

ESCALADE INC
Form 10-K
February 23, 2016

United States

Securities and Exchange Commission
Washington, D.C. 20549

Form 10-K

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

For the Fiscal Year Ended December 26, 2015

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 0-6966

ESCALADE, INCORPORATED

(Exact name of registrant as specified in its charter)

Indiana

13-2739290

Edgar Filing: ESCALADE INC - Form 10-K

(State of incorporation) (I.R.S. EIN)

817 Maxwell Ave, Evansville, Indiana 47711

(Address of Principal Executive Office) (Zip Code)

812-467-4449

(Registrant's Telephone Number)

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

Common Stock, No Par Value The NASDAQ Stock Market LLC

(Title of Class)

(Name of Exchange on Which Registered)

Securities registered pursuant to section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities

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 for 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 (or for such shorter period that the registrant was required to submit and post such files). Yes No

Edgar Filing: ESCALADE INC - Form 10-K

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, 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.

Large accelerated filer Accelerated filer

Non-accelerated filer (do not check if a smaller reporting company) Smaller reporting company

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12 b-2 of the Exchange Act).

Yes No

Aggregate market value of common stock held by nonaffiliates of the registrant as of July 11, 2015 based on the closing sale price as reported on the NASDAQ Global Market: \$182,549,269

The number of shares of Registrant's common stock (no par value) outstanding as of February 17, 2016: 14,190,844.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the registrant's Proxy Statement relating to its annual meeting of stockholders scheduled to be held on April 21, 2016 are incorporated by reference into Part III of this Report.

Escalade, Incorporated and Subsidiaries

Table of Contents

	Page
<u>Part I</u>	
<u>Item 1. Business</u>	3
<u>Item 1A. Risk Factors</u>	5
<u>Item 1B. Unresolved Staff Comments</u>	12
<u>Item 2. Properties</u>	12
<u>Item 3. Legal Proceedings</u>	13
<u>Item 4. Mine Safety Disclosures</u>	13
<u>Part II</u>	
<u>Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	13
<u>Item 6. Selected Financial Data</u>	16
<u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	16
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u>	23
<u>Item 8. Financial Statements and Supplementary Data</u>	24
<u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	24
<u>Item 9A. Controls and Procedures</u>	24
<u>Item 9B. Other Information</u>	26
<u>Part III</u>	
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	26
<u>Item 11. Executive Compensation</u>	26
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	26
<u>Item 13. Certain Relationships and Related Transactions and Director Independence</u>	27
<u>Item 14. Principal Accounting Fees and Services</u>	27
<u>Part IV</u>	
<u>Item 15. Exhibits and Financial Statement Schedules</u>	27

Part I**ITEM 1—BUSINESS****General**

Escalade, Incorporated (Escalade, the Company, we, us or our) now operates in one business segment: Sporting Goods (Escalade Sports). Escalade and its predecessors have more than 80 years of manufacturing and selling experience in this industry. Previously, we operated in two businesses segments: Sporting Goods (Escalade Sports) and Information Security and Print Finishing (Martin Yale Group). On October 1, 2014, the Company completed the sale of the Information Security business. The sale of the Information Security business, coupled with the sale of our Print Finishing business on June 30, 2014, completed the Company's exit from the Information Security and Print Finishing segment. As a result, the Information Security and Print Finishing segment has been classified as discontinued operations for all periods presented.

The following table presents the percentages contributed to Escalade's net sales by its business segments:

	2015	2014	2013
Sporting Goods	100 %	87 %	81 %
Discontinued Operations	--	13 %	19 %
Total Net Sales	100 %	100 %	100 %

For additional segment information, see Note 14 – Operating Segment and Geographic Information in the consolidated financial statements.

Sporting Goods

Headquartered in Evansville, Indiana, Escalade Sports manufactures, imports, and distributes widely recognized sporting goods brands in basketball goals, archery, indoor and outdoor game recreation and fitness products through major sporting goods retailers, specialty dealers, key on-line retailers, traditional department stores and mass merchants. Escalade is a leader in table tennis tables, residential in-ground basketball goals and in archery bows. Some of the Company's most recognized brands, owned or distributed, include:

Product Segment	Brand Names
Archery	Bear Archery®, Trophy Ridge®, Whisker Biscuit®, Cajun Bowfishing™
Table Tennis	STIGA®, Ping-Pong®, Prince®,
Basketball Goals	Goalrilla™, Goaliath®, Silverback®, Hoopstar™, Goalsetter®
Play Systems	Woodplay®, Childlife®
Fitness	The STEP®, USWeight™
Game Tables (Hockey and Soccer)	Atomic®, American Legend®, Redline®
Billiard Accessories	Mizerak®, Minnesota Fats®, Lucasi®, PureX®, Rage®, Players®
Darting	Unicorn®, Accudart®, Arachnid®, Nodor®, Winmau®
Outdoor Games	Zume Games®, Pickleball Now, Onix™, Viva Sol™

During 2015, 2014 and 2013 the Company had one customer, Dick's Sporting Goods, which accounted for approximately 18%, 19% and 20%, respectively, of the Company's revenues from continuing operations.

As of December 26, 2015, the Company had approximately 27% of its total accounts receivable with Dick's Sporting Goods. As of December 27, 2014 the Company had approximately 23% of its total accounts receivable with Dick's Sporting Goods.

Escalade Sports manufactures in the USA and Mexico and imports product from Asia, where the Company utilizes a number of contract manufacturers.

Certain products produced by Escalade Sports are subject to regulation by the Consumer Product Safety Commission. The Company believes it is in material compliance with all applicable regulations.

Marketing and Product Development

The Company makes a substantial investment in product development and brand marketing to differentiate its product line from its competition. We conduct market research and development efforts to design products which satisfy existing and emerging consumer needs. On a consolidated basis, the Company incurred research and development costs of approximately \$1.5 million, \$1.7 million, and \$1.2 million in 2015, 2014 and 2013, respectively. The Company advertises directly to the consumer or end-user as well as through its retail partners in the form of advertising and other promotional allowances.

Competition

Escalade is subject to competition with various manufacturers in each product line. The Company is not aware of any other single company that is engaged in the same product lines as Escalade or that produces the same range of products as Escalade. Nonetheless, competition exists for many Escalade products. Some competitors are larger and have substantially greater resources than the Company. Escalade believes that its long-term success depends on its ability to strengthen its relationship with existing customers, attract new customers and develop new products that satisfy the quality and price requirements of sporting goods customers.

Licenses, Trademarks and Brand Names

The Company has an agreement and contract with STIGA Sports AB, a 50% owned joint venture, for the exclusive right and license to distribute and produce table tennis equipment under the brand name STIGA® for the United States and Canada. The Company also owns several registered trademarks and brand names including but not limited to Ping-Pong®, Bear Archery®, Goalrilla™, The Step®, and Wood Play®.

Backlog and Seasonality

Sales are based primarily on standard purchase orders and in most cases orders are shipped within the same month received. Unshipped orders at the end of the fiscal year (backlog) were not material and therefore are not an indicator

of future results. Due to diversity in product categories, revenues have not been seasonal and are not expected to be so in the future.

Employees

The number of employees at December 26, 2015 and December 27, 2014 were as follows:

	2015	2014
Sporting Goods		
USA	386	372
Mexico	123	83
Asia	13	11
Total	522	466

The I.U.E./C.W.A. (United Electrical Communication Workers of America, AFL-CIO) represents hourly rated employees at the Escalade Sports' Evansville, Indiana distribution center. There were approximately 22 covered employees at December 26, 2015. A three year labor contract was negotiated and renewed in April 2013 and expires on April 30, 2016. Management believes it has satisfactory relations with its employees.

Sources of Supplies

Raw materials for Escalade's various product lines consist of, but not limited to, wood, steel, aluminum, plastics, fiberglass and packaging. Escalade relies upon suppliers in various countries and upon various third party Asian manufacturers for many of its products. The Company believes that these sources will continue to provide adequate supplies as needed and that all other materials needed for the Company's various operations are available in adequate quantities from a variety of domestic and foreign sources.

SEC Reports

The Company's Internet site (www.escaladeinc.com) makes available free of charge to all interested parties the Company's annual report on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, and all amendments to those reports, as well as all other reports and schedules filed electronically with the Securities and Exchange Commission (the Commission), as soon as reasonably practicable after such material is electronically filed with or furnished to the Commission. Interested parties may also find reports, proxy and information statements and other information on issuers that file electronically with the Commission at the Commission's Internet site at www.sec.gov.

ITEM 1A—RISK FACTORS

Operating results may be impacted by changes in the economy that influence business and consumer spending.

Operating results are directly impacted by the health of the North American and to a lesser extent, European and Asian economies. We cannot predict how robust the economy will be or whether or not it will be sustained. If the economic recovery slows, or if the economy experiences a prolonged period of decelerating or negative growth, the Company's results of operations may be negatively impacted. In general, the Company's sales depend on discretionary spending by consumers. Business and financial performance may be adversely affected by current and future economic conditions, including unemployment levels, energy costs, interest rates, recession, inflation, the impact of natural disasters and terrorist activities, and other matters that influence business and consumer spending.

Fluctuation in economic conditions could prevent the Company from accurately forecasting demand for its products which could adversely affect its operating results or market share.

Fluctuation in economic conditions and market instability in the United States and globally makes it difficult for the Company, customers and suppliers to accurately forecast future product demand trends, which could cause the Company to produce excess products that can increase inventory carrying costs and result in obsolete inventory. Alternatively, this forecasting difficulty could cause a shortage of products, or materials used in products, that could result in an inability to satisfy demand for products and a loss of market share.

Markets are highly competitive which could limit the Company's growth and reduce profitability.

The market for sporting goods is highly fragmented and intensely competitive. A majority of the Company's products are in markets that are experiencing low growth rates. Escalade competes with a variety of regional, national and international manufacturers for customers, employees, products, services and other important aspects of the business. The Company has historically sold a large percentage of its sporting goods products to mass merchandisers and has increasingly attempted to expand sales to specialty retailer and dealer markets. In addition to competition for sales into those distribution channels, vendors also must compete in sporting goods with large format sporting goods stores, traditional sporting goods stores and chains, warehouse clubs, discount stores and department stores. Competition from on-line retailers may also impact sales. Some of the current and potential competitors are larger than Escalade and have substantially greater financial resources that may be devoted to sourcing, promoting and selling their products, and may discount prices more heavily than the Company can afford.

If the Company is unable to predict or effectively react to changes in consumer demand, it may lose customers and sales may decline.

Success depends in part on the ability to anticipate and respond in a timely manner to changing consumer demand and preferences regarding sporting goods. Products must appeal to a broad range of consumers whose preferences cannot be predicted with certainty and are subject to change. The Company often makes commitments to manufacture products months in advance of the proposed delivery to customers. If Escalade misjudges the market for products, sales may decline significantly. The Company may have to take significant inventory markdowns on unpopular products that are overproduced and/or miss opportunities for other products that may rise in popularity, both of which could have a negative impact on profitability. A major shift in consumer demand away from sporting goods products could also have a material adverse effect on the Company's business, results of operations and financial condition.

The Company derives a substantial portion of its revenue from a few significant customers and loss of any of these customers could materially affect our results of operations and financial condition.

The Company has one major customer which accounted for more than ten percent of consolidated gross sales and several other large customers, none of which represent more than ten percent of consolidated gross sales, and historically has derived substantial revenues from these customers. The Company has one major customer which accounted for more than ten percent of total accounts receivable. The Company needs to continue to expand its customer base to minimize the effects of the loss of any single customer in the future. If sales to one or more of the large customers would be lost or materially reduced, there can be no assurance that the Company will be able to replace such revenues, which could have a material adverse effect on the Company's business, results of operations and financial condition.

The Company's customers may experience financial difficulties that could result in losses to the Company.

From time to time, one or more of the Company's customers have experienced, are experiencing, or may in the future experience financial difficulties that impair their ability to pay all amounts owed to the Company. In such instances, the customer may file bankruptcy or take other actions to restructure the amounts owed to secured and unsecured creditors, including unsecured trade creditors such as the Company. When this occurs, the Company may not be able to collect the full amount owed to it by the customer, and in severe situations may have to write off all or a substantial portion of those customer receivables. As of the end of its 2015 fiscal year, the Company had net accounts receivables of approximately \$3.5 million due from customers about whom the Company has some concerns. Any significant resulting losses incurred by the Company relating to these or other customers could have a material adverse effect on the Company's business, results of operation, and financial condition.

Quarterly operating results are subject to fluctuation.

Operating results have fluctuated from quarter to quarter in the past, and the Company expects that they will continue to do so in the future. Factors that could cause these quarterly fluctuations include the following: international, national and local general economic and market conditions; the size and growth of the overall sporting goods markets; intense competition among manufacturers, marketers, distributors and sellers of products; demographic changes; changes in consumer preferences; popularity of particular designs, categories of products and sports; seasonal demand for products; the size, timing and mix of purchases of products; fluctuations and difficulty in forecasting operating results; ability to sustain, manage or forecast growth and inventories; new product development and introduction; ability to secure and protect trademarks, patents and other intellectual property; performance and reliability of products; customer service; the loss of significant customers or suppliers; dependence on distributors; business disruptions; increased costs of freight and transportation to meet delivery deadlines; changes in business strategy or development plans; general risks associated with doing business outside the United States, including, without limitation: exchange rates, import duties, tariffs, quotas and political and economic instability; changes in government

regulations; any liability and other claims asserted against the Company; ability to attract and retain qualified personnel; and other factors referenced or incorporated by reference in this Form 10-K and any other filings with the Securities and Exchange Commission.

The Company may pursue strategic acquisitions, divestitures, or investments and the failure of a strategic transaction to produce anticipated results or the inability to fully integrate an acquired company could have an adverse impact on the Company's business.

The Company has made acquisitions of complementary companies or businesses, which have been part of the strategic plan, and may continue to pursue acquisitions in the future from time to time. Acquisitions may result in difficulties in assimilating acquired companies, and may result in the diversion of capital and management's attention from other business issues and opportunities. The Company may not be able to successfully integrate operations that it acquires, including personnel, financial systems, distribution, and operating procedures. If the Company fails to successfully integrate acquisitions, the Company's business could suffer. In addition, acquisitions may result in the incurrence of debt, contingent liabilities, amortization expense or write-offs of goodwill or other intangibles, any of which could affect the Company's financial position. The Company also has sometimes divested or discontinued certain operations, assets, and products that did not perform to the Company's expectations or no longer fit with the Company's strategic objectives. Divestitures may result in gains, losses, contingent liabilities, write-offs, tax consequences, or other related costs and expenses that could affect the Company's financial position. Escalade will consider acquisitions, divestitures, and investments in the future, one or more of which, individually or in the aggregate, could be material to the Company's overall business, operations or financial position.

Growth may strain resources, which could adversely affect the Company's business and financial performance.

The Company has grown in the past through strategic acquisitions, and continues to make acquisitions in its Sporting Goods business. Growth places additional demands on management and operational systems. If the Company is not successful in continuing to support operational and financial systems, expanding the management team and increasing and effectively managing customers and suppliers, growth may result in operational inefficiencies and ineffective management of the Company's business, which could adversely affect its business and financial performance.

The Company's ability to operate and expand business and to respond to changing business and economic conditions will be dependent upon the availability of adequate capital.

The rate of expansion will also depend on the availability of adequate capital, which in turn will depend in large part on cash flow generated by the business and the availability of equity and debt capital. The Company can make no assurances that it will be able to obtain equity or debt capital on acceptable terms or at all. Our current senior secured revolving credit facility contains provisions that limit our ability to incur additional indebtedness or make substantial asset sales, which might otherwise be used to finance our operations. In the event of our insolvency, liquidation, dissolution or reorganization, the lenders under our senior secured revolving credit facility would be entitled to payment in full from our assets before distributions, if any, to our stockholders.

The Company could suffer if it fails to attract and retain skilled management and key personnel.

The Company's success depends in large part on its ability to attract and retain highly qualified management executives and key personnel. Significant competition for qualified candidates exists in the Company's business lines and geographic locations. If the Company is not able to hire and retain its executives and key personnel, or if the compensation costs required to attract and retain such individuals becomes more expensive, the Company may suffer adverse consequences to its business, operations, and financial condition.

The Company's business may be adversely affected by the actions of and risks associated with third-party suppliers.

The raw materials that the Company purchases for manufacturing operations and many of the products that it sells are sourced from a wide variety of third-party suppliers. The Company cannot control the supply, design, function or cost of many of the products that are offered for sale and are dependent on the availability and pricing of key materials and products. Disruptions in the availability of raw materials used in production of these products may adversely affect sales and result in customer dissatisfaction. In addition, global sourcing of many of the products sold is an important factor in the Company's financial performance. The ability to find qualified suppliers and to access products in a timely and efficient manner is a significant challenge, especially with respect to goods sourced outside the United States. Political instability, financial instability of suppliers, merchandise quality issues, trade restrictions, tariffs, currency exchange rates, transport capacity and costs, inflation and other factors relating to foreign trade are beyond the Company's control.

Historically, instability in the political and economic environments of the countries in which the Company or its suppliers obtain products and raw materials has not had a material adverse effect on operations. However, the Company cannot predict the effect that future changes in economic or political conditions in such foreign countries may have on operations. In the event of disruptions or delays in supply due to economic or political conditions in foreign countries, such disruptions or delays could adversely affect results of operations unless and until alternative supply arrangements could be made. In addition, products and materials purchased from alternative sources may be of lesser quality or more expensive than the products and materials currently purchased abroad.

Deterioration in relationships with suppliers or in the financial condition of suppliers could adversely affect liquidity, results of operations and financial position.

Access to materials, parts and supplies is dependent upon close relationships with suppliers and the ability to purchase products from the principal suppliers on competitive terms. The Company does not enter into long-term supply contracts with these suppliers, and has no current plans to do so in the future. These suppliers are not required to sell to the Company and are free to change the prices and other terms. Any deterioration or change in the relationships with or in the financial condition of the Company's significant suppliers could have an adverse impact on its ability to procure materials and parts necessary to produce products for sale and distribution. If any of the significant suppliers terminated or significantly curtailed its relationship with the Company or ceased operations, the Company would be forced to expand relationships with other suppliers, seek out new relationships with new suppliers or risk a loss in market share due to diminished product offerings and availability. Any change in one or more of these suppliers' willingness or ability to continue to supply the Company with their products could have an adverse impact on the Company's liquidity, results of operations and financial position.

Disruptions to our supply chain could have an adverse impact on our operations.

Many of the Company's products are manufactured outside the United States. Those products must be transported by third parties over large geographic distances. Delays in the shipment or delivery of our products could occur due to work stoppages, port strikes, lack of availability of transportation, and other factors beyond the Company's control. Such delays could impair our ability to timely and efficiently deliver our products, and could adversely impact our operating results.

The Company may be subject to product warranty claims that require the replacement or repair of the product sold. Such warranty claims could adversely affect the Company's financial position and relationships with its customers.

The Company manufactures and/or distributes a variety of products. From time to time, such products may contain manufacturing defects or design flaws that are not detected prior to sale, particularly as to new product introductions

or upon design changes to existing products. The failure to identify and correct manufacturing defects and product design issues prior to the sale of those products could result in product warranty claims that result in costs to replace or repair any such defective products. Because many of the Company's products are sold to retailers for broad consumer distribution and/or to customers who buy in large quantities, the costs associated with product warranty claims could have a material adverse effect on the Company's results of operations and financial position. Product warranty claims also could cause customer dissatisfaction that may have a material adverse effect on the Company's reputation and on the Company's relationships with its customers, which may result in lost or reduced sales.

The Company may be subject to various types of litigation and the Company's insurance may not be sufficient to cover damages related to those claims.

From time to time the Company or its subsidiaries may be involved in lawsuits or other claims arising in the course of business, including those related to product liability, consumer protection, employment, intellectual property, torts and other matters. In addition, it may be subject to lawsuits relating to the design, manufacture or distribution of its products. The Company may be subject to lawsuits resulting from injuries associated with the use of sporting goods equipment that it sells and information security and print finishing products that it sold prior to divesting that business. The Company may incur losses relating to these claims or the defense of these claims. There is a risk that claims or liabilities will exceed the Company's insurance coverage. In addition, the Company may be unable to retain adequate liability insurance in the future. Further, the Company is subject to regulation by the Consumer Product Safety Commission and similar state regulatory agencies. If the Company fails to comply with government and industry safety standards, it may be subject to claims, lawsuits, fines, product recalls and adverse publicity that could have a material adverse effect on the Company's business, results of operations and financial condition.

Intellectual property rights are valuable, and any inability to protect them could reduce the value of products.

The Company obtains patents, trademarks and copyrights for intellectual property, which represent important assets to the Company. If the Company fails to adequately protect intellectual property through patents, trademarks and copyrights, its intellectual property rights may be misappropriated by others, invalidated or challenged, and our competitors could duplicate the Company's products or may otherwise limit any competitive design or manufacturing advantages. The Company believes that success is likely to depend upon continued innovation, technical expertise, marketing skills and customer support and services rather than on legal protection of intellectual property rights. However, the Company intends to aggressively assert its intellectual property rights when necessary.

The Company is subject to risks associated with laws and regulations related to health, safety and environmental protection.

Products, and the production and distribution of products, are subject to a variety of laws and regulations relating to health, safety and environmental protection. Laws and regulations relating to health, safety and environmental protection have been passed in several jurisdictions in which the Company operates in the United States and abroad. Although the Company does not anticipate any material adverse effects based on the nature of operations and the thrust of such laws, there is no assurance such existing laws or future laws will not have a material adverse effect on the Company's business, results of operations and financial condition.

International operations expose the Company to the unique risks inherent in foreign operations.

The Company has operations in Mexico. Foreign operations encounter risks similar to those faced by U.S. operations, as well as risks inherent in foreign operations, such as local customs and regulatory constraints, control over product quality and content, foreign trade policies, competitive conditions, foreign currency fluctuations and unstable political and economic conditions. The Company's business relationships in Asia and joint venture in Sweden further increase its exposure to these foreign operating risks, which could have an adverse impact on the Company's income and profitability.

The Company could be adversely affected by changes in currency exchange rates and/or the value of the United States dollar.

The Company is exposed to risks related to the effects of changes in foreign currency exchange rates and the value of the United States dollar. Changes in currency exchange rates and the value of the United States dollar can have a

significant impact on earnings. While the Company carefully watches fluctuations in currency exchange rates, these types of changes can have material adverse effects on the Company's business, results of operations and financial condition.

Failure to improve and maintain the quality of internal controls over financial reporting could materially and adversely affect the ability to provide timely and accurate financial information, which could harm the Company's reputation and share price.

Management is responsible for establishing and maintaining adequate internal controls over financial reporting for the Company to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles. Management cannot be certain that weaknesses and deficiencies in internal controls will not arise or be identified or that the Company will be able to correct and maintain adequate controls over financial processes and reporting in the future. Any failure to maintain adequate controls or to adequately implement required new or improved controls could harm operating results or cause failure to meet reporting obligations in a timely and accurate manner. Ineffective internal controls over financial reporting could also cause investors to lose confidence in reported financial information, which could adversely affect the trading price of the Company's common stock.

Disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives. However, management, including the Chief Executive Officer and Chief Financial Officer, does not expect that disclosure controls and procedures will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

Problems with the Company's information system software or hardware could disrupt operations and negatively impact financial results and materially adversely affect the Company's business operations.

The Company relies on a suite of applications and third party software to receive and process customer orders and for the core of its manufacturing, distribution, and accounting systems. These systems, if not functioning properly, could disrupt its operations, including the Company's ability to receive and ship orders and to process financial information or engage in similar normal business activities. Any material disruption, malfunction or other similar problems in or with these systems could negatively impact our financial results and materially adversely affect our business operations.

The preparation of the Company's financial statements requires the use of estimates that may vary from actual results.

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make significant estimates that may affect financial statements. Due to the inherent nature of making estimates, actual results may vary substantially from such estimates, which could materially adversely affect the Company's business, results of operations and financial condition. For more information on the Company's critical accounting estimates, please see the Critical Accounting Estimates section of this Form 10-K.

Changes in accounting standards could impact reported earnings and financial condition.

The accounting standard setters, including the Financial Accounting Standards Board and the Securities and Exchange Commission, periodically change the financial accounting and reporting standards that govern the preparation of the Company's consolidated financial statements. These changes can be hard to predict and apply and can materially affect how the Company records and reports its financial condition and results of operations. In some cases, the Company could be required to apply a new or revised standard retrospectively, which may result in the restatement of prior period financial statements.

The Company's effective tax rate may fluctuate.

The Company is a multi-channel provider of sporting goods and, until October 2014, was a multi-national, multi-channel provider of information security and print finishing products. As a result, the Company's effective tax rate is derived from a combination of applicable tax rates in the various countries, states and other jurisdictions in which the Company operates. The effective tax rate may be lower or higher than its tax rates have been in the past due to numerous factors, including the sources of income, any agreement with taxing authorities in various jurisdictions, the tax filing positions taken in various jurisdictions and changes in the political environment in the jurisdictions in which the Company operates. The Company bases estimates of an effective tax rate at any given point in time upon a calculated mix of the tax rates applicable to the Company and to estimates of the amount of business likely to be done in any given jurisdiction. The loss of one or more agreements with taxing jurisdictions, a change in the mix of business from year to year and from country to country, changes in rules related to accounting for income taxes, changes in tax laws and any of the multiple jurisdictions in which the Company operates, or adverse outcomes from tax audits that the Company may be subject to in any of the jurisdictions in which the Company operates, could result in an unfavorable change in the effective tax rate which could have an adverse effect on the Company's business and results of operations.

The market price of the Company's common stock is likely to be highly volatile as the stock market in general can be highly volatile.

The public trading of the Company's common stock is based on many factors which could cause fluctuation in the Company's stock price. These factors may include, among other things:

- General economic and market conditions;
- Actual or anticipated variations in quarterly operating results;
- Limited research coverage by securities analysts;
- Relatively low market capitalization resulting in low trading volume in the Company's stock;
- If securities analysts provide coverage, our inability to meet or exceed securities analysts' estimates or expectations;
- Conditions or trends in the Company's industries;
- Changes in the market valuations of other companies in the Company's industries;
- Announcements by the Company or the Company's competitors of significant acquisitions, strategic partnerships, divestitures, joint ventures or other strategic initiatives;
- Capital commitments;
- Additions or departures of key personnel;
- Sales and repurchases of the Company's common stock; and
- The ability to maintain listing of the Company's common stock on the NASDAQ Global Market.

Many of these factors are beyond the Company's control. These factors may cause the market price of the Company's common stock to decline, regardless of operating performance.

If we are unable to pay quarterly dividends at intended levels, our reputation and stock price may be harmed.

Our quarterly cash dividend is currently \$0.11 per common share. The dividend program requires the use of a portion of our cash flow. Our ability to pay dividends will depend on our ability to generate sufficient cash flows from operations in the future. This ability may be subject to certain economic, financial, competitive and other factors that are beyond our control. Our Board of Directors (Board) may, at its discretion, increase or decrease the intended level of dividends or entirely discontinue the payment of dividends at any time. Any failure to pay dividends after we have announced our intention to do so may negatively impact our reputation, investor confidence in us and negatively impact our stock price.

Unauthorized disclosure of sensitive or confidential customer information could harm the Company's business and its standing with its customers.

Through sales and marketing activities, the Company collects and stores certain information that customers provide to purchase products or services or otherwise communicate and interact with the Company. Despite instituted safeguards for the protection of such information, the Company cannot be certain that all of its systems are entirely free from vulnerability to attack. Computer hackers may attempt to penetrate the Company's network security and, if successful, misappropriate confidential customer or business information. In addition, an employee, a contractor or other third party with whom the Company does business may attempt to circumvent the Company's security measures in order to obtain such information or inadvertently cause a breach involving such information. Loss of customer or business information could disrupt operations, damage the Company's reputation, and expose the Company to claims from customers, financial institutions, payment card associations and other persons, any of which could have an adverse effect on the Company's business, results of operations and financial condition. In addition, compliance with tougher privacy and information security laws and standards may result in significant expense due to increased investment in technology and the development of new operational processes.

Terrorist attacks, acts of war or natural disaster may seriously harm the Company's business.

Among the chief uncertainties facing the nation and the world and, as a result, the business is the instability and conflict in the Middle East. Obviously, no one can predict with certainty what the overall economic impact will be as a result of these circumstances. Terrorist attacks may cause damage or disruption to the Company, employees, facilities and customers, which could significantly impact net sales, costs and expenses and financial condition. The potential for future terrorist attacks, the national and international responses to terrorist attacks, and other acts of war and hostility may cause greater uncertainty and cause business to suffer in ways the Company currently cannot predict.

In addition, any natural disaster or other serious disruption to one of the Company's manufacturing or distribution sights due to fire, tornado, earthquake or any other causes could damage a material portion of inventory or impair our ability to provide product to our customers and could negatively affect our sales and profitability.

These risks are not exhaustive.

Other sections of this Form 10-K may include additional factors which could adversely impact the Company's business and financial performance. Moreover, the Company operates in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all risk factors, nor can the Company assess the impact of all factors on business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

ITEM 1B—UNRESOLVED STAFF COMMENTS

None.

ITEM 2—PROPERTIES

At December 26, 2015, the Company owned or operated from the following locations:

Location	Square Footage	Owned or Leased	Use
Evansville, Indiana, USA	483,954	Owned	Distribution; sales and marketing; engineering; administration
Rosarito, Mexico	174,700	Owned	Manufacturing and distribution
Olney, Illinois, USA	108,500	Leased	Manufacturing and distribution
Gainesville, Florida, USA	154,200	Owned	Manufacturing and distribution
Raleigh, N. Carolina, USA	88,800	Leased	Manufacturing and distribution
Jacksonville, Florida, USA	31,800	Leased	Distribution; sales and marketing
Peoria, AZ, USA	6,214	Leased	Manufacturing and distribution
Shanghai, China	1,860	Leased	Sales and sourcing
Wabash, Indiana, USA	141,000	Owned	Facility is leased to third party. Location is not used for operations of the Company.

The Company believes that its facilities are in satisfactory and suitable condition for their respective operations. The Company also believes that it is in material compliance with all applicable environmental regulations and is not subject to any proceeding by any federal, state or local authorities regarding such matters. The Company provides regular maintenance and service on its plants and machinery as required. During the first quarter of 2016, the Company has planned to cease operations at the Raleigh facility. The lease expires on February 28, 2016.

ITEM 3—LEGAL PROCEEDINGS

The Company is involved in litigation arising in the normal course of its business, but the Company does not believe that the disposition or ultimate resolution of such claims or lawsuits will have a material adverse effect on the business or financial condition of the Company.

The Company is not aware of any probable or levied penalties against the Company relating to the American Jobs Creation Act.

ITEM 4—MINE SAFETY DISCLOSURES

Not applicable.

Part II

ITEM 5—MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's common stock is traded under the symbol “ESCA” on the NASDAQ Global Market. The following table sets forth, for the calendar periods indicated, the high and low sales prices of the Common Stock as reported by the NASDAQ Global Market:

Prices	High	Low
2015		
Fourth quarter ended December 26, 2015	\$18.67	\$10.89
Third quarter ended October 3, 2015	18.73	15.74
Second quarter ended July 11, 2015	19.97	16.24
First quarter ended March 21, 2015	16.75	14.75
2014		
Fourth quarter ended December 27, 2014	\$14.47	\$11.18
Third quarter ended October 4, 2014	16.77	11.78

Edgar Filing: ESCALADE INC - Form 10-K

Second quarter ended July 12, 2014	16.83	12.58
First quarter ended March 22, 2014	12.77	10.61
2013		
Fourth quarter ended December 28, 2013	\$12.41	\$8.18
Third quarter ended October 5, 2013	8.70	6.32
Second quarter ended July 13, 2013	6.48	5.72
First quarter ended March 23, 2013	6.20	5.21

The closing market price on February 17, 2016 was \$11.66 per share.

During 2013, the Company's Board of Directors adopted a dividend policy under which the Company intends to pay quarterly cash dividends on its common stock. At the August 2014 meeting of the Board of Directors, the Company established the annual rate to be \$0.40 per share, or \$0.10 per share quarterly. At the April 2015 meeting of the Board of Directors, the Company increased the quarterly rate to \$0.11 per share. Dividends issued/declared during 2014 and 2015 are as follows:

Record Date	Payment Date	Amount per Common Share
March 13, 2014	March 20, 2014	\$ 0.09
June 12, 2014	June 19, 2014	\$ 0.09
September 14, 2014	September 21, 2014	\$ 0.10
December 12, 2014	December 19, 2014	\$ 0.10
March 13, 2015	March 20, 2015	\$ 0.10
June 12, 2015	June 19, 2015	\$ 0.11
September 14, 2015	September 21, 2015	\$ 0.11
December 14, 2015	December 21, 2015	\$ 0.11

There were approximately 140 holders of record of the Company's Common Stock at February 17, 2016. The approximate number of stockholders, including those held by depository companies for certain beneficial owners, was 2,139.

SHAREHOLDER RETURN PERFORMANCE GRAPH

Set forth below is a graph comparing the yearly percentage change in the cumulative total shareholder return on the Company's common stock with that of the cumulative total return on the NASDAQ 100 and the NASDAQ US Benchmark TR Index for the five year period ended December 31, 2015. The following information is based on an investment of \$100, on December 31, 2010, in the Company's common stock, the NASDAQ 100 and the NASDAQ US Benchmark TR Index, with dividends reinvested.

COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN

	2010	2011	2012	2013	2014	2015
Escalade Common Stock	100	69	82	184	237	208

Edgar Filing: ESCALADE INC - Form 10-K

NASDAQ 100 (OMX)	100	104	123	168	201	220
NASDAQ US Benchmark TR Index (OMX)	100	100	117	156	175	176

The performance graph does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Company filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates the performance graph by reference therein.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
Share purchases prior to 10/3/2015 under the current repurchase program.	982,916	\$ 8.84	982,916	\$2,273,939
Fourth quarter purchases:				
10/4/2015 – 10/31/2015	None	None	None	No Change
11/1/2015 – 11/28/2015	None	None	None	No Change
11/29/2015 – 12/26/2015	None	None	None	No Change
Total share purchases under the current program	982,916	\$ 8.84	982,916	\$2,273,939

The Company has one stock repurchase program which was established in February 2003 by the Board of Directors and which initially authorized management to expend up to \$3,000,000 to repurchase shares on the open market as well as in private negotiated transactions. In each of February 2005 and 2006, August 2007 and February 2008 the Board of Directors increased the remaining balance on this plan to its original level of \$3,000,000. The repurchase plan has no termination date and there have been no share repurchases that were not part of a publicly announced program.

ITEM 6—SELECTED FINANCIAL DATA

(In thousands, except per share data)

At and For Years Ended	December 26, 2015	December 27, 2014	December 28, 2013	December 29, 2012	December 31, 2011
Income Statement Data					
Net revenue					
Sporting Goods	\$ 155,542	\$ 137,975	\$ 132,991	\$ 112,599	\$ 96,971
Discontinued Operations	--	20,865	30,686	34,990	37,279
Total net sales	155,542	158,840	163,677	147,589	134,250
Net income (loss)	11,606	11,817	9,805	(4,930)	4,441
Weighted-average shares	14,088	13,853	13,506	13,244	12,849
Per Share Data					
Basic earnings (loss) per share	\$0.82	\$0.85	\$0.73	\$(0.37)	\$0.35
Cash dividends	\$0.43	\$0.38	\$0.34	\$0.31	\$0.32
Balance Sheet Data					
Working capital	34,508	37,105	37,537	32,656	29,496
Total assets	143,737	127,881	141,974	125,740	130,115
Short-term debt	21,586	17,786	23,263	19,070	16,947
Long-term debt	1,750	3,360	4,946	3,500	5,000
Total stockholders' equity	96,480	89,779	87,955	80,457	87,565

Fiscal year 2015 was positively impacted by increased sales in the Sporting Goods segment. Gross margins were negatively impacted due to sales mix. Operating income was negatively impacted by increased operating costs related to acquisitions and marketing efforts in new categories acquired during the year and new products to be introduced in 2016.

Fiscal year 2014 was positively impacted by increased sales in the Sporting Goods segment. Net income was negatively impacted by the divestiture of the Information Security and Print Finishing segment of \$9.6 million partially off-set by a tax benefit of \$6.1 million.

Fiscal year 2013 was positively impacted by increased sales in the Sporting Goods segment, as well as improved margins resulting from higher sales volumes.

Fiscal year 2012 was positively impacted by increased sales in the Sporting Goods segment. Net income was negatively impacted by goodwill and intangible asset impairment in Martin Yale Group, which reduced net income by \$13.4 million.

Fiscal year 2011 was positively impacted by increased sales in the Sporting Goods and Information Security and Print Finishing segments. Net income was negatively impacted by the accelerated write-off of the Oracle ERP system, which reduced net income by \$2.7 million.

ITEM 7—MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following section should be read in conjunction with Item 1: Business; Item 1A: Risk Factors; Item 6: Selected Financial Data; and Item 8: Financial Statements and Supplementary Data.

Forward-Looking Statements

This report contains forward-looking statements relating to present or future trends or factors that are subject to risks and uncertainties. These risks include, but are not limited to, the impact of competitive products and pricing, product demand and market acceptance, new product development, Escalade's ability to achieve its business objectives, especially with respect to its Sporting Goods business on which it has chosen to focus, Escalade's ability to successfully achieve the anticipated results of strategic transactions, including the integration of the operations of acquired assets and businesses and of divestitures of non-core assets and businesses, the continuation and development of key customer and supplier relationships, disruptions or delays in our supply chain, Escalade's ability to control costs, general economic conditions, fluctuation in operating results, changes in foreign currency exchange rates, changes in the securities market, Escalade's ability to obtain financing and to maintain compliance with the terms of such financing and other risks detailed from time to time in Escalade's filings with the Securities and Exchange Commission. Escalade's future financial performance could differ materially from the expectations of management contained herein. Escalade undertakes no obligation to release revisions to these forward-looking statements after the date of this report.

Overview

Escalade, Incorporated (Escalade, the Company, we, us or our) is focused on growing its Sporting Goods segment through organic growth of existing categories, strategic acquisitions, and new product development now that the businesses comprising the Information Security and Print Finishing segment have been divested. The Sporting Goods segment competes in a variety of categories including basketball goals, archery, indoor and outdoor game recreation and fitness products. Strong brands and on-going investment in product development provide a solid foundation for building customer loyalty and continued growth.

The Company historically manufactured and distributed products for two industries: Sporting Goods and Information Security and Print Finishing. On June 30, 2014, the Company sold its Print Finishing business. On October 1, 2014, the Company sold its Information Security business. The divestiture of these two divisions accomplished the Company's complete exit from the Information Security and Print Finishing segment. The Company's decision to exit the Information Security and Print Finishing segment was influenced by low performance in this segment and lack of strategic fit. Management believes it can better achieve earnings growth through a more concentrated focus within the sporting goods equipment industry, including the traditional sports and emerging outdoor categories.

Within the sporting goods industry, the Company has successfully built a robust market presence in several niche markets. This strategy is heavily dependent on expanding our customer base, barriers to entry, strong brands, excellent customer service and a commitment to innovation. A key strategic advantage is the Company's established relationships with major customers that allow the Company to bring new products to market in a cost effective manner while maintaining a diversified portfolio of products to meet the demands of consumers. In addition to strategic customer relations, the Company has substantial manufacturing and import experience that enable it to be a low cost supplier. Concentrated focus on the sporting goods industry will allow the Company to leverage its strength in these markets.

To enhance growth opportunities, the Company has focused on promoting new product innovation and development and brand marketing. In addition, the Company has embarked on a strategy of acquiring companies or product lines that complement or expand the Company's existing product lines or provide expansion into new or emerging categories in sporting goods. A key objective is the acquisition of product lines with barriers to entry that the Company can take to market through its established distribution channels or through new market channels. Significant synergies are achieved through assimilation of acquired product lines into the existing Company structure. In 2015, the Company acquired Onix Sports, Inc. to expand the Company's offerings of pickleball paddles, balls, sportswear, and accessories, and Goalsetter Systems, Inc., ("Goalsetter") to add another premium brand of residential in-ground basketball goals. The acquisition of Goalsetter from Co-Line Manufacturing, which will continue to manufacture the Goalsetter basketball goals in its Iowa facilities, also strengthens and diversifies the Company's sources of basketball goals. The Company also sometimes divests or discontinues certain operations, assets, and products that do not perform to the Company's expectations or no longer fit with the Company's strategic objectives.

Management believes that key indicators in measuring the success of these strategies are revenue growth, earnings growth, new product introductions, and the expansion of channels of distribution. The following table sets forth the annual percentage change in revenues and net income (loss) over the past three years:

	2015	2014	2013
Net revenue			
Sporting Goods	12.7 %	3.7 %	18.1 %
Discontinued Operations	(100.0%)	(32.0%)	(12.3 %)
Total	(2.1 %)	(3.0 %)	10.9 %
Net income (loss)			
Sporting Goods	(14.2 %)	2.8 %	31.4 %
Discontinued Operations	(100.0%)	45.2 %	82.2 %
Total	(1.8 %)	20.5 %	298.9%

Excluding the impact of goodwill and intangible asset impairment in 2012, the annual percentage of change in total net income would have been an increase of 11.0% in 2013.

Results of Operations

The following schedule sets forth certain consolidated statement of operations data (excluding Discontinued Operations) as a percentage of net revenue:

	2015	2014	2013
Net revenue	100.0%	100.0%	100.0%
Cost of products sold	72.0 %	70.2 %	69.9 %
Gross margin	28.0 %	29.8 %	30.1 %
Selling, administrative and general expenses	17.9 %	16.6 %	16.1 %
Amortization	1.9 %	1.9 %	1.8 %
Operating income	8.2 %	11.3 %	12.2 %

Revenue and Gross Margin

Sales growth across most sales channels of the Sporting Goods segment resulted in an overall increase of 12.7% in Sporting Goods net revenues for 2015 compared to 2014.

The overall gross margin percentage decreased to 28.0% in 2015 compared with 29.8% in 2014 due primarily to decreased sales and margins in archery.

Selling, General and Administrative Expenses

Selling, general and administrative expenses (SG&A) were \$27.8 million in 2015 compared to \$22.9 million in 2014, an increase of \$4.8 million or 21.1%. SG&A as a percent of sales is 17.9% in 2015 compared with 16.6% in 2014. The increase in SG&A is primarily due to increased marketing efforts in new categories acquired during the year as well as new products to be introduced in future years.

Other Income

Other income, including equity in earnings of affiliates, decreased in 2015 to \$3.3 million compared with \$4.7 million 2014, a decrease of 29.6% primarily due to the impact of foreign currency exchange rates associated with our 50% ownership of Stiga, headquartered in Sweden. Other income for 2014 included \$0.6 million of insurance proceeds due to roof damage that the company used to make facility repairs in 2015. Equity in earnings of affiliates was \$3.0 million in 2015 compared with \$3.9 million in 2014.

Provision for Income Taxes

The effective tax rate for 2015 and 2014 was 26.0% and 2.8%, respectively. The 2015 effective tax rate is lower than the statutory rate primarily due to income tax credits, benefits from the captive insurance, and the effect of foreign tax rates. The lower 2014 tax rate is primarily driven by reductions in valuation allowance reserves for foreign net operating losses utilized in the divested Information Security and Print Finishing businesses due to cancelation of indebtedness and the foreign exchange gain on the sale of the Information Security investment. The higher 2013 tax rate of 41.2% is primarily driven by increases in valuation allowance reserves for foreign net operating losses generated in the Information Security and Print Finishing business.

Sporting Goods

Net revenues, operating income, and net income for the Sporting Goods segment for the three years ended December 26, 2015 were as follows:

In Thousands	2015	2014	2013
Net revenue	\$ 155,542	\$ 137,975	\$ 132,991
Operating income	16,070	18,194	18,469
Net income	9,771	11,394	11,087

Net revenue increased 12.7% in 2015 compared to 2014 with growth coming from most sales channels in the Sporting Goods segment. The Company continues to aggressively pursue opportunities to increase revenue through introduction of new products, expansion of product distribution, acquisitions, and increased investment in consumer marketing. Sales channels are predominately mass market retail customers, specialty retailers, and dealers. During 2015, the Company strengthened its product offerings with the acquisitions of Onix Sports, Inc. to expand the Company's offerings of pickleball paddles, balls, sportswear, and accessories, and Goalsetter to add another premium brand of residential in-ground basketball goals.

Gross margin and profitability declined in 2015 compared with 2014. The gross margin ratio in 2015 declined to 28.0% compared to 29.8% in the prior year due to decreased sales and margins in archery. Operating income as a percentage of net revenue decreased to 10.3% in 2015 compared to 13.2% in 2014. Management anticipates additional sales growth in 2016 related to new product offerings and the acquisitions made during 2015 and in January, 2016.

Information Security and Print Finishing

On June 30, 2014, the Company sold its Print Finishing business. On October 1, 2014, the Company sold its Information Security business. The divestiture of these two divisions accomplished the Company's complete exit from the Information Security and Print Finishing segment. Due to the exit from the Information Security and Print Finishing segment, effective as of its second quarter ended July 12, 2014, the Company began reporting results of its Information Security and Print Finishing business as discontinued operations, which are excluded from the results of continuing operations.

As a result of the divestiture of the Information Security and Print Finishing segment, the Company incurred a loss on disposal of assets of \$9.6 million, income from reclassification of accumulated other comprehensive income from foreign currency translation adjustments of \$2.6 million and a tax benefit of \$6.1 million. For more information relating to the Information Security and Print Finishing segment, see Note 11 – Discontinued Operations, and Note 14 – Segment Information, to the financial statements included under Item 1 of this Form 10-K.

Financial Condition and Liquidity

The current ratio, a basic measure of liquidity (current assets divided by current liabilities), decreased to 1.9 in 2015 compared to 2.2 in 2014. Receivable levels increased to \$39.0 million in 2015 compared with \$32.2 million in 2014 and net inventory increased \$2.1 million to \$25.9 million in 2015 from \$23.8 million in 2014. Total notes payable and long-term debt increased to \$23.3 million, up from \$21.1 million in 2014. Total notes payable and long-term debt as a percentage of stockholders equity was 24.2% in 2015, up from 23.6% in 2014.

The Company's working capital requirements are primarily funded through cash flows from operations and revolving credit agreements with its bank. During 2015, the Company's maximum borrowings under its primary revolving credit lines and overdraft facility totaled \$31.6 million compared to \$30.6 million in 2014. Total notes payable and long-term debt increased \$2.2 million in 2015 as compared with 2014. The debt increase was primarily driven by the acquisitions completed during 2015. The overall effective interest rate in 2015 was 2.6% which was down from the effective rate of 3.0% in 2014. On January 21, 2016, the Company entered into a Second Amended and Restated Credit Agreement ("Restated Credit Agreement") with its issuing bank, JP Morgan Chase Bank, N.A. ("Chase"), and the other lenders identified in the Restated Credit Agreement (collectively, the "Lender"). Under the terms of the Restated Credit Agreement, the Lender has made available to the Company a senior revolving credit facility in an increased maximum amount of up to \$35.0 million and a term loan in an increased principal amount of \$7.5 million. The maturity date of the revolving credit facility was extended to January 21, 2019 and the maturity of the term loan facility was extended to January 21, 2021.

The Company's cash remains stable compared with prior year due to the utilization of the revolving credit agreement facility to fund working capital needs. Operating cash flows were used to fund acquisitions and to pay shareholder dividends.

In 2016, the Company estimates capital expenditures to be approximately \$4.5 million.

The Company expects improvements in its overall sales levels for fiscal year 2016 compared with 2015 as a result of new product offerings, acquisitions and expanded customer base. The Company believes that cash generated from its projected 2016 operations and the commitment of borrowings from its primary lender will provide it with sufficient cash flows for its operations.

It is possible that if economic conditions deteriorate, this could have adverse effects on the Company's ability to operate profitably during fiscal year 2016. To the extent that occurs, management will pursue cost reduction initiatives and consider realignment of its infrastructure in an effort to match the Company's overhead and cost structure with the sales level dictated by current market conditions.

New Accounting Pronouncements

Refer to Note 1 to the consolidated financial statements under the sub-heading "New Accounting Pronouncements".

Off Balance Sheet Financing Arrangements

The Company has no financing arrangements that are not recorded on the Company's balance sheet.

Contractual Obligations

The following schedule summarizes the Company's material contractual obligations as of December 26, 2015:

Amounts in thousands	Total	2016	2017 - 2018	2019 - 2020	Thereafter
Debt	\$23,336	\$21,586	\$1,750	\$--	\$ --
Future interest payments (1)	627	585	42	--	--
Operating leases	1,393	468	640	285	--
Minimum payments under royalty and license agreements	1,295	460	835	--	--
Total	\$26,651	\$23,099	\$3,267	\$285	\$ --

Note:

(1) Assumes that the Company will not increase borrowings under its long-term credit agreements and that the effective interest rate experienced in 2015 of 2.6% will continue for the life of the agreements.

The contractual obligations table does not reflect the Restated Credit Agreement entered into by the Company on January 21, 2016. The impact of the Restated Credit Agreement is to increase debt payments by \$4.8 million and increase future interest payments by \$0.5 million.

Critical Accounting Estimates

The methods, estimates and judgments used in applying the Company's accounting policies have a significant impact on the results reported in its financial statements. Some of these accounting policies require difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. The most critical accounting estimates are described below and in the Notes to the Consolidated Financial Statements.

Product Warranty

The Company provides limited warranties on certain of its products for varying periods. Generally, the warranty periods range from 90 days to one year. However, some products carry extended warranties of seven-year, ten-year, and lifetime warranties. The Company records an accrued liability and expense for estimated future warranty claims

based upon historical experience and management's estimate of the level of future claims. Changes in the estimated amounts recognized in prior years are recorded as an adjustment to the accrued liability and expensed in the current year. To the extent there are product defects in current products that are unknown to management and do not fall within historical defect rates, the product warranty reserve could be understated and the Company could be required to accrue additional product warranty costs thus negatively affecting gross margin.

Inventory Valuation Reserves

The Company evaluates inventory for obsolescence and excess quantities based on demand forecasts over specified time frames, usually one year. The demand forecast is based on historical usage, sales forecasts and current as well as anticipated market conditions. All amounts in excess of the demand forecast are deemed to be potentially excess or obsolete and a reserve is established based on the anticipated net realizable value. To the extent that demand forecasts are greater than actual demand and the Company fails to reduce manufacturing output accordingly, the Company could be required to record additional inventory reserves which would have a negative impact on gross margin.

Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. Accounts receivable are ordinarily due between 30 and 60 days after the issuance of the invoice. Accounts are considered delinquent when more than 90 days past due. Delinquent receivables are reserved or written off based on individual credit evaluation and specific circumstances of the customer. To the extent that actual bad debt losses exceed the allowance recorded by the Company, additional reserves would be required which would increase selling, general and administrative costs.

Customer Allowances

Customer allowances are common practice in the industries in which the Company operates. These agreements are typically in the form of advertising subsidies, volume rebates and catalog allowances and are accounted for as a reduction to gross sales. The Company reviews such allowances on an ongoing basis and accruals are adjusted, if necessary, as additional information becomes available.

Impairment of Goodwill

The Company reviews goodwill for impairment annually and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable, in accordance with guidance in Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) 350, *Intangibles – Goodwill and Other*. A qualitative assessment is first performed to determine if the fair value of the reporting unit is "more likely than not" less than the carrying value. If so, we proceed to step one of the two-step goodwill impairment test, in which the fair value of the reporting unit is compared to its carrying value. If not, then performance of the second step of the goodwill impairment test is not necessary. If the carrying value of goodwill exceeds the implied estimated fair value calculated in the second step, an impairment charge to current operations is recorded to reduce the carrying value to the implied estimated fair value.

If the second step of the goodwill impairment testing is required, the Company establishes fair value by using an income approach or a combination of a market approach and an income approach. The market approach uses the guideline-companies method to estimate the fair value of a reporting unit based on reported sales of publicly-held entities engaged in the same or a similar business as the reporting unit. The income approach uses the discounted cash flow method to estimate the fair value of a reporting unit by calculating the present value of the expected future cash flows of the reporting unit. The discount rate is based on a weighted average cost of capital determined using publicly-available interest rate information on the valuation date and data regarding equity, size and country-specific risk premiums/decrements compiled and published by a commercial source. The Company uses assumptions about expected future operating performance in determining estimates of those cash flows, which may differ from actual cash flows.

The Company has one reporting unit that is identical to our operating segment, Sporting Goods. Of the total recorded goodwill of \$20.0 million at December 26, 2015, the entire amount was allocated to the Escalade Sports reporting unit. The results of the qualitative impairment assessment of the Escalade Sports reporting unit indicated that the fair value of the invested capital exceeded the carrying value of the invested capital as of December 26, 2015.

Long Lived Assets

The Company evaluates the recoverability of certain long-lived assets whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Estimates of future cash flows used to test recoverability of long-lived assets include separately identifiable undiscounted cash flows expected to arise from the use and eventual

disposition of the assets. Where estimated future cash flows are less than the carrying value of the assets, impairment losses are recognized based on the amount by which the carrying value exceeds the fair value of the assets.

Non-Marketable Equity Method Investments

The Company has minority equity positions in companies strategically related to the Company's business, but does not have control over these companies. The accounting method employed is dependent on the level of ownership and degree of influence the Company can exert on operations. Where the equity interest is less than 20% and the degree of influence is not significant, the cost method of accounting is employed. Where the equity interest is greater than 20% but not more than 50%, the equity method of accounting is utilized. Under the equity method, the Company's proportionate share of net income (loss) is recorded in equity in earnings of affiliates on the consolidated statements of operations. The proportionate share of net income was \$3.0 million, \$3.9 million and \$2.9 million in 2015, 2014 and 2013, respectively. Total cash dividends received from these equity investments amounted to \$928 thousand, \$919 thousand, and \$617 thousand in 2015, 2014 and 2013, respectively. The Company considers whether the fair values of any of its equity investments have declined below their carrying value whenever adverse events or changes in circumstances indicate that recorded values may not be recoverable. If the Company considers any such decline to be other than temporary (based on various factors, including historical financial results, product development activities and overall health of the investments' industry), a write-down is recorded to estimated fair value.

During 2013, the decision was made to cease operations and liquidate Escalade International, Ltd. Losses incurred include shutdown costs. As a result, the Company's 50% portion of net loss for Escalade International, Ltd. for 2013 (\$343) thousand and is included in equity in earnings of affiliates on the Company's statements of operations.

Effect of Inflation

The Company cannot accurately determine the precise effects of inflation. The Company attempts to pass on increased costs and expenses through price increases when necessary. The Company is working on reducing expenses; improving manufacturing technologies; and redesigning products to keep these costs under control.

Capital Expenditures

As of December 26, 2015, the Company had no material commitments for capital expenditures. In 2016, the Company estimates capital expenditures to be approximately \$4.5 million.

ITEM 7A — QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to financial market risks, including changes in currency exchange rates, interest rates and marketable equity security prices. The Company attempts to minimize these risks through regular operating and financing activities and, when considered appropriate, through the use of derivative financial instruments. During fiscal 2015, there were no derivatives in use. The Company does not purchase, hold or sell derivative financial instruments for trading or speculative purposes.

Interest Rates

The Company's exposure to market-rate risk for changes in interest rates relates primarily to its revolving variable rate bank debt which is based on LIBOR interest rates. A hypothetical 1% or 100 basis point change in interest rates would not have a significant effect on our consolidated financial position or results of operation.

Foreign Currency

The Company conducts business in various countries around the world and is therefore subject to risks associated with fluctuating foreign exchange rates. The Sporting Goods foreign currency transactions are denominated primarily in Mexican Peso and Chinese Yuan. The Company has a 50% interest in a joint venture, Stiga, which is denominated in Swedish Krona. Revenue from discontinued operations was generated from the operations of the Company's subsidiaries in their respective countries and surrounding geographic areas and was primarily denominated in each subsidiary's local functional currency. These former subsidiaries incurred most of their expenses (other than inter-company expenses) in their local functional currency and include the Euro, Great Britain Pound Sterling, Mexican Peso, Chinese Yuan, Swedish Krona and South African Rand.

The geographic areas outside the United States in which the Company operated are generally not considered by management to be highly inflationary. Nonetheless, the Company's foreign operations are sensitive to fluctuations in currency exchange rates arising from, among other things, certain inter-company transactions that are denominated in currencies other than the respective functional currency. Operating results as well as assets and liabilities are also subject to the effect of foreign currency translation when the operating results, assets and liabilities of our foreign subsidiaries are translated into U.S. dollars in our consolidated financial statements.

The Company and its subsidiaries conduct substantially all their business in their respective functional currencies to avoid the effects of cross-border transactions. To protect against reductions in value and the volatility of future cash flows caused by changes in currency exchange rates, the Company carefully considers the use of transaction and balance sheet hedging programs such as matching assets and liabilities in the same currency. Such programs reduce, but do not entirely eliminate the impact of currency exchange rate changes. The Company has evaluated the use of currency exchange hedging financial instruments but has determined that it would not use such instruments under the current circumstances. Changes in currency exchange rates may be volatile and could affect the Company's performance.

ITEM 8 — FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary data required by Item 8 are set forth in Part IV, Item 15.

ITEM 9 — CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A — CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Escalade maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based closely on the definition of "disclosure controls and procedures" in Rules 13a-15(e) and 15d-15(e). In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, could provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Also, the Company has investments in certain unconsolidated entities. As the Company does not control or manage these entities, its disclosure controls and procedures with respect to such entities are necessarily substantially more limited than those it maintains with respect to its consolidated subsidiaries.

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective.

Management's Report on Internal Control over Financial Reporting

Escalade's management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Escalade's internal control system was 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. Internal control over financial reporting of the Company includes those policies and procedures that:

(1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions of the Company;

(2) 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

(3) 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 Company's financial statements.

All internal control systems, no matter how well designed, have inherent limitations, including the possibility of human error or circumvention through collusion or improper overriding of controls. Therefore, even those internal control systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal control may vary over time.

The management of Escalade assessed the effectiveness of the Company's internal control over financial reporting as of December 26, 2015. In making its assessment of internal control over financial reporting, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control – Integrated Framework* (published in 2013) and implemented a process to monitor and assess both the design and operating effectiveness of the Company's internal controls. Based on this assessment, management believes that, as of December 26, 2015, the Company's internal control over financial reporting was effective.

This annual report on Form 10-K includes an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report regarding internal control over financial reporting is subject to attestation by the Company's registered public accounting firm pursuant to rules of the Securities and Exchange Commission. In addition, this report by management regarding internal control over financial reporting is specifically not incorporated by reference into this annual report on Form 10-K or into any other filing by the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

/s/ David L. Fetherman, Chief Executive Officer /s/ Stephen R. Wawrin, Chief Financial Officer

Changes in Internal Control over Financial Reporting

Management of the Company has evaluated, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, changes in the Company's internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the fourth quarter of 2015. In connection with such evaluation, there have been no changes to the Company's internal control over financial reporting that occurred since the beginning of the Company's fourth quarter of 2015 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B — OTHER INFORMATION

None.

Part III

ITEM 10 — DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information required under this item with respect to Directors and Executive Officers is contained in the registrant's Proxy Statement relating to its annual meeting of stockholders scheduled to be held on April 21, 2016 under the captions "Certain Beneficial Owners," "Election of Directors," "Executive Officers of the Registrant," "Board of Directors, Its Committees, Meetings and Functions," and "Beneficial Ownership Reporting Compliance" and is incorporated herein by reference.

ITEM 11— EXECUTIVE COMPENSATION

Information required under this item is contained in the registrant's Proxy Statement relating to its annual meeting of stockholders scheduled to be held on April 21, 2016 under the captions "Compensation Discussion and Analysis," "Compensation Committee Interlocks and Insider Participation," "Report of Compensation Committee" and "Executive Compensation" and is incorporated herein by reference, except that the information required by Item 407(e)(5) of Regulation S-K which appears under the caption "Report of Compensation Committee" is specifically not incorporated by reference into this Form 10-K or into any other filing by the registrant under the Securities Act of 1933 or the Securities Exchange Act of 1934.

ITEM 12—SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Except for the information required by Item 201(d) of Regulation S-K, which is included below, information required by this item is contained in the registrant's proxy statement relating to its annual meeting of stockholders scheduled to be held on April 21, 2016 under the captions "Certain Beneficial Owners" and "Election of Directors" and is incorporated

herein by reference.

Equity Compensation Plan Information

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity compensation plans approved by security holders (1)	187,625	\$ 6.15	1,128,758
Equity compensation plans not approved by security holders	--	--	--
Total	187,625		1,128,758

(1) These plans include the Company's 1997 Incentive Stock Option Plan, the 1997 Director Stock Option Plan, the Escalade, Incorporated 2007 Incentive Plan, an additional 1,500,000 shares added under an amendment to the Escalade 2007 Incentive Plan which was approved at Escalade's 2012 Annual Meeting of Stockholders, and a special grant of 10,000 options to Directors approved at the 2006 annual shareholders meeting.

ITEM 13—CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by Item 407(a) of Regulation S-K is contained in the registrant’s proxy statement relating to its annual meeting of stockholders to be held on April 21, 2016 under the captions “Election of Directors” and “Board of Directors, Its Committees, Meetings and Functions” and is incorporated herein by reference. The information required by Item 404 of Regulation S-K is contained in the registrant’s proxy statement relating to its annual meeting of stockholders scheduled to be held on April 21, 2016 under the caption “Certain Relationships and Related Person Transactions” and is incorporated herein by reference.

ITEM 14 — PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is contained in the registrant’s proxy statement relating to its annual meeting of stockholders scheduled to be held on April 21, 2016 under the caption “Principal Accounting Firm Fees” and is incorporated herein by reference.

Part IV

ITEM 15—EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(A) Documents filed as a part of this report:

(1) Financial Statements

Report of Independent Registered Public Accounting Firm

Consolidated financial statements of Escalade, Incorporated and subsidiaries:

Consolidated balance sheets—December 26, 2015 and December 27, 2014

Consolidated statements of operations—fiscal years ended December 26, 2015, December 27, 2014, and December 28, 2013

Consolidated statements of comprehensive income—fiscal years ended December 26, 2015, December 27, 2014, and December 28, 2013

Edgar Filing: ESCALADE INC - Form 10-K

Consolidated statements of stockholders' equity—fiscal years ended December 26, 2015, December 27, 2014, and December 28, 2013

Consolidated statements of cash flows—fiscal years ended December 26, 2015, December 27, 2014, and December 28, 2013

Notes to consolidated financial statements

Except as provided in Item 15(A)(2), all other schedules are omitted because of the absence of conditions under which they are required or because the required information is given in the consolidated financial statements or notes thereto.

(2) **Financial Statement Schedules**

The Stiga Sports AB joint venture's Financial Statements required pursuant to Rule 3-09 of Regulation S-X as promulgated by the Securities and Exchange Commission will be filed when available by amendment to this Form 10-K on or before June 23, 2016. Those financial statements will include:

Consolidated income statement – fiscal years ended December 31, 2015 and 2014

Consolidated balance sheets – December 31, 2015 and 2014

Consolidated cash flow statements – fiscal years ended December 31, 2015 and 2014

Notes to consolidated financial statements

(3) **Exhibits**

2.1 Agreement dated as of October 1, 2014 for the Sale and Purchase of all of the Shares in intimus International GmbH and Olympia Business Systems, Inc. among Wedcor Holdings, Inc. as Seller, Pitney Bowes Espana, S.A.U. as Buyer, and PHI Fund II, F.C.R. de Regimen Simplificado as Guarantor (without exhibits and schedules, which Escalade has determined are not material) (k)

Asset Sale and Purchase Agreement dated as of October 1, 2014 between Olympia Business Systems, Inc. as purchaser and Wedcor Holdings, Inc. as seller (without exhibits and schedules, which Escalade has determined are not material) (k)

- 3.1 Articles of Incorporation of Escalade, Incorporated (b)
- 3.2 Amended By-Laws of Escalade, Incorporated (j)
- 4.1 Form of Escalade, Incorporated's common stock certificate (a)
- 10.1 Licensing agreement between Sweden Table Tennis AB and Indian Industries, Inc. dated January 1, 1995 (c)
- 10.2 Second Amended and Restated Credit Agreement dated as of January 21, 2016 by and among Escalade, Incorporated, Indian Industries, Inc., and JPMorgan Chase Bank, N.A. and the other parties named therein (n)
- 10.3 Pledge and Security Agreement dated as of April 30, 2009 by and between Escalade, Incorporated and JPMorgan Chase Bank, N.A. (without exhibits and schedules, which Escalade has determined are not material) (e)
- 10.4 Form of Pledge and Security Agreement dated as of April 30, 2009 with JPMorgan Chase Bank, N.A. (e) (f)
- 10.5 Form of Unlimited Continuing Guaranty dated as of April 30, 2009 in favor of JPMorgan Chase Bank, N.A. (e) (f)

(4) **Executive Compensation Plans and Arrangements**

- 10.11 Incentive Compensation Plan for Escalade, Incorporated and its subsidiaries (a)
- 10.12 Escalade Incorporated 2007 Incentive Plan, as amended, incorporated by reference herein from Annex 1 and 2 to the Registrant's 2012 Definitive Proxy Statement (h)
- 10.13 Form of Stock Option Award Agreement utilized in Stock Option grants to employees pursuant to the Escalade, Incorporated 2007 Incentive Plan (g)
- 10.14 Form of Stock Option Award Agreement utilized in Stock Option grants to Directors pursuant to the Escalade, Incorporated 2007 Incentive Plan (g)
- 10.15 Form of Restricted Stock Unit Agreement utilized in Restricted Stock Unit grants pursuant to the Escalade Incorporated 2007 Incentive Plan. (d)
- 10.16 Executive Severance agreement, dated September 14, 2012 between Robert Keller and Escalade, Inc. (i)
- 10.17 Agreement and Release dated November 11, 2014 between Deborah J. Meinert and Escalade, Inc. (l)
- 10.18 Agreement and Release dated December 7, 2015 between Robert Keller and Escalade, Inc. (m)
- 21 Subsidiaries of the Registrant
- 23.1 Consent of BKD, LLP
- 23.2 Consent of FALK GmbH & Co KG
- 31.1 Chief Executive Officer Rule 13a-14(a)/15d-14(a) Certification
- 31.2 Chief Financial Officer Rule 13a-14(a)/15d-14(a) Certification
- 32.1 Chief Executive Officer Section 1350 Certification
- 32.2 Chief Financial Officer Section 1350 Certification
- 101.Cal XBRL Taxonomy Extension Calculation Linkbase Document
- 101.Def XBRL Taxonomy Extension Definition Linkbase Document
- 101.Lab XBRL Taxonomy Extension Label Linkbase Document
- 101.Pre XBRL Taxonomy Extension Presentation Linkbase Document
- 101.Ins XBRL Instance Document
- 101.Sch XBRL Taxonomy Extension Schema Document

(a) Incorporated by reference from the Company's Form S-2 Registration Statement, File No. 33-16279, as declared effective by the Securities and Exchange Commission on September 2, 1987

(b) Incorporated by reference from the Company's 2007 First Quarter Report on Form 10-Q

(c) Incorporated by reference from the Company's 1995 Annual Report on Form 10-K

Edgar Filing: ESCALADE INC - Form 10-K

(d) Incorporated by reference from the Company's Form 8-K filed on March 3, 2008

(e) Incorporated by reference from the Company's Form 8-K filed on May 6, 2009. Indian Industries, Inc. entered into a substantially similar agreement on January 21, 2016, which amended and restated the April 30, 2009 pledge and security agreement previously entered into by Indian Industries.

(f) Each of Escalade's and Indian's nine domestic subsidiaries has entered into the identical form of Pledge and Security Agreement and form of Unlimited Continuing Guaranty. Those nine domestic subsidiaries are: Harvard Sports, Inc.; Wedcor Holdings, Inc.; U.S. Weight, Inc.; Bear Archery, Inc.; Escalade Sports Playground, Inc.; EIM Company, Inc.; SOP Services, Inc.; Escalade Insurance, Inc.; and Goalsetter Systems, Inc. Goalsetter entered into such agreements on January 21, 2016.

- (g) Incorporated by reference from the Company's 2009 Annual Report on Form 10-K filed on March 5, 2010
 - (h) Incorporated by reference from the Company's 2012 Proxy Statement
 - (i) Incorporated by reference from the Company's Form 8-K filed on September 19, 2012
- (j) Incorporated by reference from the Company's 2014 First Quarter Report on Form 10-Q filed on April 22, 2014
 - (k) Incorporated by reference from the Company's Form 8-K filed on October 6, 2014
 - (l) Incorporated by reference from the Company's Form 8-K filed on November 12, 2014
 - (m) Incorporated by reference from the Company's Form 8-K filed on December 10, 2015
 - (n) Incorporated by reference from the Company's Form 8-K filed on January 26, 2016

Escalade, Incorporated and Subsidiaries

Index to Financial Statements

The following consolidated financial statements of the Registrant and its subsidiaries and Independent Accountants' Reports are submitted herewith:

	Page
<u>Reports of Independent Registered Public Accounting Firms</u>	31
Consolidated financial statements of Escalade, Incorporated and subsidiaries:	
<u>Consolidated balance sheets—December 26, 2015 and December 27, 2014</u>	33
<u>Consolidated statements of operations—fiscal years ended December 26, 2015, December 27, 2014 and December 28, 2013</u>	34
<u>Consolidated statements of comprehensive income—fiscal years ended December 26, 2015, December 27, 2014 and December 28, 2013</u>	35
<u>Consolidated statements of stockholders' equity—fiscal years ended December 26, 2015, December 27, 2014 and December 28, 2013</u>	35
<u>Consolidated statements of cash flows—fiscal years ended December 26, 2015, December 27, 2014 and December 28, 2013</u>	36
<u>Notes to consolidated financial statements</u>	37

Reports of Independent Registered Public Accounting Firms

Audit Committee, Board of Directors and Stockholders

Escalade, Incorporated

Evansville, Indiana

We have audited the accompanying consolidated balance sheets of Escalade, Incorporated (Company) as of December 26, 2015, and December 27, 2014, and the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for each of the years in the three-year period ended December 26, 2015. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the 2013 financial statements (consisting of the balance sheet and related statement of operations) of Intimus International GmbH (formerly Martin Yale International, GmbH), a wholly owned subsidiary, which statements were presented on the basis of accounting principles generally accepted in Germany and reflect total assets of \$12,102 and net sales of \$15,000 (dollars in thousands) for 2013, included in the related consolidated financial statement amounts as of and for the year ended December 28, 2013. Such balance sheet and statement of operations for Martin Yale International, GmbH are based solely on the reports of the other accountants.

Our audits also included auditing adjustments to convert the balance sheet and statement of operations of Intimus International GmbH (formerly Martin Yale International, GmbH) into accounting principles generally accepted in the United States of America for purposes of consolidation. Our audits also included auditing the amounts reflected in the consolidated statements of comprehensive income, cash flows and stockholders' equity for Intimus International GmbH (formerly Martin Yale International, GmbH).

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. Our audits 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. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 26, 2015, and December 27, 2014, and the results of its operations

and its cash flows for each of the years in the three-year period ended December 26, 2015, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 26, 2015, based on criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 23, 2016, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ BKD, LLP

Evansville, Indiana

February 23, 2016

Report of Independent Registered Public Accounting Firm

Audit Committee, Board of Directors and Stockholders

Escalade, Incorporated

Evansville, Indiana

We have audited Escalade, Incorporated's (Company) internal control over financial reporting as of December 26, 2015, 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 maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit 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 audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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 (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) 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 (3) 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.

Edgar Filing: ESCALADE INC - Form 10-K

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.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 26, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company and our report dated February 23, 2016, expressed an unqualified opinion thereon.

/s/ BKD, LLP

Evansville, Indiana

February 23, 2016

Escalade, Incorporated and Subsidiaries

Consolidated Balance Sheets

All Amounts in Thousands Except Share Information	December 26, 2015	December 27, 2014
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,982	\$ 3,232
Time deposits	—	1,450
Receivables, less allowances of \$1,086 and \$900	38,984	32,150
Inventories	25,862	23,775
Prepaid expenses	2,534	1,622
Deferred income tax benefit	1,543	925
Prepaid income tax	1,910	5,697
TOTAL CURRENT ASSETS	72,815	68,851
Property, plant and equipment, net	14,363	11,596
Intangible assets	16,868	13,465
Goodwill	20,047	14,875
Investments	19,644	18,949
Other assets	—	145
TOTAL ASSETS	\$ 143,737	\$ 127,881
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable	\$ 19,776	\$ 16,200
Current portion of long-term debt	1,810	1,586
Trade accounts payable	2,547	1,853
Accrued liabilities	14,174	12,107
TOTAL CURRENT LIABILITIES	38,307	31,746
Long-term debt	1,750	3,360
Deferred income tax liability	7,200	2,996
TOTAL LIABILITIES	47,257	38,102
Commitments and contingencies	—	—
Stockholders' equity:		
Preferred stock		
Authorized: 1,000,000 shares, no par value, none issued		
Common stock		
Authorized: 30,000,000 shares, no par value		
Issued and outstanding: 2015 —14,179,844 shares, 2014 —13,998,090 shares	14,180	13,998
Retained earnings	85,478	77,745

Edgar Filing: ESCALADE INC - Form 10-K

Accumulated other comprehensive loss	(3,178)	(1,964)
TOTAL STOCKHOLDERS' EQUITY	96,480		89,779	
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 143,737		\$ 127,881	

See notes to consolidated financial statements.

Escalade, Incorporated and Subsidiaries

Consolidated Statements of Operations

All Amounts in Thousands Except Per Share Data	Years Ended		
	December 26, 2015	December 27, 2014	December 28, 2013
Net Sales	\$ 155,542	\$ 137,975	\$ 132,991
Costs and Expenses			
Cost of products sold	112,068	96,912	92,991
Selling, administrative and general expenses	27,775	22,938	21,453
Amortization	2,881	2,621	2,363
Operating Income	12,818	15,504	16,184
Other Income (Expense)			
Interest expense	(470)	(447)	(404)
Equity in earnings of affiliates	2,993	3,923	2,934
Other income	333	803	—
Income Before Income Taxes from Continuing Operations	15,674	19,783	18,714
Provision for Income Taxes from Continuing Operations	4,068	6,438	6,119
Net Income from Continuing Operations	11,606	13,345	12,595
Discontinued Operations			
Loss from operations	—	(611)	(2,026)
Loss on classification as held for sale	—	(12,945)	—
Gain on disposal (includes \$2,565 of accumulated other comprehensive income reclassification from foreign currency translation adjustment)	—	5,929	—
Provision (benefit) for income taxes	—	(6,099)	764
Net Loss from Discontinued Operations	—	(1,528)	(2,790)
Net Income	\$ 11,606	\$ 11,817	\$ 9,805
Basic Earnings Per Share Data:			
Income from continuing operations	\$ 0.82	\$ 0.96	\$ 0.93
Loss from discontinued operations	—	(0.11)	(0.20)
Net Income	\$ 0.82	\$ 0.85	\$ 0.73
Diluted Earnings Per Share Data:			
Income from continuing operations	\$ 0.82	\$ 0.95	\$ 0.92

Edgar Filing: ESCALADE INC - Form 10-K

Loss from discontinued operations	—	(0.11)	(0.20)
Net Income	\$0.82	\$ 0.84		\$ 0.72	

Escalade, Incorporated and Subsidiaries**Consolidated Statements of Comprehensive Income**

All Amounts in Thousands	Years Ended		
	December 26, 2015	December 27, 2014	December 28, 2013
Net Income	\$11,606	\$ 11,817	\$ 9,805
Foreign currency translation adjustment before reclassifications	(1,214)	(4,318)	826
Amounts reclassified from comprehensive income due to divesture	—	(2,565)	—
Comprehensive Income	\$10,392	\$ 4,934	\$ 10,631

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

All Amounts in Thousands	Common Stock		Retained Earnings	Accumulated	Total
	Shares	Amount		Other Comprehensive Income (Loss)	
Balances at December 29, 2012	13,427	\$13,427	\$62,937	\$ 4,093	\$80,457
Other comprehensive income				826	826
Net income			9,805		9,805
Expense of stock options			557		557
Exercise of stock options	184	184	452		636
Settlement of restricted stock units	17	17	(17)		—
Tax benefit from settlement of stock compensation			110		110
Dividends declared			(4,622)		(4,622)
Stock issued to directors as compensation	29	29	157		186
Balances at December 28, 2013	13,657	\$13,657	\$69,379	\$ 4,919	\$87,955
Other comprehensive loss				(6,883)	(6,883)
Net income			11,817		11,817
Expense of stock options			716		716

Edgar Filing: ESCALADE INC - Form 10-K

Exercise of stock options	301	301	1,085		1,386
Settlement of restricted stock units	34	34	(34)		—
Dividends declared			(5,294)		(5,294)
Stock issued to directors as compensation	6	6	76		82
Balances at December 27, 2014	13,998	\$13,998	\$77,745	\$ (1,964)	\$89,779
Other comprehensive loss				(1,214)	(1,214)
Net income			11,606		11,606
Expense of stock options and restricted stock units			719		719
Exercise of stock options	156	156	781		937
Settlement of restricted stock units	19	19	(19)		—
Tax benefit from settlement of stock compensation			701		701
Tax withholding for equity awards			(79)		(79)
Dividends declared			(6,072)		(6,072)
Stock issued to directors as compensation	7	7	96		103
Balances at December 26, 2015	14,180	\$14,180	\$85,478	\$ (3,178)	\$96,480

See notes to consolidated financial statements.

Escalade, Incorporated and Subsidiaries

Consolidated Statements of Cash Flows

All Amounts in Thousands	Years Ended		
	December 26, 2015	December 27, 2014	December 28, 2013
Operating Activities:			
Net Income	\$ 11,606	\$ 11,817	\$ 9,805
Reconciling adjustments:			
Depreciation and amortization	5,218	4,383	3,844
Provision for doubtful accounts	159	(245)	317
Stock option and restricted stock unit expense	719	716	557
Equity in net income of joint venture investments	(2,993)	(3,923)	(2,934)
Deferred income taxes	1,696	(1,197)	896
Additional discontinued operations activities	—	6,672	2,896
Gain from insurance proceeds for involuntary conversion	—	(603)	—
Loss (gain) on disposals of assets	1	(10)	—
Dividends received from equity method investments	928	919	617
Changes in			
Accounts receivable	(6,053)	6,739	(10,090)
Inventories	(1,121)	(1,559)	3,086
Prepays	2,887	(4,658)	(548)
Other assets	—	—	35
Income tax payable	—	—	(710)
Accounts payable and accrued expenses	2,416	245	1,236
Net cash provided by operating activities	15,463	19,296	9,007
Investing Activities:			
Purchase of property and equipment	(5,067)	(2,663)	(2,169)
Acquisitions	(10,678)	(10,630)	(6,485)
Net sale (purchase) of short-term time deposits	1,450	250	(500)
Discontinued operations activities	—	5,700	(186)
Proceeds from insurance for involuntary conversion	—	603	—
Proceeds from sale of property and equipment	—	26	1
Net cash (used in) investing activities	(14,295)	(6,714)	(9,339)
Financing Activities:			
Dividends paid	(6,072)	(5,294)	(4,622)
Net decrease in overdraft facility	—	—	(2,452)
Net (decrease) increase in notes payable	3,577	(5,500)	4,345
Proceeds from exercise of stock options	937	1,386	636
Proceeds from restated credit agreement	—	—	1,000
Change in long-term debt	(1,585)	(1,563)	446
Tax benefit from settlement of stock compensation	701	—	110
Tax withholding for equity awards	(79)	—	—
Director stock compensation	103	82	186

Edgar Filing: ESCALADE INC - Form 10-K

Net cash (used in) financing activities	(2,418)	(10,889)	(351)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	—	(807)	485
Increase (Decrease) in Cash and Cash Equivalents	(1,250)	886	(198)
Cash and Cash Equivalents, beginning of year (includes zero, \$1,255 and \$1,050 respectively of cash reported as assets held for sale)	3,232	2,346	2,544
Cash and Cash Equivalents, end of year (includes zero, zero and \$1,255 respectively of cash reported as assets held for sale)	\$1,982	\$ 3,232	\$ 2,346
Supplemental Cash Flows Information			
Interest paid	\$465	\$ 600	\$ 809
Income taxes paid	\$108	\$ 5,208	\$ 4,546
Seller note issued in purchase of real estate	—	—	\$ 2,300
Dividends payable	\$4	—	—
Information regarding the Company's acquisitions in 2015 and 2014 are as follows:			
Fair value of assets acquired	\$13,269	\$ 10,577	
Cash paid for assets	10,678	10,438	
Note payable for deferred purchase price obligation	200	—	
Liabilities assumed	\$2,391	\$ 139	

See notes to consolidated financial statements.

Note 1 — Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Escalade, Incorporated and its wholly-owned subsidiaries (Escalade, the Company, we, us or our) are engaged in the manufacture and sale of sporting goods products. On June 30, 2014, the Company sold its Print Finishing business. On October 1, 2014, the Company sold its Information Security business. The divestiture of these two divisions accomplished the Company's complete exit from the Information Security and Print Finishing segment that is reported as discontinued operations. The Company is headquartered in Evansville, Indiana and has manufacturing facilities in the United States of America and Mexico. The Company sells products to customers primarily in North America with minimal sales throughout the remainder of the world.

Principles of Consolidation

The consolidated financial statements include the accounts of Escalade, Incorporated and its wholly-owned subsidiaries. All material inter-company accounts and transactions have been eliminated.

Basis of Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The books and records of subsidiaries located in foreign countries are maintained according to generally accepted accounting principles in those countries. Upon consolidation, the Company evaluates the differences in accounting principles and determines whether adjustments are necessary to convert the foreign financial statements to the accounting principles upon which the consolidated financial statements are based. As a result of this evaluation no material adjustments were identified.

We have revised the presentation of dividends received from equity method investments in our Consolidated Statements of Cash Flows. Previously, we had reported the dividends within the investing section of the Consolidated Statements of Cash Flows. As of December 26, 2015, we report the dividends within the operating section of the Consolidated Statements of Cash Flows.

The impact of revising our Statements of Cash Flows for the specified prior periods are as follows:

Year Ended December 27, 2014	As Previously Reported	Revision	As Revised
In Thousands			

Edgar Filing: ESCALADE INC - Form 10-K

Net cash provided by operating activities	\$ 18,377	\$ 919	\$ 19,296
Net cash used in investing activities	(5,795)	(919)	(6,714)

Year Ended December 28, 2013	As Previously Reported	Revision	As Revised
In Thousands			
Net cash provided by operating activities	\$ 8,390	\$ 617	\$ 9,007
Net cash used in investing activities	(8,722)	(617)	(9,339)

Fiscal Year End

The Company's fiscal year is a 52 or 53 week period ending on the last Saturday in December. Fiscal year 2015 was 52 weeks long, ending December 26, 2015. Fiscal year 2014 was 52 weeks long, ending on December 27, 2014. Fiscal year 2013 was 52 weeks long, ending on December 28, 2013.

Cash and Cash Equivalents

Highly liquid financial instruments with insignificant interest rate risk and with original maturities of three months or less are classified as cash and cash equivalents.

Accounts Receivable

Revenue from the sale of the Company's products is recognized as products are shipped to customers and accounts receivable are stated at the amount billed to customers. Interest and late charges billed to customers are not material and, because collection is uncertain, are not recognized until collected and are therefore not included in accounts receivable. The Company provides an allowance for doubtful accounts which is described in Note 2 – Certain Significant Estimates.

Inventories

Inventory cost is computed on a currently adjusted standard cost basis (which approximates actual cost on a current average or first-in, first-out basis). Work in process and finished goods inventory are determined to be saleable based on a demand forecast within a specific time horizon, generally one year or less. Inventory in excess of saleable amounts is reserved, and the remaining inventory is valued at the lower of cost or market. This inventory valuation reserve totaled \$471 thousand and \$537 thousand at fiscal year-end 2015 and 2014, respectively. Inventories, net of the valuation reserve, at fiscal year-ends were as follows:

In Thousands	2015	2014
Raw materials	\$3,621	\$3,950
Work in process	4,297	3,967
Finished goods	17,944	15,858
	\$25,862	\$23,775

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Depreciation and amortization are computed for financial reporting purposes principally using the straight-line method over the following estimated useful lives: buildings, 20-30 years; leasehold improvements, term of the lease; machinery and equipment, 5-15 years; and tooling, dies and molds, 2-4 years. Property, plant and equipment consist of the following:

In Thousands	2015	2014
Land	\$2,049	\$2,049
Buildings and leasehold improvements	18,964	16,951
Machinery and equipment	22,179	19,852
Total cost	43,192	38,852
Accumulated depreciation and amortization	(28,829)	(27,256)
	\$14,363	\$11,596

The Company evaluates the recoverability of certain long-lived assets whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Estimates of future cash flows used to test recoverability of long-lived assets include separately identifiable undiscounted cash flows expected to arise from the use and eventual disposition of the assets. Where estimated future cash flows are less than the carrying value of the assets, impairment losses are recognized based on the amount by which the carrying value exceeds the fair value of the assets. No asset impairment was recognized during the years ended 2015, 2014, or 2013.

Investments

Investments are composed of the following:

In Thousands	2015	2014
Non-marketable equity investments (equity method)	\$19,644	\$18,949

Non-Marketable Equity Investments: The Company has an equity position in a company that strategically relates to the Company's business, but does not have control over this company. The accounting method employed is dependent on the level of ownership and degree of influence the Company can exert on operations. Where the equity interest is less than 20% and the degree of influence is not significant, the cost method of accounting is employed. Where the equity interest is greater than 20% but not more than 50%, the equity method of accounting is utilized. Under the equity method, the Company's proportionate share of net income (loss) is recorded in equity in earnings of affiliates on the consolidated statement of operations. The proportionate share of net income was \$3.0 million, \$3.9 million and \$2.9 million in 2015, 2014 and 2013, respectively. Total cash dividends received from these equity investments amounted to \$928 thousand, \$919 thousand, and \$617 thousand in 2015, 2014 and 2013, respectively. The Company considers whether the fair value of any of its equity investments have declined below their carrying value whenever adverse events or changes in circumstances indicate that recorded values may not be recoverable. If the Company considered any such decline to be other than temporary (based on various factors, including historical financial results, product development activities and overall health of the investments' industry), a write-down is recorded to estimated fair value.

During 2013, the decision was made to cease operations and liquidate Escalade International, Ltd. Losses incurred include shutdown costs. As a result, the Company's 50% portion of net loss for Escalade International, Ltd. for 2013 (\$343) thousand and is included in equity in earnings of affiliates on the Company's statements of operations.

Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price over fair value of net tangible and identifiable intangible assets of acquired businesses. Intangible assets consist of patents, consulting agreements, non-compete agreements, customer lists, and trademarks. Goodwill and trademarks are deemed to have indefinite lives and are not amortized, but are subject to impairment testing annually in accordance with guidance included in FASB ASC 350, *Intangibles – Goodwill and Other*. Other intangible assets are amortized using the straight-line method over the following lives: consulting agreements, the life of the agreement; customer lists, 5 to 14 years; non-compete agreements, the lesser of the term or 5 years; and patents, the lesser of the remaining life or 5 to 13 years.

The Company reviews goodwill for impairment annually and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable, in accordance with guidance in FASB ASC 350, *Intangibles – Goodwill and Other*. A qualitative assessment is first performed to determine if the fair value of the reporting unit is "more likely than not" less than the carrying value. If so, we proceed to step one of the two-step goodwill impairment test, in which the fair value of the reporting unit is compared to its carrying value. If not, then performance of the second step of the goodwill impairment test is not necessary. If the carrying value of goodwill exceeds the implied estimated fair value calculated in the second step, an impairment charge to current operations is recorded to reduce the carrying value to the implied estimated fair value.

Employee Incentive Plan

During 2007, the Company replaced two stock-based compensation plans with a new incentive plan explained in Note 10. The Company accounts for this plan under the recognition and measurement principles of FASB ASC 718, *Equity Based Payments*.

Foreign Currency Translation

The functional currency for the foreign operations of Escalade is the local currency. The translation of foreign currencies into U.S. dollars is performed for balance sheet accounts using exchange rates in effect at the balance sheet dates and for revenue and expense accounts using a weighted average exchange rate during the year. The gains or losses resulting from the translation are included in Accumulated Other Comprehensive Income (Loss) in the Consolidated Statements of Stockholders' Equity and are excluded from net income. Gains or losses resulting from foreign currency transactions are included in selling, general and administrative expense in the Consolidated Statements of Operations and were insignificant in fiscal years 2015, 2014, and 2013.

Cost of Products Sold

Cost of products sold is comprised of those costs directly associated with or allocated to the products sold and include materials, labor and factory overhead.

Other Income

The components of Other Income are as follows:

In Thousands	2015	2014	2013
Proceeds from insurance for involuntary conversion	\$—	\$603	—
Rent income from real estate	212	106	—
Other	121	94	—
	\$333	\$803	\$ —

Provision for Income Taxes

Income tax in the consolidated statement of operations includes deferred income tax provisions or benefits for all significant temporary differences in recognizing income and expenses for financial reporting and income tax purposes. A valuation allowance is established if it is more likely than not that a deferred tax asset will not be realized.

Research and Development

Research and development costs are charged to expense as incurred. Research and development costs incurred during 2015, 2014 and 2013 were approximately \$1.5 million, \$1.7 million, and \$1.2 million, respectively.

Reclassifications

Certain reclassifications have been made to prior year financial statements to conform to the current year financial statement presentation. These reclassifications had no effect on net earnings.

New Accounting Pronouncements

In November 2015, the FASB issued ASU 2015-17 “Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes.” ASU 2015-17 eliminates the current requirement for organizations to present deferred tax liabilities and assets as current and noncurrent in a classified balance sheet. Instead, organizations will be required to classify all deferred tax assets and liabilities as noncurrent. The ASU is effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The amendments may be applied prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. Management is evaluating the provisions of this statement and the impact it will have on the Company’s financial statements.

Note 2 — Certain Significant Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities; the disclosure of contingent assets and liabilities at the date of the consolidated financial statements; and the reported amounts of revenues and expenses during the reporting period. These estimates and judgments are evaluated on an ongoing basis and are based on experience; current and expected future conditions; third party evaluations; and various other assumptions believed reasonable under the circumstances. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities as well as identifying and assessing the accounting treatment with respect to commitments and liabilities. Actual results may differ from the estimates and assumptions used in the financial statements and related notes.

Listed below are certain significant estimates and assumptions related to the preparation of the consolidated financial statements:

Goodwill and Intangible Assets

The Company reviews goodwill for impairment annually and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable, in accordance with guidance in FASB ASC 350, Intangibles – Goodwill and Other. A qualitative assessment is first performed to determine if the fair value of the reporting unit is "more likely than not" less than the carrying value. If so, we proceed to step one of the two-step goodwill impairment test, in which the fair value of the reporting unit is compared to its carrying value. If not, then performance of the second step of the goodwill impairment test is not necessary. If the carrying value of goodwill exceeds the implied estimated fair value calculated in the second step, an impairment charge to current operations is recorded to reduce the carrying value to the implied estimated fair value.

Other intangible assets are amortized using the straight-line method over the following lives: consulting agreements, the life of the agreement; customer lists, 5 to 14 years; non-compete agreements, the lesser of the term or 5 years; and patents, the lesser of the remaining life or 5 to 13 years. Indefinite-lived intangible assets are reviewed for impairment annually, or whenever events or changes in circumstances indicate the carrying amount of an intangible asset may not be recoverable.

There are inherent assumptions and judgments required in the analysis of goodwill and intangible impairment.

Product Warranty

The Company provides limited warranties on certain of its products, for varying periods. Generally, the warranty periods range from 90 days to one year. However, some products carry extended warranties of seven-year, ten-year, and lifetime warranties. The Company records an accrued liability and reduction in sales for estimated future warranty claims based upon historical experience and management's estimate of the level of future claims. Changes in the estimated amounts recognized in prior years are recorded as an adjustment to the accrued liability and sales in the current year. Changes in product warranty were as follows:

In Thousands	2015	2014	2013
Beginning balance	\$695	\$620	\$523
Additions	1,459	1,156	978
Deductions	(1,307)	(1,081)	(881)
Ending balance	\$847	\$695	\$620

Inventory Valuation Reserves

The Company evaluates inventory for obsolescence and excess quantities based on demand forecasts based on specified time frames; usually one year. The demand forecast is based on historical usage, sales forecasts and current as well as anticipated market conditions. All amounts in excess of the demand forecast are deemed to be excess or obsolete and a reserve is established based on the anticipated net realizable value. Changes in inventory valuation reserves were as follows:

In Thousands	2015	2014	2013
Beginning balance	\$537	\$469	\$414
Additions	470	287	426
Deductions	(536)	(219)	(371)
Ending balance	\$471	\$537	\$469

Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. Accounts receivable are ordinarily due between 30 and 60 days after the issuance of the invoice. Accounts are considered delinquent when more than 90 days past due. Delinquent receivables are reserved or written off based on individual credit evaluation and specific circumstances of the customer. Changes in allowance for doubtful accounts were as follows:

In Thousands	2015	2014	2013
--------------	------	------	------

Beginning balance	\$900	\$1,104	\$787
Additions	159	251	475
Deductions	27	(455)	(158)
Ending balance	\$1,086	\$900	\$1,104

Customer Allowances

Customer allowances are common practice in the industries in which the Company operates. These agreements are typically in the form of advertising subsidies, volume rebates and catalog allowances and are accounted for as a reduction to gross sales. The Company reviews such allowances on an ongoing basis and accruals are adjusted, if necessary, as additional information becomes available. Changes in customer allowances were as follows:

In Thousands	2015	2014	2013
Beginning balance	\$2,155	\$2,494	\$1,787
Additions	5,312	4,747	4,584
Deductions	(5,316)	(5,086)	(3,877)
Ending balance	\$2,151	\$2,155	\$2,494

Note 3 — Accrued Liabilities

Accrued liabilities consist of the following:

In Thousands	2015	2014
Employee compensation	\$3,341	\$3,314
Customer related allowances and accruals	5,263	5,055
Other accrued items	5,570	3,738
	\$14,174	\$12,107

Note 4 — Operating Leases

The Company leases warehouse and office space under non-cancelable operating leases that expire at various dates through 2020. Terms of the leases, including renewals, taxes, utilities, and maintenance, vary by lease. Total rental expense included in the results of operations relating to all leases was \$0.9 million in 2015, \$0.7 million in 2014, and \$0.7 million in 2013.

At December 26, 2015, minimum rental payments under non-cancelable leases with terms of more than one year were as follows:

In Thousands	Amount
2016	\$ 468
2017	412
2018	228
2019	201
Thereafter	84
	\$ 1,393

Note 5 — Acquired Intangible Assets and Goodwill

The carrying basis and accumulated amortization of recognized intangible assets are summarized in the following table:

In Thousands	2015		2014	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Patents	\$24,220	\$ 22,061	\$24,220	\$ 19,882
Non-compete agreements	2,749	2,192	2,367	2,053
Customer list	9,073	1,112	5,054	548
Trademarks	6,313	122	4,429	122
	\$42,355	\$ 25,487	\$36,070	\$ 22,605

Amortization expense was \$2.9 million, \$2.6 million and \$2.4 million for 2015, 2014 and 2013, respectively.

Estimated future amortization expense is summarized in the following table:

In Thousands	2016	2017	2018	2019	2020	Thereafter
Sporting Goods	\$1,922	\$1,146	\$943	\$843	\$799	\$ 5,025

All goodwill is allocated to the operating segment of the business. The changes in the carrying amount of goodwill were:

In Thousands	Sporting Goods
Balance at December 28, 2013	13,113
Acquisition	1,762
Balance at December 27, 2014	\$ 14,875
Acquisitions	5,172
Balance at December 26, 2015	\$ 20,047

The Company reviews goodwill for impairment annually and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable, in accordance with guidance in FASB ASC 350, *Intangibles – Goodwill and Other*. A qualitative assessment is first performed to determine if the fair value of the reporting unit is "more likely than not" less than the carrying value. If so, we proceed to step one of the two-step goodwill impairment test, in which the fair value of the reporting unit is compared to its carrying value. If not, then performance of the second step of the goodwill impairment test is not necessary. If the carrying value of goodwill exceeds the implied estimated fair value calculated in the second step, an impairment charge to current operations is recorded to reduce the carrying value to the implied estimated fair value.

Note 6 — Equity Interest Investments

The Company has a 50% interest in a joint venture, Stiga Sports AB (Stiga). The joint venture is accounted for under the equity method of accounting. Stiga, located in Sweden, is a global sporting goods company producing table tennis equipment and game products. Financial information for Stiga reflected in the table below has been translated from local currency to U.S. dollars using exchange rates in effect at the respective year-end for balance sheet amounts and using average exchange rates for income statement amounts. Certain differences exist between U.S. GAAP and local GAAP in Sweden, and the impact of these differences is not reflected in the summarized information reflected in the table below. The most significant difference relates to the accounting for goodwill for Stiga which is amortized over eight years in Sweden but is not amortized for U.S. GAAP reporting purposes. The effect on Stiga's net assets resulting from the amortization of goodwill for the years ended 2015 and 2014 are addbacks of \$10.4 million and \$11.4 million, respectively. These net differences are comprised of cumulative goodwill adjustments of \$14.6 million offset by the

related cumulative tax effect of \$4.2 million as of December 26, 2015 and cumulative goodwill adjustments of \$16.0 million offset by the related cumulative tax effect of \$4.6 million as of December 27, 2014. The income statement impact of these goodwill and tax adjustments and other individually insignificant U.S. GAAP adjustments for the years ended December 26, 2015, December 27, 2014, and December 28, 2013 are to increase total Stiga net income by approximately \$0.1 million, \$0.3 million, and \$1.6 million, respectively. The Company's 50% portion of net income for Stiga for the years ended December 26, 2015, December 27, 2014, and December 28, 2013 are \$3.0 million, \$3.9 million, and \$3.3 million, respectively. Additionally, for each of the years ended December 26, 2015, December 27, 2014 and December 28, 2013, the Company paid royalties to Stiga in the amount of \$0.4 million.

In addition, the Company had a 50% interest in Neoteric Industries Inc. in Taiwan. The income and assets of Neoteric had no material impact on the Company's financial reporting. During 2014, the decision was made to divest the Company's 50% interest in Neoteric Industries Inc. in Taiwan as part of the divestiture of the Information Security and Print Finishing businesses.

During 2013, the Company also had a 50% interest in Escalade International Ltd. that was a sporting goods wholesaler, specializing in fitness equipment. The decision was made during 2013 to cease operations and liquidate Escalade International, Ltd. Losses incurred include shutdown costs. As a result, the Company's 50% portion of net loss for Escalade International, Ltd. for 2013 was (\$343) thousand and is included in equity in earnings of affiliates on the Company's statements of operations.

In accordance with Rule 4-08(g) of Regulation S-X, summarized financial information for Stiga Sports AB balance sheets as of December 31, 2015 and 2014, and statements of operations for the years ended December 31, 2015, 2014 and 2013 is as follows:

In Thousands	2015	2014
Current assets	\$29,300	\$30,539
Non-current assets	9,908	8,082
Total assets	39,208	38,621
Current liabilities	5,096	7,669
Non-current liabilities	5,835	4,229
Total liabilities	10,931	11,898
Net assets	\$28,277	\$26,723

	2015	2014	2013
Net sales	\$45,688	\$52,583	\$48,914
Gross profit	22,122	25,737	23,636
Net income	5,843	7,537	4,914

Note 7 — Borrowings

On January 21, 2016, the Company amended and restated its existing credit agreement. See “Note 19” and “Management’s Discussion and Analysis of Financial Condition and Results of Operation – Financial and Liquidity.”

On October 1, 2014, the Company and each of its domestic subsidiaries entered into the Third Amendment to its First Amended and Restated Credit Agreement dated August 27, 2013 (“2013 Restated Credit Agreement”) with its issuing bank, JPMorgan Chase Bank, N.A., and the other lenders identified in the 2013 Restated Credit Agreement (collectively, the “Lender”). The Third Amendment was entered into to permit the Company to sell the Information Security Business and terminate the Euro overdraft facility line of €1.0 million.

On June 30, 2014, the Company and each of its domestic subsidiaries entered into the Second Amendment to its First Amended and Restated Credit Agreement dated August 27, 2013 with its Lender. Under the terms of the Second Amendment to the 2013 Restated Credit Agreement, the Lender permitted Escalade to sell assets related to its Print Finishing business held by its subsidiary Martin Yale Industries, Inc. The Second Amendment to the 2013 Restated Credit Agreement also permitted Escalade and its subsidiaries that are parties to the 2013 Restated Credit Agreement

to extend up to an additional €1.0 million in credit to Escalade's former German subsidiary, Intimus International GmbH.

On November 13, 2013, the Company entered into the First Amendment to its First Amended and Restated Credit Agreement dated August 27, 2013 (Restated Credit Agreement) with its issuing bank, JPMorgan Chase Bank, N.A. (Chase). Under the terms of the First Amendment to the 2013 Restated Credit Agreement, the Lender has increased by \$9.0 million the amount available to the Company under its senior revolving credit facility in the maximum amount of now up to \$31.0 million. The Company is required to repay the outstanding principal balance of the senior revolving credit facility, including all accrued and unpaid interest thereon, on the maturity date of August 27, 2016. The Company may prepay the senior revolving credit facility, in whole or in part, and reborrow prior to the maturity date.

The existing term loan in the principal amount of \$5.0 million remains outstanding and the maturity date has been extended by two years to August 27, 2018. As amended, the Company is required to repay the outstanding principal balance of the term loan, including all accrued and unpaid interest thereon, on August 27, 2018. The Company is required to make repayments of the principal balance of the term loan in equal installments of \$250 thousand per calendar quarter, with interest accrued thereon. Principal amounts repaid in respect of the term loan may not be re-borrowed. The credit facility and term debt are secured by substantially all assets of the Company.

The First Amendment to the 2013 Restated Credit Agreement also revised the definitions of "Fixed Charges" and "Fixed Charge Coverage Ratio" and expressly permitted the Company to complete its acquisition of certain assets of DMI Sports, Inc.

The 2013 Restated Credit Agreement allows Escalade to request the issuance of letters of credit of up to \$5,000,000, subject to the aggregate undrawn amount of a letter of credit issued by The Bank of New York Trust Company, N.A. for the account of Wedcor Holdings, Inc. Each loan, other than a Eurodollar Borrowing shall bear interest at the Alternate Base Rate plus the Applicable Base Rate. Loans comprising each Eurodollar Borrowing shall bear interest at the Adjusted LIBO Rate for the interest period in effect plus the Applicable Rate. Applicable Rate means the applicable rate per annum set forth below, based upon Escalade's Funded Debt to Adjusted Ratio as of the most recent determination date:

Funded Debt to Adjusted EBITDA Ratio	Revolving Eurodollar Borrowing	Term Eurodollar Borrowing	ABR Revolving Borrowing	ABR Term Borrowing	Letter of Credit Fee	Commitment Fee
Category 1 Greater than or equal to 2.50 to 1.0	2.50 %	2.75 %	0.50 %	0.75 %	2.50 %	0.45 %
Category 2 Greater than or equal to 2.25 to 1.0 but less than 2.50 to 1.0	2.25 %	2.50 %	0.25 %	0.50 %	2.25 %	0.40 %
Category 3 Greater than or equal to 2.00 to 1.0 but less than 2.50 to 1.0	2.00 %	2.25 %	0.00 %	0.25 %	2.00 %	0.35 %
Category 4 Greater than or equal to 1.75 to 1.0 but less than 2.00 to 1.0	1.75 %	2.00 %	(0.25 %)	0.00 %	1.75 %	0.30 %
Category 5 Less than 1.75 to 1.0	1.50 %	1.75 %	(0.50 %)	(0.25 %)	1.50 %	0.30 %

The Applicable Rate shall be determined as of the end of each quarter based upon the Company's annual or quarterly consolidated financial statements and shall be effective during the period commencing the date of delivery to the agent.

Indebtedness under the 2013 Restated Credit Agreement continues to be collateralized by liens on all of the present and future equity of each of the Company's domestic subsidiaries and substantially all of the assets of the Company. In addition, each direct and indirect domestic subsidiary of Escalade has unconditionally guaranteed all of the indebtedness of Escalade arising under the 2013 Restated Credit Agreement and has secured its guaranty with a first priority security interest and lien on all of its assets. The Pledge and Security Agreement dated April 30, 2009 by and between Escalade and Chase, and each Pledge and Security Agreement dated April 30, 2009 by and between each such Escalade subsidiary and Chase continue in full force and effect, as amended by the Master Amendment to Pledge and Security Agreements dated May 31, 2010 entered into by Chase, Escalade and each such subsidiary. The Unlimited Continuing Guaranty dated April 30, 2009 applicable to each of Escalade's domestic subsidiaries continues in full force and effect without change.

During the first quarter 2013, the Company entered into a seller-financed agreement for the purchase of its formerly leased real estate in Mexico. The agreement requires sixteen quarterly installments of \$156 thousand with a maturity date of November 30, 2016. The outstanding principal balance as of December 26, 2015 was \$0.6 million.

Short-Term Debt

Short-term debt at fiscal year-ends was as follows:

In Thousands	2015	2014
Senior secured revolving credit facility of \$31.0 million with a maturity of August 27, 2016. The interest rates at December 26, 2015 was 1.862%.	\$19,776	\$13,500
Note payable for deferred purchase price obligation	200	—
Short-term debt reclassified from long-term debt	1,610	4,286
	\$21,586	\$17,786

The weighted average interest rate on short-term debt outstanding at December 26, 2015 and December 27, 2014 was 1.91% and 1.57%, respectively.

Long-Term Debt

Long-term debt at fiscal year-ends was as follows:

In Thousands	2015	2014
Term loan of \$5.0 million with a maturity date of August 27, 2018. The interest rate at December 26, 2015, was 2.00%.	\$2,750	\$3,750
Mortgage payable (Wabash, Indiana Adjustable Rate Economic Development Revenue Refunding Bonds), annual installments are optional, interest varies with short-term rates and is adjustable weekly based on market conditions, maximum rate is 10.00%, rate at December 27, 2014 is 0.31%, due September 2028, secured by real estate and a stand-by letter of credit	—	2,700
Seller-financed agreement for real estate in Mexico. The agreement requires sixteen quarterly installments of \$156 thousand each with a maturity date of November 30, 2016. This agreement has an interest rate of zero percent and is secured by the financed real estate in Mexico.	610	1,196
	3,360	7,646
Portion classified as short-term debt	(1,610)	(4,286)
	\$1,750	\$3,360

Maturities of long-term debt outstanding at December 26, 2015 are as follows: \$1.6 million in 2016, \$1.0 million in 2017, and \$0.8 million in 2018.

Note 8 — Earnings Per Share

The shares used in the computation of the Company's basic and diluted earnings per common share are as follows:

In Thousands	2015	2014	2013
Weighted average common shares outstanding	14,088	13,853	13,506
Dilutive effect of stock options and restricted stock units	150	214	125
Weighted average common shares outstanding, assuming dilution	14,238	14,067	13,631
Number of anti-dilutive stock options and unvested restricted stock units	4	—	271

Weighted average common shares outstanding, assuming dilution, includes the incremental shares that would be issued upon the assumed exercise of stock options outstanding.

Note 9 — Employee Benefit Plans

The Company has an employee profit-sharing salary reduction plan, pursuant to the provisions of Section 401(k) of the Internal Revenue Code, for non-union employees. The Company's contribution is a matching percentage of the employee contribution as determined by the Board of Directors annually. The Company's expense for the plan was \$600 thousand, \$532 thousand and \$517 thousand for 2015, 2014 and 2013, respectively.

Note 10 — Stock Compensation Plans

In April 2007, Shareholders approved the Escalade, Incorporated 2007 Incentive Plan (2007 Incentive Plan), which is an incentive plan for key employees, directors and consultants with various equity-based incentives as described in the plan document. The 2007 Incentive Plan is a replacement for the 1997 Incentive Stock Option Plan and the 1997 Director Stock Compensation and Option Plan which expired at the end of April 2007. All options issued and outstanding under the expired plans will remain in effect until exercised, expired or forfeited.

The 2007 Incentive Plan is administered by the Board of Directors or a committee thereof, which is authorized to determine, among other things, the key employees, directors or consultants who will receive awards under the plan, the amount and type of award, exercise prices or performance criteria, if applicable, and vesting schedules. Under the

original terms of the plan and subject to various restrictions contained in the plan document, the total number of shares of common stock which may be issued pursuant to awards under the Plan may not exceed 2,981,491.

Restricted Stock Units

In 2015, the Company awarded 10,000 restricted stock units to directors and 42,450 restricted stock units to employees. The restricted stock units awarded to directors time vest over two years (one-half one year from grant date and one-half two years from grant date) provided that the director is still a director of the Company at the vest date. Director restricted stock units are subject to forfeiture, except for termination of services as a result of retirement, death or disability, if on the vesting date the director no longer holds a position with the Company. The 2015 restricted stock units awarded to employees vest over four years (one-third two years from grant date, one-third three years from grant date and one-third four years from grant date) provided that the employee is still employed by the Company and that the performance criteria related to the market price of the Company's stock is satisfied. The criteria is for any 30 consecutive trading days on the NASDAQ Stock Market (or such other principal securities exchange on which the Company's shares of common stock are then traded) during the period beginning on the grant date and ending on the fourth anniversary thereof, the cumulative average Volume Weighted Average Price per share is at least 15% higher than the closing price per share on the grant date plus any incremental dividends paid above the current quarterly dividend rate of \$0.10 per share by the Company during such four year period. The performance criteria for the 38,250 restricted stock units awarded to employees in the first quarter of 2015 was satisfied during the second quarter of 2015.

The Company issued no restricted stock units to employees or directors in 2013. A summary of restricted stock unit activity is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested stock units as of December 28, 2013	—	
Granted	50,000	\$ 10.49
Vested	—	
Forfeited	—	
Non-vested stock units as of December 27, 2014	50,000	10.49
Vested but unsettled	(4,500)	
Outstanding non-vested restricted stock units as of December 27, 2014	45,500	10.49
Granted	52,450	13.91
Vested	(21,175)	11.65
Forfeited	(875)	11.63
Non-vested stock units as of December 26, 2015	75,900	\$ 12.52

When vesting is dependent on certain market criteria, the fair value of restricted stock units is determined by the use of Monte Carlo techniques. The market price of the Company's stock on the grant date is used to value restricted stock units where vesting is not contingent on market criteria. In 2015, 2014, and 2013 the Company recognized \$542 thousand, \$191, and \$0 thousand respectively in compensation expense related to restricted stock units and as of December 26, 2015 and December 27, 2014, there was \$512 thousand and \$334 respectively, of unrecognized compensation expense related to restricted stock units.

Stock Options

Total compensation expense recorded in the statements of operations for 2015, 2014 and 2013 relating to stock options was \$177 thousand, \$525 thousand and \$557 thousand, respectively. As of December 26, 2015, there were \$60 thousand of total unrecognized compensation costs related to stock options. These costs are expected to be recognized over a weighted average period of 0.9 years.

No stock options were awarded during 2015. During 2014, the Company awarded 25,000 stock options to directors. The stock options awarded to directors vest at the end of one year and have an exercise price equal to the market price on the date of grant. Director stock options are subject to forfeiture, except for termination of services as a result of retirement, death or disability, if on the vesting date the director no longer holds a position with the Company. No stock options were awarded to employees during 2014.

Edgar Filing: ESCALADE INC - Form 10-K

The following table summarizes option activity for each of the three years ended 2015:

	Incentive Stock Options		Director Stock Options	
	Granted	Outstanding	Granted	Outstanding
2015	—	172,625	—	15,000
2014	—	284,375	25,000	60,000
2013	120,000	559,950	37,500	80,000

The fair value of each option grant award is estimated on the grant date using the Black-Scholes-Merton option valuation model using the following assumptions:

	2015	2014	2013
Risk-free interest rates	—	0.68%	0.52%
Dividend yields	—	4.23%	5.97%
Volatility factors of expected market price of common stock	—	35.86%	48.79% to 74.05%
Weighted average expected life of the options	—	1-4 years	1-4 years

Edgar Filing: ESCALADE INC - Form 10-K

The following table summarizes stock option transactions for the three years ended 2015:

	2015		2014		2013	
	Shares	Option Price	Shares	Option Price	Shares	Option Price
Outstanding at beginning of year	344,375	\$2.56 to \$11.86	639,950	\$0.64 to \$6.07	692,875	\$0.64 to 6.07
Issued during year	—	—	25,000	\$ 11.86	157,500	\$5.85 to \$6.06
Canceled or expired	(500)		(19,000)		(27,000)	
Exercised during year	(156,250)	\$2.56 to \$11.86	(301,575)	\$0.64 to \$6.07	(183,425)	\$0.64 to \$6.07
Outstanding at end of year	187,625	\$5.28 to \$11.86	344,375	\$2.56 to \$11.86	639,950	\$0.64 to \$6.07
Exercisable at end of year	133,250		158,875		198,825	
Weighted-average fair value of options granted during the year	—		\$3.06		\$2.21	

The total intrinsic value of options exercised was \$1.6 million, \$2.7 million, and \$929 thousand for 2015, 2014 and 2013, respectively.

The following table summarizes information about stock options outstanding at December 26, 2015:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number of Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
\$5.28 - \$5.66	75,500	1.2 years	\$ 5.30	52,125	\$ 5.30
\$5.85 - \$6.06	66,750	2.2 years	\$ 5.87	35,750	\$ 5.89
\$6.07	30,375	0.2 years	\$ 6.07	30,375	\$ 6.07
\$11.86	15,000	3.2 years	\$ 11.86	15,000	\$ 11.86
	187,625			133,250	

During the year ended December 26, 2015, the following activity occurred under the Company's stock option plan:

Edgar Filing: ESCALADE INC - Form 10-K

	Number of Options	Weighted Average Grant Date Fair Value
Nonvested balance, beginning of year	185,500	\$ 2.85
Granted	—	—
Vested	(130,625)	\$ 2.95
Forfeited	(500)	\$ 4.03
Nonvested balance, end of year	54,375	\$ 2.60

Note 11 — Discontinued Operations

On October 1, 2014, the Company completed the sale of the Information Security business. The sale of the Information Security business, coupled with the previous sale of our Print Finishing business on June 30, 2014, represented the Company's exit from the Information Security and Print Finishing segment. As a result, the Information Security and Print Finishing segment has been classified as discontinued operations for all periods presented and certain assets and liabilities in prior periods are classified as held for sale.

As a result of the divestiture of the Information Security and Print Finishing segment, the Company incurred a loss on disposal of assets of \$9.6 million, income from reclassification of accumulated other comprehensive income from foreign currency translation adjustments of \$2.6 million and a tax benefit of \$6.1 million. Under the terms of the final purchase agreement for the Information Security business divestiture, the Company contributed to its international Information Security operations, all claims related to intercompany debt of this operation prior to the divestiture operations. The Company also assumed the foreign tax liability related to this gain; however, it was able to utilize previously reserved net operating loss carry-forwards to offset the majority of the related tax liability.

As of the second quarter of 2014, the Company determined the carrying value of the Information Security business assets was greater than their fair value, less the cost to sell the Information Security business, resulting in an impairment of certain accounts receivables, inventories, long-lived assets, intangible assets and other assets totaling \$12.9 million. The impairment charge reduced the carrying value of intangible assets to fair value and the remaining assets to the lower of their carrying amount or fair value less cost to sell. The fair value for these assets was determined by estimating the most likely sale price with a third-party buyer based on market data. Because of the significance of the unobservable inputs and management's judgment used in the assets held for sale analysis, these measurements were classified in level three of the valuation hierarchy.

The results of operations presented as discontinued operations are summarized below.

All Amounts in Thousands	Years Ended	
	December 26, 2014	December 27, 2015
Net sales	\$—	\$ 20,865
Cost of products sold	—	13,813
Selling, administrative and general expenses	—	7,535
Interest expense	—	98
Other expense	—	30

Loss Before Income Taxes	—	(611)
Discontinued Operations			
Loss on classification as held for sale	—	(12,945)
Gain on disposal	—	5,929)
Provision (benefit) for income taxes	—	(6,099)
Net Loss from Discontinued Operations	\$—	\$ (1,528)

Note 12 — Other Comprehensive Income (Loss)

The components of other comprehensive income (loss) were as follows:

In Thousands	2015	2014	2013
Change in foreign currency translation adjustment before reclassifications	\$(1,214)	\$(4,318)	\$826
Amounts reclassified from comprehensive income due to divesture		\$(2,565)	

The components of accumulated other comprehensive income (loss), net of tax, were as follows:

In Thousands	2015	2014	2013
Foreign currency translation adjustment	\$(3,178)	\$(1,964)	\$4,919

Note 13 — Provision for Taxes

Income before taxes and the provision for taxes consisted of the following:

In Thousands	2015	2014	2013
Income (loss) before taxes:			
United States of America (USA)	\$15,674	\$5,001	\$19,803
Non USA	—	7,155	(3,115)
	\$15,674	\$12,156	\$16,688
Provision for taxes:			
Current			
Federal	\$1,670	\$3	\$5,060
State	237	306	560
International	—	566	(26)
	1,907	875	5,594
Deferred			
Federal	1,909	(667)	299
State	252	131	616
International	—	—	374
	2,161	(536)	1,289
	\$4,068	\$339	\$6,883

Edgar Filing: ESCALADE INC - Form 10-K

Continuing Operations	\$4,068	\$6,438	\$6,119
Discontinued Operations	—	(6,099)	764
	\$4,068	\$339	\$6,883

The provision for income taxes was computed based on financial statement income. A reconciliation of the provision for income taxes to the amount computed using the statutory rate follows:

In Thousands	2015	2014	2013
Income tax at statutory rate	\$5,486	\$4,255	\$5,840
Increase (decrease) in income tax resulting from			
State tax expense, net of federal effect	318	291	764
Federal true-ups	(38)	55	(18)
Federal tax credits	(802)	(568)	(256)
Effect of foreign tax rates	(474)	(1,107)	(362)
Valuation allowances (state and foreign)	—	(1,406)	1,400
Captive insurance earnings	(361)	(398)	(390)
Incentive stock options	57	155	130
Foreign exchange gain on sale of Information Security	—	(898)	—
Other	(118)	(40)	(225)
Recorded provision for income taxes	\$4,068	\$339	\$6,883

The provision for income taxes was computed based on financial statement income. In accordance with FASB ASC 740, the Company does not have any uncertain tax positions as of and for the years ended December 26, 2015 and December 27, 2014.

Interest costs and penalties related to income taxes are classified as interest expense and selling, general and administrative costs, respectively in the Company's financial statements. The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, and multiple state and foreign jurisdictions. The Company is subject to future examinations by federal, state and other tax authorities for all years after 2011.

The components of the net deferred tax liabilities are as follows:

In Thousands	2015	2014
Assets		
Employee benefits	\$100	\$120
Valuation reserves	1,897	1,412
Property and equipment	259	566
Stock based compensation	268	191
Federal and state credits	259	878
Net operating loss carry forward	29	1,038
Total assets	2,812	4,205

Edgar Filing: ESCALADE INC - Form 10-K

Liabilities

Unrealized equity investment income	(3,192)	(3,079)
Goodwill and intangible assets	(4,720)	(2,660)
Prepaid insurance	(122)	(102)
Total liabilities	(8,034)	(5,841)

Valuation Allowance

Beginning balance	(435)	(8,949)
Decrease (increase) during period	—	8,514
Ending balance	(435)	(435)
	\$(5,657)	\$(2,071)

Deferred tax assets (liabilities) are included in the consolidated balance sheets as follows:

In Thousands	2015	2014
Deferred income tax asset - current	\$1,543	\$925
Deferred income tax asset (liability) – long-term	(7,200)	(2,996)
	\$(5,657)	\$(2,071)

The Company has state unused net operating losses of approximately \$517 thousand. All operating loss carry-forwards expire in various amounts through 2029.

Note 14 — Operating Segment and Geographic Information

The following table presents certain operating segment information. The Information Security and Print Finishing segment has been classified as discontinued operations for all periods presented.

In Thousands	2015	2014	2013
Sporting Goods			
Net revenue	\$155,542	\$137,975	\$132,991
Operating income	16,070	18,194	18,469
Interest expense (income)	(50)	(17)	170
Provision for taxes	6,356	7,420	7,212
Net income	9,771	11,394	11,087
Identifiable assets	116,013	95,506	91,137
Non-marketable equity investments (equity method)	—	—	—
Depreciation & amortization	5,218	4,380	3,844
Capital expenditures	5,067	2,739	2,170
Discontinued Operations			
Net revenue	—	20,865	30,686
Operating loss	—	(483)	(1,687)
Interest expense	—	98	335
Provision (benefit) for taxes	—	(6,099)	764
Net loss	—	(1,528)	(2,790)
Identifiable assets	—	—	23,203
Non-marketable equity investments (equity method)	—	—	331
Depreciation & amortization	—	373	774
Capital expenditures	—	246	185
All Other			
Net revenue	—	—	—
Operating loss	(3,252)	(2,689)	(2,285)
Interest expense	520	465	233
Benefit for taxes	(2,288)	(982)	(1,093)
Net income	1,835	1,951	1,508
Identifiable assets	27,724	32,375	27,634
Non-marketable equity investments (equity method)	19,644	18,949	19,455
Depreciation & amortization	—	—	—
Capital expenditures	—	—	—

Edgar Filing: ESCALADE INC - Form 10-K

Total			
Net revenue	155,542	158,840	163,677
Operating income	12,818	15,022	14,497
Interest expense	470	546	738
Provision for taxes	4,068	339	6,883
Net income	11,606	11,817	9,805
Identifiable assets	143,737	127,881	141,974
Non-marketable equity investments (equity method)	19,644	18,949	19,786
Depreciation & amortization	5,218	4,753	4,618
Capital expenditures	5,067	2,985	2,355

Each operating segment is individually managed and has separate financial results that are reviewed by the Company's management. Each segment contains closely related products that are unique to the particular segment. There were no changes to the composition of segments in 2015. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies.

The Sporting Goods segment consists of home entertainment products such as table tennis tables and accessories; basketball goals; pool tables and accessories; outdoor playsets; soccer and hockey tables; archery equipment and accessories; and fitness, arcade and darting products. Customers include retailers, dealers and wholesalers located throughout North America, Europe and to a lesser the rest of the world.

Discontinued Operations contains the divested operations of the Information Security and Print Finishing segment. This segment consisted of products such as high-security data shredders, disintegrators and degaussers, and office machinery used in the office and graphic arts environment. Office environment products include folding machines; and paper trimmers and cutters. Customers include end-users, as well as, retailers, wholesalers, catalogs, specialty dealers and business partners.

All Other consist of general and administrative expenses not specifically related to the operating business segments and includes investment income from equity investments.

Interest expense is allocated to operating segments based on working capital usage and the provision for taxes is allocated based on a combined federal and state statutory rate of 39.4% adjusted for actual taxes on foreign income. Permanent tax adjustments and timing differences are included in the all other segment.

Identifiable assets are principally those assets used in each segment. The assets in the all other segment are principally cash and cash equivalents; deferred tax assets; and investments.

During 2015, 2014 and 2013 the Company had one customer which accounted for approximately 18%, 16% and 16%, respectively, of the Company's total consolidated revenues. No other customer accounted for 10% or more of consolidated total revenues. Within the Sporting Goods segment, this customer accounted for approximately 18%, 19% and 20% of total revenues in 2015, 2014 and 2013, respectively.

As of December 26, 2015 and as of December 27, 2014 the Company had a significant portion of its total accounts receivable with one customer. The one customer accounted for approximately 27% and 23% of total accounts receivable at December 26, 2015 and December 27, 2014, respectively.

As of December 26, 2015, approximately 22 employees of the Company's labor force were covered by a collective bargaining agreement that expires April 30, 2016.

Raw materials for Escalade's various product lines consist of wood, tempered glass, particle board, standard grades of steel and steel tubing, aluminum, engineering plastics, fiberglass and packaging materials. Escalade relies upon domestic, Mexico, and Asian suppliers for these materials and upon various Asian manufacturers for many of its products.

Net sales are attributed to country based on location of customer and are for continuing operations. Net sales by geographic region/country were as follows:

In Thousands	2015	2014	2013
North America	\$ 152,890	\$ 135,585	\$ 129,435
Europe	1,234	1,408	1,946
Other	1,418	982	1,610
	\$ 155,542	\$ 137,975	\$ 132,991

Identified assets by geographic region/country were as follows:

In Thousands	2015	2014	2013
North America	\$143,737	\$127,881	\$127,393
Europe	—	—	14,581
	\$143,737	\$127,881	\$141,974

Note 15 — Summary of Quarterly Results

Certain amounts reported below have been changed from those previously reported on Forms 10-Q to reflect the impact of discontinued operations for all periods.

In thousands, except per share data (unaudited) March 21 July 11 October 3 December 26

2015

Net Sales	\$ 33,419	\$43,795	\$ 34,584	\$ 43,744
Operating Income	4,287	4,157	1,873	2,501
Net Income from Continuing Operations	3,497	3,222	2,028	2,859
Net income from discontinued operations	—	—	—	—
Net income	3,497	3,222	2,028	2,859

Basic Earnings Per Share Data:

Income from continuing operations	\$ 0.25	\$0.23	\$ 0.14	\$ 0.20
Income from discontinued operations	0.00	0.00	0.00	0.00
Net Income	\$ 0.25	\$0.23	\$ 0.14	\$ 0.20

Diluted Earnings Per Share Data:

Income from continuing operations	\$ 0.25	\$0.23	\$ 0.14	\$ 0.20
Income from discontinued operations	0.00	0.00	0.00	0.00
Net Income	\$ 0.25	\$0.23	\$ 0.14	\$ 0.20

In thousands, except per share data (unaudited) March 22 July 12 October 4 December 27

2014

Net Sales	\$ 27,721	\$38,012	\$ 31,599	\$ 40,643
Operating Income	3,323	3,932	4,216	4,033
Net Income from Continuing Operations	2,264	2,767	3,837	4,477
Net income (loss) from discontinued operations	(14)	(10,851)	9,784	(447)
Net income (loss)	2,250	(8,084)	13,621	4,030

Edgar Filing: ESCALADE INC - Form 10-K

Basic Earnings Per Share Data:

Income from continuing operations	\$ 0.16	\$0.20	\$ 0.28	\$ 0.32
Income (loss) from discontinued operations	0.00	(0.78)	0.70	(0.03)
Net Income (loss)	\$ 0.16	\$(0.58)	\$ 0.98	\$ 0.29

Diluted Earnings Per Share Data:

Income from continuing operations	\$ 0.16	\$0.20	\$ 0.27	\$ 0.32
Income (loss) from discontinued operations	0.00	(0.77)	0.69	(0.03)
Net Income (loss)	\$ 0.16	\$(0.57)	\$ 0.96	\$ 0.29

Note 16 — Acquisitions

All of the Company's acquisitions have been accounted for using the purchase method of accounting.

2015

During 2015, the Company acquired certain assets and liabilities of Onix Sports, Inc. and acquired all of the issued and outstanding shares of capital stock of Goalsetter Systems, Inc. for total consideration of cash and notes of approximately \$10.3 million, subject to adjustments for working capital. The total working capital adjustments resulted in \$0.6 million of additional consideration to the sellers.

The consideration paid by the company for these acquisitions is allocated to the assets acquired, net of the liabilities assumed, based upon their estimated fair values as of the date of the acquisition. The excess of the purchase price over the estimated fair value of the assets acquired, net of the estimated fair value of the liabilities assumed, is recorded as goodwill. The allocation of the purchase price, including values assigned to assets, liabilities and the amount of goodwill and intangible assets are represented in the table below.

In thousands

Assets acquired and liabilities assumed:

Accounts receivable	\$ 795
Inventories	966
Other assets	50
Goodwill	5,172
Intangible assets	6,286
Accounts payable	(271)
Other liabilities	(74)
Deferred income tax liability	(2,046)
	\$ 10,878

2014

On October 22, 2014, the Company acquired substantially all the business and assets of Cue & Case Sales, Inc., a leader in specialty billiard accessories. The total purchase price of \$10.4 million was paid in cash. The more significant assets acquired comprised of customer lists (\$4,060), inventory (\$3,260), goodwill (\$1,633), tradenames (\$987) and receivables (\$372).

2013

In November 2013, the Company acquired substantially all of the business and assets of DMI Sports, Inc. relating to DMI's indoor games and accessories such as darts, table tennis, game tables, and billiards. Escalade believes these assets, including the acquired brands and trade names, will complement Escalade's existing product lines in this category. Escalade did not acquire the outdoor games business conducted by DMI Sports, which business was retained by DMI Sports. The total price of \$6.1 million was paid in cash. The more significant assets acquired comprised of inventory (\$2,705), goodwill (\$1,095), patented technology (\$706), customer lists (\$569), non-compete (\$300) and trademarks (\$210).

These acquisitions were not and would not have been material to the Company's net sales, results of operations or total assets during the years ended December 26, 2015, December 27, 2014 and December 28, 2013, respectively. Accordingly, our consolidated results from operations do not differ materially from historical performance as a result of these acquisitions, and therefore, pro-forma results are not presented.

Note 17 — Commitments and Contingencies

The Company is involved in litigation arising in the normal course of its business. The Company does not believe that the disposition or ultimate resolution of existing claims or lawsuits will have a material adverse effect on the business or financial condition of the Company.

The Company has entered into various agreements whereby it is required to make royalty and license payments. At December 26, 2015, the Company had future estimated minimum non-cancelable royalty and license payments as follows:

	In Thousands	Amount
2016		\$ 460
2017		460
2018		375
2019		—
2020		—
Thereafter		—
		\$ 1,295

Note 18 — Fair Values of Financial Instruments

The following methods were used to estimate the fair value of all financial instruments recognized in the accompanying balance sheets at amounts other than fair values.

Cash and Cash Equivalents and Time Deposits

Fair values of cash and cash equivalents and time deposits approximate cost due to the short period of time to maturity.

Notes Payable and Long-term Debt

The Company believes the carrying value of short-term debt, including current portion of long-term debt, and long-term debt adequately reflects the fair value of these instruments.

The following table presents estimated fair values of the Company's financial instruments in accordance with FASB ASC 825 at December 26, 2015 and December 27, 2014.

2015	Fair Value Measurements Using			
In Thousands	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets				
Cash and cash equivalents	\$ 1,982	\$ 1,982	\$ —	\$ —
Time deposits	\$ —	\$ —	\$ —	\$ —
Financial liabilities				
Note payable and Short-term debt	\$ 19,776	\$ —	\$ 19,776	\$ —
Current portion of Long-term debt	\$ 1,810	\$ —	\$ 1,810	\$ —
Long-term debt	\$ 1,750	\$ —	\$ 1,750	\$ —

2014	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
In Thousands				
Financial assets				
Cash and cash equivalents	\$ 3,232	\$ 3,232	\$ —	\$ —
Time deposits	\$ 1,450	\$ 1,450	\$ —	\$ —
Financial liabilities				
Note payable and Short-term debt	\$ 16,200	\$ —	\$ 16,200	\$ —
Current portion of Long-term debt	\$ 1,586	\$ —	\$ 1,586	\$ —
Long-term debt	\$ 3,360	\$ —	\$ 3,360	\$ —

Note 19 — Subsequent Events

On January 21, 2016, the Company acquired substantially all of the business and assets of Triumph Sports USA, Inc.'s business, a brand known for its innovative lines of indoor and outdoor games. The estimated purchase price of the acquisition is \$10.0 million, of which \$9.5 million was paid in cash and the remaining \$0.5 million is contingent upon the attainment of certain targets. The more significant assets acquired and liabilities assumed were comprised of receivables (\$1.4 million), inventory (\$1.4 million), prepaid and other assets (\$0.1 million), accounts payable (\$0.6 million) and estimated goodwill and other intangible assets (\$7.7 million). The Company has not yet finalized the purchase price or its final evaluation of the fair value of certain items. The primary areas of the purchase price allocation that are not yet finalized relate to the valuation of intangible assets, contingent consideration and residual goodwill. Any changes during the measurement period may have an impact on the allocation of the purchase price, including values assigned to assets, liabilities and the amount of estimated goodwill and intangible assets.

On January 21, 2016, the Company entered into a Second Amended and Restated Credit Agreement (“Restated Credit Agreement”) with its issuing bank, JP Morgan Chase Bank, N.A. (“Chase”), and the other lenders identified in the Restated Credit Agreement (collectively, the “Lender”). Under the terms of the Restated Credit Agreement, the Lender has made available to the Company a senior revolving credit facility in an increased maximum amount of up to \$35.0 million and a term loan in an increased principal amount of \$7.5 million. The maturity date of the revolving credit facility was extended to January 21, 2019 and the maturity of the term loan facility was extended to January 21, 2021.

Patrick Griffin		February 23, 2016
/s/ David L. Fetherman David L. Fetherman	Director and President and Chief Executive Officer (Principal Executive Officer)	February 23, 2016
/s/ Stephen R. Wawrin Stephen R. Wawrin	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	February 23, 2016