrecognized tax benefits as of November 30, 2016, will decrease by \$286 over the next twelve months as a result of expected settlements with taxing authorities or the lapse of the statute of limitations in certain jurisdictions. Due to the various jurisdictions in which the Company files tax returns and the uncertainty regarding the timing of settlements it is possible that there could be other significant changes in the amount of unrecognized tax benefits in fiscal year 2017; however, the amount cannot be estimated.

The Company is regularly audited by federal, state and foreign tax authorities. The Company's Federal tax returns for fiscal years 2013 and later remain open to examination by the Internal Revenue Service. With few exceptions, the Company is no longer subject to income tax examinations by state or foreign tax jurisdictions for fiscal years 2011 and earlier.

The provision for income taxes consisted of:

	2016	2015	2014
Current:			
Federal	\$34,323	\$51,116	\$56,764
State	4,070	5,515	4,760
Foreign	9,780	10,209	10,112
Deferred:			
Federal	11,965	(1,923)	(4,102)
State	(1,283)	(1,051)	(359)
Foreign	3,361	(814)	205
	\$62,216	\$63,052	\$67,380

F-39

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

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

	2016	2015	2014
Domestic income	\$151,921	\$160,287	\$166,101
Foreign income	49,685	37,678	45,462
	\$201,606	\$197,965	\$211,563

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:

	Percent of Pre-Tax Earnings					
	2016		2015		2014	
Statutory U.S. tax rates	35.0	%	35.0	%	35.0	%
State income taxes, net of federal benefit	0.7		1.3		1.3	
Tax credits	(1.0	)	(0.7	)	(0.2)
Foreign taxes at different rates, net of credits	(2.4	)	(1.9	)	(2.3)
Domestic production activities deduction	(2.1	)	(2.8	)	(2.7)
Other, net	0.7		1.0		0.7	
	30.9	%	31.9	%	31.8	%

Our effective tax rate in 2016 was 30.9% compared with 31.9% in 2015. This decrease was primarily driven by a change in assertion on the permanent reinvestment of foreign earnings in the current year as well as the favorable impact of the renewed research and development tax credit during the current year, partially offset by the non-deductibility of certain transaction costs related to the pending Parker-Hannifin transaction.

The components of the net deferred tax liability as of November 30, 2016 and 2015 were as follows:

	2016	2015	2014			
Deferred tax assets:						
Deferred compensation	\$8,335	\$11,294	\$9,074			
Loss carryforward and tax credit items	22,834	30,507	19,620			
Accounts receivable	6,245	7,842	6,538			
Inventories	6,397	6,390	5,484			
Pensions	11,604	9,619	10,019			
Accrued liabilities and other	6,665	7,427	6,999			
Valuation allowance	(10,497)	(10,855)	(1,268)
Total deferred tax assets, net	51,583	62,224	56,466			
Deferred tax liabilities:						
Percentage of completion	(524)	(1,866)	(740)
Plant assets	(28,845)	(22,615)	(24,818)
Goodwill and acquired intangible assets	(93,907)	(98,713)	(97,179)
Other deferred tax liabilities	(297)	(287)	(230)
Total deferred tax liabilities	(123,573)	(123,481)	(122,967)
Deferred tax liability, net	\$(71,990)	\$(61,257)	\$(66,501)			

The Company acquired approximately \$70,220 of federal net operating loss carryforwards and \$2,365 of general business credit carryforwards with the acquisition of the Stanadyne Business on May 1, 2014. The utilization of the

acquired federal loss carryforwards is subject to annual limitations of approximately \$21,000 based on restrictions under Section 382 of the Internal Revenue Code. As such, the Company has approximately \$16,151 of federal loss carryforwards and all of the federal credit

F-40

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

carryforwards remaining as of November 30, 2016, which will expire in 2031 through 2033. The Company also acquired approximately \$26,685 of capital loss carryforwards, of which \$25,071 are remaining as of November 30, 2016 and which are subject to a full valuation allowance as the Company does not anticipate that such carryforwards will be utilized prior to their expiration in 2018.

The remaining balance of deferred tax asset for loss carryforwards and tax credits available as of November 30, 2016 consists of U.S. foreign tax credit carryforwards as well as foreign and state loss and credit carryforward amounts, of which \$2,268 expires in 2017 through 2029 and \$3,802 may be carried over indefinitely.

The Company decreased the valuation allowance by \$358 in 2016 and increased the valuation allowance by \$9,587 in 2015 and by \$166 in 2014. The decrease during the current year reflects partial utilization of federal capital loss carryforwards, partially offset by the generation of foreign loss carryforwards that are not expected to be utilized. This net decrease during 2016 was all recorded through income tax expense during the year. The valuation allowance increase in 2015 was primarily generated by the capital loss carryforwards acquired and finalized from the pre-acquisition filings of the Stanadyne Business. As such, \$9,340 of the increase in the valuation allowance in 2015 was recorded as part of the finalization of purchase accounting for the Stanadyne business, with the remainder of the change in valuation allowance during 2015 recorded through income tax expense. The valuation allowance reflects the estimated amount of deferred tax assets due to federal capital loss carryforwards, foreign net operating losses and other foreign and state temporary differences that may not be realized. The Company expects to realize the remaining deferred tax assets through the reversal of taxable temporary differences and future earnings.

The Company repatriated \$23,100, \$26, and \$17, respectively, of accumulated foreign earnings in 2016, 2015, and 2014. In June of 2016, management reversed its permanent reinvestment assertion with respect to the amount of foreign earnings that have already been subject to U.S. tax under the Subpart F rules of the Internal Revenue Code. This reconsideration was based on a number of factors, including the receipt of foreign withholding tax exemptions based on legal entity restructuring that the Company had undertaken in the prior year, the potential impact that recently finalized debt-equity tax regulations in the U.S. may have on the ability to repatriate earnings in the future, and consideration of the uncertainty with respect to the volatility of foreign currencies, particularly with the vote by the United Kingdom to leave the European Union. Based on this analysis, the Company repatriated \$23,100 of previously taxed foreign earnings during the current year and has approximately \$4,500 of previously taxed earnings remaining in foreign jurisdictions which may be repatriated in the future. The change in assertion for these foreign earnings resulted in a tax benefit of approximately \$1,176 that was recorded in 2016 based on the cumulative foreign exchange movement for these earnings in prior periods. All current and future tax impacts of foreign exchange adjustments to these earnings will be recorded as a cumulative translation adjustment on an ongoing basis.

The Company continues to reinvest its remaining foreign earnings that have not been subject to US taxation in overseas operations for an indefinite duration and utilizes such earnings for continued growth and expansion in existing or new markets. As such, the Company has not provided deferred taxes on unremitted foreign earnings from certain foreign affiliates of approximately \$227,805 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 have been provided, foreign tax credits could offset in part any incremental U.S. tax liability. Determination of the unrecognized deferred taxes related to these undistributed earnings is not practicable.

N. CONTINGENCIES

Legal Contingencies

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

F-41

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

TransWeb/3M

On May 21, 2010, 3M Company and 3M Innovative Properties (“3M”) brought a lawsuit against TransWeb, LLC (“TransWeb”) in the United States District Court for the District of Minnesota, alleging that certain TransWeb products infringe multiple claims of certain 3M patents. Shortly after receiving service of process in this litigation, TransWeb filed its own complaint against 3M in the United States District Court for the District of New Jersey, seeking a declaratory judgment that the asserted patents are invalid and that the products in question do not infringe. 3M withdrew its Minnesota action, and the parties litigated the matter in New Jersey. The litigation in question was filed and underway before the Company acquired TransWeb in December 2010, but the Company assumed the risk of this litigation as a result of the acquisition.

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

3M timely exercised its automatic right to appeal the District Court's judgment to the U.S. Court of Appeals for the Federal Circuit. On February 10, 2016, the Court of Appeals issued a unanimous decision upholding the lower court's rulings in all respects. Following this ruling, on March 7, 2016, 3M agreed to pay TransWeb \$27,250 in full and final satisfaction of the judgment and applicable interest and to forgo any further rights of appeal, and TransWeb and the Company agreed not to seek any further recoveries from 3M with respect to this matter. 3M made the required payment on March 9, 2016, and the parties jointly filed a stipulated satisfaction of judgment with the District Court on March 14, 2016, concluding this matter. The Company recorded the payment in Other, net in the Consolidated Statements of Earnings.

Other

The Company is party to various proceedings relating to environmental issues. The U.S. Environmental Protection Agency and/or other responsible state agencies have designated the Company as a potentially responsible party, along with other companies, in remedial activities for the cleanup of waste sites under the Comprehensive Environmental Response, Compensation, and Liability Act (commonly referred to as the federal Superfund statute). Although it is not certain what future environmental claims, if any, may be asserted in connection with these known environmental matters, the Company currently believes that its potential liability for known environmental matters is not material and that it has adequately reserved for any probable and reasonably estimable liabilities based on the information available to the Company. However, environmental and related remediation costs are difficult to quantify for a number of reasons, including the number of parties involved, the difficulty in determining the nature and extent of the contamination at issue, the length of time remediation may require, the complexity of the environmental regulation, the continuing advancement of remediation technology, and the potential imposition of joint and several liability on each potentially responsible party for the cleanup.

In addition to the matters cited above, the Company is involved in legal actions arising in the normal course of business. The Company records provisions with respect to identified claims or lawsuits when it is probable that a

liability has been incurred and the amount of the loss can be reasonably estimated. Claims and lawsuits are reviewed quarterly and provisions are taken or adjusted to reflect the status of a particular matter.

Other Contingencies

In the event of a change in control of the Company, including in connection with the pending Parker-Hannifin transaction, termination benefits are likely to be required for certain executive officers and other employees. The range of the termination benefits could vary significantly and thus are not estimable.

O. INCENTIVE PLANS AND STOCK-BASED COMPENSATION

On March 25, 2014, the shareholders of CLARCOR approved the 2014 Incentive Plan, which replaced the 2009 Incentive Plan. The 2014 Incentive Plan allows the Company to grant stock options, restricted stock unit awards, restricted stock awards, performance awards and other awards to officers, directors and key employees of up to 6,600,000 shares during a ten-year period

F-42

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

that ends in 2024. Upon share option exercise or restricted stock unit award conversion, the Company issues new shares unless treasury shares are available.

Stock Options

Nonqualified stock options are granted at exercise prices equal to the market price of CLARCOR common stock at the date of grant, which is the date the Company's Board of Directors approves the grant and the participants receive it. The Company's Board of Directors determines the vesting requirements for stock options at the time of grant and may accelerate vesting. In general, options granted to key employees vest 25% per year beginning at the end of the first year; therefore, they become fully exercisable at the end of four years. Vesting may be accelerated in the event of retirement, disability or death of a participant or change in control of the Company. Options granted to non-employee directors vest immediately. Beginning in 2013, stock-based compensation for the Company's Board of Directors has been in the form of restricted stock, rather than stock options. All options expire ten years from the date of grant unless otherwise terminated.

The following table summarizes information related to stock options and stock option exercises during the years ended November 30, 2016, 2015 and 2014.

	2016	2015	2014
Pre-tax compensation expense	\$3,317	\$5,588	\$5,025
Deferred tax benefits	(1,202)	(1,955)	(1,834)
Excess tax benefits associated with tax deductions over the amount of compensation expense recognized in the consolidated financial statements	2,006	1,032	2,668
Fair value of options granted	2,144	3,213	5,186
Total intrinsic value of options exercised	13,687	4,328	9,696
Cash received upon exercise of options	32,850	6,608	10,738
Addition to capital in excess of par value due to exercise of stock options	34,080	7,464	13,084

The following table summarizes activity with respect to nonqualified stock options granted by the Company and includes options granted under the 2014, 2009, 2004 and 1994 Incentive Plans.

	2016		2015		2014	
	Options Granted under Incentive Plans	Weighted Average Exercise Price	Options Granted under Incentive Plans	Weighted Average Exercise Price	Options Granted under Incentive Plans	Weighted Average Exercise Price
Outstanding at beginning of year	2,422,538	\$ 48.46	2,310,720	\$ 45.71	2,208,314	\$ 40.76
Granted	296,500	\$ 46.45	314,000	\$ 63.09	450,700	\$ 61.49
Exercised	(782,237)	\$ 42.34	(179,071)	\$ 37.99	(322,473)	\$ 33.30
Surrendered	(59,998)	\$ 53.94	(23,111)	\$ 53.09	(25,821)	\$ 52.47
Outstanding at end of year	1,876,803	\$ 50.52	2,422,538	\$ 48.46	2,310,720	\$ 45.71
Exercisable at end of year	1,191,300	\$ 48.39	1,584,513	\$ 43.44	1,409,359	\$ 40.70

At November 30, 2016, there was \$2,041 of unrecognized compensation cost related to nonvested option awards which the Company expects to recognize over a weighted-average period of 2.25 years.

F-43

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

The following table summarizes information about the Company's outstanding and exercisable options at November 30, 2016.

Range of Exercise Prices	Options Outstanding				Options Exercisable			
	Number	Weighted Average Exercise Price	Intrinsic Value	Weighted Average Remaining Life in Years	Number	Weighted Average Exercise Price	Intrinsic Value	Weighted Average Remaining Life in Years
\$25.31 - \$36.48	202,382	\$ 32.64	\$ 10,084	2.22	202,382	\$ 32.64	\$ 10,084	2.22
\$42.86 - \$49.91	1,009,775	\$ 46.38	36,432	6.41	663,362	\$ 46.47	23,876	5.28
\$55.01 - \$63.22	664,646	\$ 62.26	13,423	7.51	325,556	\$ 62.11	6,624	7.41
	1,876,803	\$ 50.52	\$ 59,939	6.35	1,191,300	\$ 48.39	\$ 40,584	5.34

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions by grant year.

	2016	2015	2014
Weighted average fair value per option at the date of grant for options granted	\$7.23	\$10.23	\$11.51
Risk-free interest rate	1.46 %	1.31 %	1.55 %
Expected dividend yield	1.89 %	1.27 %	1.10 %
Expected volatility factor	20.40 %	19.50 %	21.38 %
Expected option term in years	5.00	5.00	5.00

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

Restricted Stock Unit Awards

The Company's restricted stock unit awards are considered nonvested share awards. The restricted stock unit awards require no payment from the employee. Compensation cost is recorded based on the market price of the stock on the grant date and is recorded equally over the vesting period (generally four years). During the vesting period, officers and key employees receive cash compensation equal to the amount of dividends declared on common shares they would have been entitled to receive had the shares been issued. Upon vesting, employees may elect to defer receipt of their shares. There were 8,873 and 14,520 shares which were vested and deferred at November 30, 2016 and 2015.

The following table summarizes information related to restricted stock unit awards during the years ended November 30, 2016, 2015 and 2014.

	2016	2015	2014
Pre-tax compensation expense	\$1,969	\$2,530	\$1,373

Edgar Filing: CLARCOR INC. - Form 10-K

Deferred tax benefits	(714)	(885)	(501)
Excess tax (expense) benefit associated with tax deductions (under) over the amount of compensation expense recognized in the consolidated financial statements	(109)	215	101
Fair value of restricted stock unit awards on date of grant	2,954	3,208	1,524
Fair value of restricted stock unit awards vested	1,696	1,530	893

F-44

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

The following table summarizes the restricted stock unit awards.

	2016		2015		2014	
	Units	Weighted Average Grant Date Fair Value	Units	Weighted Average Grant Date Fair Value	Units	Weighted Average Grant Date Fair Value
Nonvested at beginning of year	71,592	\$ 60.09	51,012	\$ 53.12	48,044	\$ 45.18
Granted	63,605	\$ 46.45	50,740	\$ 63.22	24,808	\$ 61.42
Vested	(29,428)	\$ 57.62	(28,704)	\$ 53.30	(20,156)	\$ 44.29
Surrendered	(4,993)	\$ 54.76	(1,456)	\$ 58.84	(1,684)	\$ 54.36
Nonvested at end of year	100,776	\$ 52.47	71,592	\$ 60.09	51,012	\$ 53.12

As of November 30, 2016, there was \$2,670 of total unrecognized compensation cost related to restricted stock unit awards that the Company expects to recognize over a weighted-average period of 2.80 years.

Restricted Stock Unit Awards with Performance Conditions

In 2015, performance awards were issued to officers and certain key employees as an incentive to achieve revenue growth and operating profit margin goals over a three-year period. The awards are in the form of restricted stock units, which vest at the end of the three-year period if the specified sales growth and operating profit margin goals are achieved. These restricted stock unit awards are considered nonvested share awards. The restricted stock unit awards require no payment from the employee. Fair value of the restricted stock units is determined based on the market price of the stock on the grant date. Compensation cost is recorded equally over the three-year period in which the stock units are earned, based on a periodic determination of the probable performance outcome. There were no vested shares at November 30, 2016, 2015 or 2014, respectively.

The following table summarizes information related to restricted stock unit awards with performance conditions during the years ended November 30, 2016, 2015 and 2014.

	2016	2015	2014
Pre-tax compensation expense	\$ —	\$ —	\$ —
Deferred tax benefits	—	—	—
Excess tax (expense) benefit associated with tax deductions (under) over the amount of compensation expense recognized in the consolidated financial statements	—	—	—
Fair value of restricted stock unit awards on date of grant	—	5,857	—
Fair value of restricted stock unit awards vested	—	—	—

The following table summarizes the restricted stock unit awards with performance conditions.

	2016		2015		2014	
	Units	Weighted Average Grant Date Fair Value	Units	Weighted Average Grant Date Fair Value	Units	Weighted Average Grant Date Fair Value
Nonvested at beginning of year	92,650	\$ 63.22	—	\$ —	—	\$ —

Edgar Filing: CLARCOR INC. - Form 10-K

Granted	—	\$ —	92,650	\$ 63.22	—\$	—
Vested	—	\$ —	—	\$ —	—\$	—
Surrendered	(15,579)	\$ 63.22	—	\$ —	—\$	—
Nonvested at end of year	77,071	\$ 63.22	92,650	\$ 63.22	—\$	—

F-45

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

At November 30, 2016, there was \$4,872 of total unrecognized compensation cost related to restricted stock unit awards with performance conditions. The Company does not currently expect to recognize any of this compensation cost, based on the probable performance outcome.

Directors' Restricted Stock Compensation

The incentive plans provide for grants of shares of common stock to all non-employee directors for annual incentive awards, and for grants of shares of common stock to all non-employee directors equal to a one-year annual retainer in lieu of cash at the directors' option. The directors' rights to the shares vest immediately on the date of grant; however, shares issued on annual retainer fees cannot be sold for a six-month period from the date of grant. The following table summarizes information related to directors' stock compensation during the years ended November 30, 2016, 2015 and 2014.

	2016	2015	2014
Pre-tax compensation expense	\$1,221	\$ 975	\$ 880
Shares of Company common stock issued under the plans	21,306	15,261	15,400

Employee Stock Purchase Plan

The Company sponsors an employee stock purchase plan which allows employees to purchase stock at a discount of 5%. Effective January 1, 2006, the plan was amended to be in compliance with safe harbor rules so that the plan is not compensatory, and no expense is recognized related to the plan. The Company issued stock under this plan with fair value upon issuance as follows during the years ended November 30, 2016, 2015 and 2014.

	2016	2015	2014
Company stock issued under the plan	\$1,225	\$1,498	\$1,338

P. EARNINGS PER SHARE AND STOCK REPURCHASE ACTIVITY

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

The following table provides a reconciliation of the denominators utilized in the calculation of basic and diluted earnings per share:

	2016	2015	2014
Weighted average number of shares outstanding	48,690,560	49,981,118	50,405,549
Dilutive effect of stock-based arrangements	369,198	448,336	465,700
Weighted average number of diluted shares outstanding	49,059,758	50,429,454	50,871,249
Net earnings attributable to CLARCOR Inc.	\$ 139,266	\$ 134,704	\$ 144,084

Edgar Filing: CLARCOR INC. - Form 10-K

Net earnings per common share attributable to CLARCOR Inc. - Basic	\$ 2.86	\$ 2.70	\$ 2.86
Net earnings per common share attributable to CLARCOR Inc. - Diluted	\$ 2.84	\$ 2.67	\$ 2.83

F-46

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

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

	2016	2015	2014
Number of antidilutive options with exercise prices greater than the average market price excluded from the computation of dilutive earnings per share	728,352	733,413	441,033
Common stock repurchased and retired pursuant to the Company's stock repurchase program	\$ 73,901	\$ 70,777	\$ 32,822
Number of shares repurchased and retired pursuant to the Company's stock repurchase program	1,385,401	1,331,941	535,703

On June 27, 2016, upon the expiry of the previous three-year repurchase program, the Company's Board of Directors authorized a \$250 million stock repurchase program of our common stock in the open market and through private transactions over a three-year period. Pursuant to the new authorization, the Company may purchase shares from time to time in the open market or through privately negotiated transactions through June 30, 2019. The Company has no obligation to repurchase shares under the authorization, and the timing, actual number and values of shares to be purchased will depend on the Company's stock price, general economic and market conditions and other factors (including the pending Parker-Hannifin transaction and the restrictions set forth in the Parker-Hannifin merger agreement). The Company had remaining authorization of approximately \$219,338 to repurchase shares as of November 30, 2016, under its current stock program.

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 for the periods presented herein: Engine/Mobile Filtration, Industrial/Environmental Filtration and, formerly, 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, filtration systems, engineered filtration products and technologies 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 and other oil and natural gas facilities, power generation plants, petrochemical plants, residences and various other infrastructures. 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.

Prior to the Company's disposition of J.L. Clark on June 27, 2015, the Packaging segment manufactured and marketed consumer and industrial packaging products including custom-designed plastic and metal containers and closures and lithographed metal sheets in both domestic and international markets. Refer to Note C for a discussion of the disposition of the Company's Packaging segment.

Net sales represent sales to unaffiliated customers. Intersegment sales were not material. No single customer accounted for 10% or more of the Company's consolidated sales for the years ended November 30, 2016, 2015 and 2014. Unallocated amounts within Other income (expense), net consist of interest expense, interest income and other non-operating income and expense items. Assets are those assets used in each business segment. Corporate assets consist of cash, deferred income taxes, corporate facility and equipment and various other assets that are not specific to an operating segment. Corporate depreciation and amortization is allocated to the reportable operating segments. The Company operates as a consolidated entity, including cooperation

F-47

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

between segments, cost allocating and sharing of certain assets. As such, the Company makes no representation, that if operated on a standalone basis, these segments would report net sales, operating profit and other financial data reflected below.

The following tables provide segment data for the years ended November 30, 2016, 2015 and 2014:

	2016	2015	2014
Net sales:			
Engine/Mobile Filtration	\$586,029	\$605,474	\$603,805
Industrial/Environmental Filtration	803,544	834,643	833,100
Packaging	—	40,909	75,949
	\$1,389,573	\$1,481,026	\$1,512,854
Operating profit:			
Engine/Mobile Filtration	\$103,056	\$108,259	\$122,365
Industrial/Environmental Filtration	77,832	87,545	83,351
Packaging	—	2,143	4,712
	180,888	197,947	210,428
Other income (expense), net	20,718	18	1,135
Earnings before income taxes	\$201,606	\$197,965	\$211,563
	2016	2015	2014
Identifiable assets:			
Engine/Mobile Filtration	\$734,834	\$771,120	\$781,204
Industrial/Environmental Filtration	947,409	1,028,793	1,022,996
Packaging	—	—	41,817
Corporate	56,849	18,543	42,752
	\$1,739,092	\$1,818,456	\$1,888,769
Additions to property, plant and equipment:			
Engine/Mobile Filtration	\$9,610	\$33,374	\$46,496
Industrial/Environmental Filtration	8,933	14,024	20,215
Packaging	—	300	1,989
Corporate	16,219	18,861	4,884
	\$34,762	\$66,559	\$73,584
Depreciation and amortization:			
Engine/Mobile Filtration	\$25,821	\$24,349	\$18,170
Industrial/Environmental Filtration	29,365	29,661	28,789
Packaging	—	1,418	2,438
Corporate	3,416	1,175	1,030
	\$58,602	\$56,603	\$50,427

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

Financial data relating to the geographic areas in which the Company operates are shown for the years ended November 30, 2016, 2015 and 2014. Net sales by geographic area are based on sales to final customers within that region.

	2016	2015	2014
Net sales:			
United States	\$944,256	\$1,044,459	\$1,027,028
Europe	152,699	152,551	165,446
Asia	144,117	130,457	146,859
Other International	148,501	153,559	173,521
	\$1,389,573	\$1,481,026	\$1,512,854
Property, plant and equipment, at cost, less accumulated depreciation:			
United States	\$251,200	\$251,650	\$238,413
Europe	20,262	23,646	24,783
Asia	10,285	11,703	11,466
Other International	12,855	14,020	13,694
	\$294,602	\$301,019	\$288,356

R. SELECTED QUARTERLY FINANCIAL DATA (Unaudited)

The following table provides unaudited quarterly data for 2016 and 2015:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2016				
Net sales	\$316,272	\$364,968	\$331,387	\$376,947
Gross profit	100,901	121,861	114,401	124,736
Net earnings	21,190	53,371	35,784	29,044
Net earnings attributable to CLARCOR Inc.	21,163	53,354	35,749	29,000
Net earnings per common share attributable to CLARCOR Inc. - Basic	\$0.43	\$1.10	\$0.73	\$0.60
Net earnings per common share attributable to CLARCOR Inc. - Diluted	\$0.43	\$1.09	\$0.73	\$0.59
Dividends declared and paid per common share	\$0.2200	\$0.2200	\$0.2200	\$0.2500
2015				
Net sales	\$351,123	\$399,799	\$357,557	\$372,547
Gross profit	112,975	133,610	119,755	122,289
Net earnings	26,737	38,573	36,509	33,094
Net earnings attributable to CLARCOR Inc.	26,709	38,497	36,445	33,053
Net earnings per common share attributable to CLARCOR Inc. - Basic	\$0.53	\$0.77	\$0.73	\$0.67
Net earnings per common share attributable to CLARCOR Inc. - Diluted	\$0.53	\$0.76	\$0.72	\$0.67
Dividends declared and paid per common share	\$0.2000	\$0.2000	\$0.2000	\$0.2200

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except share data)

Comparability between quarters is impacted by a gain on legal settlement from 3M of \$27,250 in the Second Quarter of 2016 (see Note N) and a gain of approximately \$12,131 related to the disposal of J.L. Clark in the Third Quarter of 2015 (see Note C).

CLARCOR Inc.

SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

For the years ended November 30, 2016, 2015 and 2014

(Dollars in thousands)

Column A	Column B	Column C	Column D	Column E	
Description	Balance at beginning of period	Additions		Deductions	Balance at end of period
		Charged to costs and expenses	(2) Charged to other accounts		
2016:					
Allowance for losses on accounts receivable	\$ 14,765	\$(1,451)	\$(811) (A)	\$(1,910) (B)	\$ 10,593
2015:					
Allowance for losses on accounts receivable	\$ 10,811	\$5,566	\$(422) (A)	\$(1,190) (B)	\$ 14,765
2014:					
Allowance for losses on accounts receivable	\$ 9,183	\$1,583	\$ 802 (A)	\$(757) (B)	\$ 10,811

NOTES:

(A) Due to business acquisitions, reclassifications and currency translation.

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

F-50