

ESCALADE INC  
Form 10-K  
February 25, 2015

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 27, 2014

Or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-6966

**ESCALADE, INCORPORATED**

(Exact name of registrant as specified in its charter)

Indiana 13-2739290

(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

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 12, 2014 based on the closing sale price as reported on the NASDAQ Global Market: \$170,640,965

The number of shares of Registrant's common stock (no par value) outstanding as of February 11, 2015: 14,013,809.

#### 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 24, 2015 are incorporated by reference into Part III of this Report.

Escalade, Incorporated and Subsidiaries

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**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 previously announced sale of our Print Finishing business on June 30, 2014, represents 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.

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

	2014	2013	2012
Sporting Goods	87 %	81 %	76 %
Discontinued Operations	13 %	19 %	24 %
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 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®
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

During 2014, 2013 and 2012 the Company had one customer, Dick's Sporting Goods, which accounted for approximately 19%, 20% and 23%, respectively, of the Company's revenues from continuing operations.

As of December 27, 2014, the Company had approximately 23% of its total accounts receivable with Dick's Sporting Goods. As of December 28, 2013 the Company had approximately 27% and 12% of its total accounts receivable with Dick's Sporting Goods and The Sports Authority, respectively.

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 \$1.7 million, \$1.2 million, and \$1.0 million in 2014, 2013 and 2012, 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 27, 2014 and December 28, 2013 for each business segment were as follows:

	2014	2013
Sporting Goods		
USA	372	356
Mexico	83	106
Asia	11	10
	466	472
Discontinued Operations		
USA	—	68
Europe	—	91
Asia	—	10
Africa	—	7
	—	176
Total	466	648

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 are approximately 18 covered employees at December 27, 2014. 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 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](http://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](http://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. While the global economy is experiencing some level of recovery from the recent downturn, we cannot predict how robust the recovery 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 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.

***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. 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. 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 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.

***Failure to effectively implement the Company's global integrated information system could cause incorrect information or delays in getting information which could adversely affect the performance of the Company.***

The Company is in the process of converting its Enterprise Risk Planning (ERP) systems from legacy systems to Epicor. Implementation has been completed for Raleigh, North Carolina, and Rosarito, Mexico locations. The Company intends to complete the conversion of its remaining sites over the next two years. There can be no assurance the Company will have the necessary funds or the staff to fully avail itself of the control features inherent in the system design. Without such utility, the Company management is faced with legacy systems and time consuming efforts to manually consolidate its financial information.

***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;

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- 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 \$0.10 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 sites 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 27, 2014, the Company owned or operated from the following locations:

Location	Square Footage	Owned or Leased	Use
Evansville, Indiana, USA	380,200	Owned	Distribution; sales and marketing; 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
Shanghai, China	1,130	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.

**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 affect 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.

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**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
2014		
Fourth quarter ended December 27, 2014	\$14.47	\$11.18
Third quarter ended October 4, 2014	16.77	11.78
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
2012		
Fourth quarter ended December 29, 2012	\$5.54	\$4.67
Third quarter ended October 6, 2012	6.09	5.05
Second quarter ended July 14, 2012	6.10	5.15
First quarter ended March 24, 2012	6.06	4.31

The closing market price on February 11, 2015 was \$15.79 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. Dividends issued/declared during 2013 and 2014 are as follows:

Record Date	Payment Date	Amount per Common Share
March 14, 2013	March 20, 2013	\$ 0.08
June 13, 2013	June 20, 2013	\$ 0.08

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September 13, 2013	September 20, 2013	\$	0.09
December 13, 2013	December 20, 2013	\$	0.09
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

There were approximately 158 holders of record of the Company's Common Stock at February 11, 2015. The approximate number of stockholders, including those held by depository companies for certain beneficial owners, was 1,931.

**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, 2014. The following information is based on an investment of \$100, on December 31, 2009, 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**

	2009	2010	2011	2012	2013	2014
Escalade Common Stock	100	257	179	210	475	608
NASDAQ 100 (OMX)	100	120	125	147	202	241
NASDAQ US Benchmark TR Index (OMX)	100	118	118	137	183	206

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 10/4/2014 under the current repurchase program.	982,916	\$ 8.84	982,916	\$ 2,273,939
Fourth quarter purchases:				
10/5/2014 – 11/01/2014	None	None	None	No Change
11/2/2014 – 11/29/2014	None	None	None	No Change
11/30/2014 – 12/27/2014	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 27, 2014	December 28, 2013	December 29, 2012	December 31, 2011	December 25, 2010
<b>Income Statement Data</b>					
Net revenue					
Sporting Goods	\$ 137,975	\$ 132,991	\$ 112,599	\$ 96,971	\$ 85,815
Discontinued Operations	20,865	30,686	34,990	37,279	34,841
Total net sales	158,840	163,677	147,589	134,250	120,656
Net income (loss)	11,817	9,805	(4,930)	) 4,441	6,059
Weighted-average shares	13,853	13,506	13,244	12,849	12,726
<b>Per Share Data</b>					
Basic earnings (loss) per share	\$ 0.85	\$ 0.73	\$ (0.37)	) \$ 0.35	\$ 0.48
Cash dividends	\$ 0.38	\$ 0.34	\$ 0.31	\$ 0.32	\$ 0.10
<b>Balance Sheet Data</b>					
Working capital	37,105	37,537	32,656	29,496	24,132
Total assets	127,881	141,974	125,740	130,115	127,553
Short-term debt	17,786	23,263	19,070	16,947	11,407
Long-term debt	3,360	4,946	3,500	5,000	7,500
Total stockholders' equity	89,779	87,955	80,457	87,565	87,030

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.

Fiscal year 2010 was positively impacted by increased sales in the Sporting Goods segment, as well as continued efforts at cost reduction, and improved margins resulting from higher sales volumes.

**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 the divestiture of its Information Security and Print Finishing segment, 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) has historically manufactured and distributed products for two industries: Sporting Goods; and Information Security and Print Finishing. On June 30, 2014, the Company announced the sale of its Print Finishing business. On October 1, 2014, the Company announced the sale of its Information Security business. The divestiture of these two divisions accomplishes the Company's complete exit from the Information Security and Print Finishing segment.

Due to the planned 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. Under terms of the final agreement of 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. The Company also assumed the foreign tax liability related to this gain. The Company was able to utilize previously reserved net operating loss carry-forwards to offset the majority of this tax liability.

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.

The Company is solely 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.

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.

A majority of the Company's products are in markets that are currently experiencing low growth rates. Where the Company enjoys a commanding market position, such as table tennis tables, revenue growth is expected to be roughly equal to general macro-economic consumer trends.

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. 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.

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.

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:

	2014	2013	2012	
Net revenue				
Sporting Goods	3.7 %	18.1 %	16.1 %	
Discontinued Operations	(32.0)%	(12.3)%	(6.1)%	
Total	(3.0)%	10.9%	9.9%	
Net income (loss)				
Sporting Goods	2.8 %	31.4 %	39.0 %	
Discontinued Operations	45.2 %	82.2 %	(1,602.8)%	
Total	20.5 %	298.9%	(211.0)%	

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 and 23.6% in 2012.

## Results of Operations

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

	2014	2013	2012
Net revenue	100.0%	100.0%	100.0%
Cost of products sold	70.2 %	69.9 %	71.0 %
Gross margin	29.8 %	30.1 %	29.0 %
Selling, administrative and general expenses	16.6 %	16.1 %	16.4 %
Amortization	1.9 %	1.8 %	1.9 %
Operating income (loss)	11.3 %	12.2 %	10.7 %

### Revenue and Gross Margin

Sales growth across most sales channels of the Sporting Goods segment resulted in an overall increase of 3.7% in Sporting Goods net revenues for 2014 compared to 2013.

The overall gross margin percentage decreased slightly to 29.8% in 2014 compared with 30.1% in 2013 due to increased research and development spending on new products.

### **Selling, General and Administrative Expenses**

Selling, general and administrative expenses (SG&A) were \$22.9 million in 2014 compared to \$21.5 million in 2013, an increase of \$1.4 million or 6.9%. SG&A as a percent of sales is 16.6% in 2014 compared with 16.1% in 2013. The increase in SG&A are primarily due to increased marketing efforts in new categories acquired during 2014 as well as new products to be introduced in future years.

### **Other Income**

Other income increased in 2014 to \$4.7 million compared with \$2.9 million in 2013, an increase of 61.1%. Income from the non-marketable equity investments was \$3.9 million in 2014 compared with \$2.9 million in 2013. 2014 included \$0.6 million of insurance proceeds due to roof damage that the company will use to make facility repairs in 2015. Operating losses for Escalade International, Ltd. equity method investment in 2013 was \$0.6 million. This entity was fully liquidated in 2013.

### **Provision for Income Taxes**

The effective tax rate for 2014 is 2.8%. 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. The effective income tax rate in 2012 was impacted by the goodwill and intangible asset impairment write-down which is not deductible for income tax purposes. Excluding the effect of the goodwill and intangible asset impairment, the effective tax rate for 2012 would have been 33.2% compared with 35.4% for 2011. The effective tax rate for 2012 was lower due to the release of valuation allowances on state credits.

### **Sporting Goods**

Net revenues, operating income, and net income for the Sporting Goods segment for the three years ended December 27, 2014 were as follows:

In Thousands	2014	2013	2012
Net revenue	\$137,975	\$132,991	\$112,600
Operating income	18,194	18,469	14,160
Net income	11,394	11,087	8,433

Net revenue increased 3.7% in 2014 compared to 2013 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 the fourth quarter, the Company strengthened its product offerings with the acquisition of the business and assets of Cue & Case Sales, Inc., a leader in specialty billiard accessories.

Gross margin and profitability slightly decreased in 2014 compared with 2013. The gross margin ratio in 2014 declined slightly to 29.8% compared to 30.1% in the prior year due to increased research and development spending on new products. Operating income as a percentage of net revenue decreased to 13.2% in 2014 compared to 13.9% in 2013. Management anticipates additional sales growth in 2015.

### **Information Security and Print Finishing**

On June 30, 2014, the Company announced the sale of its Print Finishing business. On October 1, 2014, the Company announced the sale of its Information Security business. The divestiture of these two divisions accomplishes 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), increased to 2.2 in 2014 compared to 1.9 in 2013. The Company was able to decrease receivable levels to \$32.2 million in 2014 compared with \$38.3 million in 2013 which was partially off-set by an increase in inventory to \$23.8 million in 2014 from \$18.9 million in 2013. Total notes payable and long-term debt decreased to \$21.1 million, down from \$28.2 million in 2013. Total notes payable and long-term debt as a percentage of stockholders equity improved to 23.6% in 2014, up from 32.1% in 2013.

The Company's working capital requirements are primarily funded through cash flows from operations and revolving credit agreements with its bank. During 2014, the Company's maximum borrowings under its primary revolving credit lines and overdraft facility totaled \$30.6 million compared to \$29.8 million in 2013. Total notes payable and long-term debt decreased \$7.1 million in 2014 as compared with 2013. The debt decrease was primarily driven by the proceeds received in the sale of the Information Security and Print Finished businesses. The overall effective interest rate in 2014 was 3.0% which was down from the effective rate of 3.4% in 2013. The Company's credit agreement with its primary bank lender, JPMorgan Chase Bank, N.A., matures as of August 27, 2016 for the senior revolving credit facility and the term loan matures as of August 27, 2018. The Company has a long standing relationship with its primary bank lender and has met all financial covenants under the new agreement which was last amended as of November 13, 2013.

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 the recent Cue & Case acquisition and to pay shareholder dividends.

In 2015, the Company estimates capital expenditures to be approximately \$7.0 million.

The Company expects improvements in its overall sales levels for fiscal year 2015 compared with 2014 as a result of new product offerings and expanded customer base. The Company believes that cash generated from its projected 2015 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 the economic conditions deteriorate, this could have adverse effects on the Company's ability to operate profitably during fiscal year 2015. 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 27, 2014:

Amounts in thousands	Total	2015	2016 - 2017	2018 - 2019	Thereafter
Debt	\$21,146	\$17,786	\$ 2,610	\$ 750	\$ —
Future interest payments (1)	754	638	105	11	—
Operating leases	1,840	601	753	402	84
Minimum payments under royalty and license agreements	1,770	475	920	375	—
Total	\$25,510	\$19,500	\$ 4,388	\$ 1,538	\$ 84

Note:

(1) Assumes that the Company will not increase borrowings under its long-term credit agreements and that the effective interest rate experienced in 2014 of 3.0% will continue for the life of the agreements.

## 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 \$14.9 million at December 27, 2014, 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 27, 2014.

### ***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 other income on the consolidated statements of operations. The proportionate share of net income was \$3.9 million, \$2.9 million and \$3.0 million in 2014, 2013 and 2012, respectively. Total cash dividends received from these equity investments amounted to \$919 thousand, \$617 thousand, and \$444 thousand in 2014, 2013 and 2012, 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 other income on the Company's statements of operations.

During 2012, one equity method investment, Escalade International, Ltd. performed below expectations, and this entity encountered unexpected attrition of certain significant customers as of the end of the third quarter 2012. Due to these events, the Company evaluated the economic and strategic benefits of continuing to hold this investment. Based on the review performed as of October 6, 2012, the Company determined that the fair value of this investment was less than its carrying value and that this impairment was other than temporary. As a result, the Company recognized other than temporary impairment of \$382 thousand.

### **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 27, 2014, the Company had no material commitments for capital expenditures. In 2015, the Company estimates capital expenditures to be approximately \$7.0 million. We intend to continue the implementation of the integrated information system at our remaining locations. The Company adopted a phased implementation of the integrated information system to minimize the risk of business interruption. The implementation began in 2012 and to date the Raleigh, North Carolina, and Rosarito, Mexico are fully operational on the new system.

## **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 2014, 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 both LIBOR and EURIBOR 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 27, 2014. 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 1992) and implemented a process to monitor and assess both the design and operating effectiveness of the Company's internal controls. This assessment excluded internal control over financial reporting for the operations of Cue & Case Sales, Inc., as allowed by the SEC for current year acquisitions. Substantially all of the assets of Cue & Case Sales, Inc. were acquired on October 22, 2014 and represented 8.3% of assets as December 27, 2014 and 1.6% of consolidated net sales for the year ended December 27, 2014. Based on this assessment, management believes that, as of December 27, 2014, 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/ Robert J. Keller, 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 2014. 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 2014 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 24, 2015 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 24, 2015 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 24, 2015 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)	344,375	\$ 6.08	1,179,662
Equity compensation plans not approved by security holders	—	—	—
Total	344,375		1,179,662

(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 24, 2015 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 24, 2015 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 24, 2015 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 27, 2014 and December 28, 2013

Consolidated statements of operations—fiscal years ended December 27, 2014, December 28, 2013, and December 29, 2012

Consolidated statements of comprehensive income (loss)—fiscal years ended December 27, 2014, December 28, 2013, and December 29, 2012

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Consolidated statements of stockholders' equity—fiscal years ended December 27, 2014, December 28, 2013, and December 29, 2012

Consolidated statements of cash flows—fiscal years ended December 27, 2014, December 28, 2013, and December 29, 2012

Notes to consolidated financial statements

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.

	(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) (p)	
2.2	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) (p)	
3.1	Articles of Incorporation of Escalade, Incorporated (b)	
3.2	Amended By-Laws of Escalade, Incorporated (n)	
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	First Amended and Restated Credit Agreement dated as of August 27, 2013 by and between Escalade, Incorporated and JPMorgan Chase Bank, N.A. (k)	

- 10.3 First Amendment dated as of November 13, 2013 to First Amended and Restated Credit Agreement by and between Escalade, Incorporated and JPMorgan Chase Bank, N.A. (l)
- 10.4 Second Amendment dated as of June 30, 2014 to the First Amended and Restated Credit Agreement dated as of August 23, 2013 among Escalade, Incorporated and JP Morgan Chase Bank, N.A. (without exhibits and schedules, which Escalade has determined are not material) (o)
- 10.5 Third Amendment dated as of October 1, 2014 to the First Amended and Restated Credit Agreement dated as of August 23, 2013 among Escalade, Incorporated and JPMorgan Chase Bank, N.A. (without exhibits and schedules, which Escalade has determined are not material) (p)
- 10.6 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) (f)
- 10.7 Form of Pledge and Security Agreement dated as of April 30, 2009 with JPMorgan Chase Bank, N.A. (f) (g)
- 10.8 Form of Unlimited Continuing Guaranty dated as of April 30, 2009 in favor of JPMorgan Chase Bank, N.A. (f) (g)
- 10.9 Loan Agreement dated September 1, 1998 between Martin Yale Industries, Inc. and City of Wabash, Indiana (d)
- 10.10 Trust Indenture between the City of Wabash, Indiana and Bank One Trust Company, NA as Trustee dated September 1, 1998 relating to the Adjustable Rate Economic Development Revenue Refunding Bonds, Series 1998 (Martin Yale Industries, Inc. Project) (d)

(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 (i)
- 10.13 Form of Stock Option Award Agreement utilized in Stock Option grants to employees pursuant to the Escalade, Incorporated 2007 Incentive Plan (h)
- 10.14 Form of Stock Option Award Agreement utilized in Stock Option grants to Directors pursuant to the Escalade, Incorporated 2007 Incentive Plan (h)
- 10.15 Form of Restricted Stock Unit Agreement utilized in Restricted Stock Unit grants pursuant to the Escalade Incorporated 2007 Incentive Plan. (e)
- 10.16 Executive Severance agreement, dated September 14, 2012 between Robert Keller and Escalade, Inc. (j)
- 10.17 Agreement and Release dated November 11, 2014 between Deborah J. Meinert and Escalade, Inc. (q)
- 10.18 Escalade, Incorporated schedule of Directors Compensation
- 10.19 Escalade, Incorporated schedule of Executive Officers Compensation

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

- (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

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- (d) Incorporated by reference from the Company's 1998 Third Quarter Report on Form 10-Q
- (e) Incorporated by reference from the Company's Form 8-K filed on March 3, 2008
- (f) Incorporated by reference from the Company's Form 8-K filed on May 6, 2009

Each of Escalade's nine domestic subsidiaries has entered into the identical form of Pledge and Security Agreement and form of Unlimited Continuing Guaranty. Those eleven domestic subsidiaries are: Indian Industries, Inc.;

(g) Harvard Sports, Inc.; Wedcor Holdings, Inc.; U.S. Weight, Inc.; Bear Archery, Inc.; Escalade Sports Playground, Inc.; EIM Company, Inc.; SOP Services, Inc.; and Escalade Insurance, Inc.

- (h) Incorporated by reference from the Company's 2009 Annual Report on Form 10-K filed on March 5, 2010
  - (i) Incorporated by reference from the Company's 2012 Proxy Statement
  - (j) Incorporated by reference from the Company's Form 8-K filed on September 19, 2012
  - (k) Incorporated by reference from the Company's Form 8-K filed on August 28, 2013
  - (l) Incorporated by reference from the Company's Form 8-K filed on November 14, 2013



- (m) Incorporated by reference from the Company's Form 8-K filed on November 25, 2013
- (n) Incorporated by reference from the Company's 2014 First Quarter Report on Form 10-Q filed on April 22, 2014
  - (o) Incorporated by reference from the Company's Form 8-K filed on July 3, 2014
  - (p) Incorporated by reference from the Company's Form 8-K filed on October 6, 2014
  - (q) Incorporated by reference from the Company's Form 8-K filed on November 12, 2014

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:

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<u>Consolidated statements of cash flows—fiscal years ended December 27, 2014, December 28, 2013 and December 29, 2012</u>	37
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## 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 27, 2014, and December 28, 2013, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for each of the years in the three-year period ended December 27, 2014. 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 and 2012 financial statements (consisting of the balance sheet and related statement of operations) of 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 \$13,194 and net sales of \$15,000 and \$15,226 (dollars in thousands) for 2013 and 2012, respectively, included in the related consolidated financial statement amounts as of and for the years ended December 28, 2013, and December 29, 2012, respectively. Those balance sheets and statements 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 sheets and statements of operations of 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 (loss), cash flows and stockholders' equity for 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 27, 2014, and December 28, 2013, and the results of its operations and its cash flows for each of the years in the three-year period ended December 27, 2014, 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 27, 2014, based on criteria established in *Internal Control-Integrated Framework (1992 edition)* issued by the *Committee of Sponsoring Organizations of the Treadway Commission (COSO)*, and our report dated February 25, 2015, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ BKD, LLP  
Evansville, Indiana  
February 25, 2015

## 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 27, 2014, based on criteria established in Internal Control - *Integrated Framework (1992 edition)* 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 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.

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

As permitted, the Company excluded the operations of Cue & Case Sales, Inc., a billiard accessories business acquired on October 20, 2014, from the scope of management's report on internal control over financial reporting. As such, this entity has also been excluded from the scope of our audit of internal control over financial reporting.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 27, 2014, based on criteria established in *Internal Control - Integrated Framework (1992 edition)* issued by the *Committee of Sponsoring Organizations of the Treadway Commission (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 25, 2015, expressed an unqualified opinion thereon.

/s/ BKD, LLP  
Evansville, Indiana  
February 25, 2015

## Escalade, Incorporated and Subsidiaries

## Consolidated Balance Sheets

All Amounts in Thousands Except Share Information	December 27, 2014	December 28, 2013
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 3,232	\$ 1,091
Time deposits	1,450	1,700
Receivables, less allowances of \$900 and \$1,104	32,150	38,271
Inventories	23,775	18,941
Prepaid expenses	1,622	1,610
Deferred income tax benefit	925	2,189
Prepaid income tax	5,697	853
Assets held for sale	—	16,561
<b>TOTAL CURRENT ASSETS</b>	<b>68,851</b>	<b>81,216</b>
Property, plant and equipment, net	11,596	10,635
Intangible assets	13,465	10,999
Goodwill	14,875	13,113
Investments	18,949	19,455
Other assets	145	86
Assets held for sale	—	6,470
<b>TOTAL ASSETS</b>	<b>\$ 127,881</b>	<b>\$ 141,974</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Notes payable	\$ 16,200	\$ 21,700
Current portion of long-term debt	1,586	1,563
Trade accounts payable	1,853	2,055
Accrued liabilities	12,107	11,521
Liabilities held for sale	—	6,840
<b>TOTAL CURRENT LIABILITIES</b>	<b>31,746</b>	<b>43,679</b>
Long-term debt	3,360	4,946
Deferred income tax liability	2,996	5,394
<b>TOTAL LIABILITIES</b>	<b>38,102</b>	<b>54,019</b>
Commitments and contingencies	—	—
Stockholders' equity:		
Preferred stock		
Authorized: 1,000,000 shares, no par value, none issued		
Common stock		

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Authorized: 30,000,000 shares, no par value		
Issued and outstanding: 2014 —13,998,090 shares, 2013 —13,656,557 shares	13,998	13,657
Retained earnings	77,745	69,379
Accumulated other comprehensive income (loss)	(1,964	) 4,919
TOTAL STOCKHOLDERS' EQUITY	89,779	87,955
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 127,881	\$ 141,974

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 27, 2014	December 28, 2013	December 29, 2012
Net Sales	\$ 137,975	\$ 132,991	\$ 112,600
Costs, Expenses and Other Income			
Cost of products sold	96,912	92,991	79,932
Selling, administrative and general expenses	22,938	21,453	18,450
Amortization	2,621	2,363	2,174
Operating Income	15,504	16,184	12,044
Interest expense	447	404	88
Other expense (income)	(4,726 )	(2,934 )	(3,028 )
Equity method investment impairment	—	—	382
Income Before Income Taxes from Continuing Operations	19,783	18,714	14,602
Provision for Income Taxes from Continuing Operations	6,438	6,119	3,848
Net Income from Continuing Operations	13,345	12,595	10,754
Discontinued Operations			
Loss from operations	(611 )	(2,026 )	(15,140 )
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	544
Net Loss from Discontinued Operations	(1,528 )	(2,790 )	(15,684 )
Net Income (Loss)	\$ 11,817	\$ 9,805	\$ (4,930 )
Basic Earnings Per Share Data:			
Income from continuing operations	\$ 0.96	\$ 0.93	\$ 0.81
Loss from discontinued operations	(0.11 )	(0.20 )	(1.18 )
Net Income (Loss)	\$ 0.85	\$ 0.73	\$ (0.37 )
Diluted Earnings Per Share Data:			
Income from continuing operations	\$ 0.95	\$ 0.92	\$ 0.80
Loss from discontinued operations	(0.11 )	(0.20 )	(1.17 )

Net Income (Loss)	\$0.84	\$ 0.72	\$ (0.37	)
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**Escalade, Incorporated and Subsidiaries****Consolidated Statements of Comprehensive Income (Loss)**

All Amounts in Thousands	Years Ended		
	December 27, 2014	December 28, 2013	December 29, 2012
Net Income (Loss)	\$11,817	\$ 9,805	\$ (4,930 )
Foreign currency translation adjustment before reclassifications	(4,318 )	826	760
Amounts reclassified from comprehensive income due to divestiture	(2,565 )	—	—
Comprehensive Income (Loss)	\$4,934	\$ 10,631	\$ (4,170 )

See notes to consolidated financial statements.

**Consolidated Statements of Stockholders' Equity**

All Amounts in Thousands	Common Stock		Retained Earnings	Accumulated Other Comprehensive	Total
	Shares	Amount		Income (Loss)	
Balances at December 31, 2011	12,884	\$12,884	\$71,348	\$ 3,333	\$87,565
Other comprehensive income				760	760
Net loss			(4,930 )		(4,930 )
Expense of stock options			574		574
Exercise of stock options	504	504	(63 )		441
Settlement of restricted stock units	3	3	(3 )		—
Dividends declared			(4,150 )		(4,150 )
Stock issued to directors as compensation	36	36	161		197
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

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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
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	\$77,455	\$ (1,964 )	\$89,779

See notes to consolidated financial statements.

## Escalade, Incorporated and Subsidiaries

## Consolidated Statements of Cash Flows

All Amounts in Thousands	Years Ended		
	December 2014	December 28, 2013	December 29, 2012
Operating Activities:			
Net Income (Loss)	\$ 11,817	\$ 9,805	\$ (4,930 )
Reconciling adjustments:			
Depreciation and amortization	4,383	3,844	3,398
Equity method investment impairment charges	—	—	382
Provision for doubtful accounts	(245 )	317	88
Stock option and restricted stock unit expense	716	557	574
Equity in net income of joint venture investments	(3,923 )	(2,934 )	(2,998 )
Deferred income taxes	(1,197 )	896	590
Additional discontinued operations activities	6,672	2,896	15,942
Gain from insurance proceeds for involuntary conversion	(603 )	—	—
Loss (gain) on disposals of assets	(10 )	—	39
Changes in			
Accounts receivable	6,739	(10,090 )	(6,574 )
Inventories	(1,559 )	3,086	(3,039 )
Prepays	(4,658 )	(548 )	102
Other assets	—	35	(166 )
Income tax payable	—	(710 )	773
Accounts payable and accrued expenses	245	1,236	1,933
Net cash provided by operating activities	18,377	8,390	6,114
Investing Activities:			
Purchase of property and equipment	(2,663 )	(2,169 )	(2,065 )
Acquisitions	(10,630)	(6,485 )	(1,250 )
Net sale (purchase) of short-term time deposits	250	(500 )	(250 )
Dividends received from equity method investments	919	617	444
Discontinued operations activities	5,700	(186 )	(358 )
Proceeds from insurance for involuntary conversion	603	—	—
Proceeds from sale of property and equipment	26	1	16
Net cash (used in) investing activities	(5,795 )	(8,722 )	(3,463 )
Financing Activities:			
Dividends paid	(5,294 )	(4,622 )	(5,076 )
Net (decrease) increase in overdraft facility	—	(2,452 )	203
Net (decrease) increase in notes payable	(5,500 )	4,345	1,920
Proceeds from exercise of stock options	1,386	636	441
Proceeds from restated credit agreement	—	1,000	—
Change in long-term debt	(1,563 )	446	(1,500 )
Tax benefit from settlement of stock compensation	—	110	—
Director stock compensation	82	186	197
Net cash (used in) financing activities	(10,889)	(351 )	(3,815 )

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Effect of Exchange Rate Changes on Cash and Cash Equivalents	(807 )	485	(113 )
Increase (Decrease) in Cash and Cash Equivalents	886	(198 )	(1,277 )
Cash and Cash Equivalents, beginning of year (includes \$1,255, \$1,050 and \$1,003 respectively of cash reported as assets held for sale)	2,346	2,544	3,821
Cash and Cash Equivalents, end of year (includes zero, \$1,255 and \$1,050 respectively of cash reported as assets held for sale)	\$3,232	\$ 2,346	\$ 2,544
Supplemental Cash Flows Information			
Interest paid	\$600	\$ 809	\$ 640
Income taxes paid	\$5,208	\$ 4,546	\$ 3,364
Seller note issued in purchase of real estate	—	\$ 2,300	—
Dividends payable	—	—	—
The Company purchased substantially all of the business and assets of Cue & Case Sales, Inc. for \$10.4 million. In conjunction with the acquisition, liabilities were assumed as follows:			
Fair value of assets acquired	\$10,577		
Cash paid for assets	10,438		
Liabilities assumed	\$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 announced the sale of its Print Finishing business. On October 1, 2014, the Company announced the sale of its Information Security business. The divestiture of these two divisions accomplishes 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.

***Fiscal Year End***

The Company's fiscal year is a 52 or 53 week period ending on the last Saturday in December. Fiscal year 2014 was 52 weeks long, ending on December 27, 2014. Fiscal year 2013 was 52 weeks long, ending on December 28, 2013. Fiscal year 2012 was 52 weeks long, ending on December 29, 2012.

***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 \$537 thousand and \$469 thousand at fiscal year-end 2014 and 2013, respectively. Inventories, net of the valuation reserve, at fiscal year-ends were as follows:

In Thousands	2014	2013
Raw materials	\$3,950	\$3,317
Work in process	3,967	3,357
Finished goods	15,858	12,267
	\$23,775	\$18,941

Additionally, the Company had inventory totaling zero and \$9,366 that has been reclassified to assets held for sale at December 27, 2014 and December 28, 2013, respectively.



*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	2014	2013
Land	\$2,049	\$2,049
Buildings and leasehold improvements	16,951	16,028
Machinery and equipment	19,852	17,927
Total cost	38,852	36,004
Accumulated depreciation and amortization	(27,256)	(25,369)
	\$11,596	\$10,635

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 2014, 2013, or 2012.

Additionally, the Company had property, plant and equipment totaling zero and \$4,323 that has been reclassified to assets held for sale at December 27, 2014 and December 28, 2013, respectively.

*Investments*

Investments are composed of the following:

In Thousands	2014	2013
Non-marketable equity investments (equity method)	\$18,949	\$19,455

*Non-Marketable Equity Investments:* The Company has a minority 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 other income on the consolidated statement of operations. The proportionate share of net income was \$3.9 million, \$2.9 million and \$3.0 million in 2014, 2013 and 2012, respectively. Total cash dividends received from these equity investments amounted to \$919 thousand, \$617 thousand, and \$444 thousand in 2014, 2013 and 2012, 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 other income on the Company's statements of operations.

During 2012, Escalade International, Ltd. performed below expectations, and this entity encountered unexpected attrition of certain significant customers as of the end of the third quarter 2012. Due to these events, the Company evaluated the economic and strategic benefits of continuing to hold this investment. Based on the review performed as of October 6, 2012, the Company determined that the fair value of this investment was less than its carrying value and that this impairment was other than temporary. As a result, the Company recognized other than temporary impairment of \$382 thousand.

### ***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 13 years; non-compete agreements, the lesser of the term or 5 years; and patents, the lesser of the remaining life or 5 to 9 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.

During the third quarter of fiscal 2012, the Company determined that sufficient indicators of potential impairment existed to require an interim goodwill impairment analysis for the Martin Yale Group reporting unit, which comprised the Information Security and Print Finishing operating segment that is reported as discontinued operations. These indicators included lower than expected operating profits and cash flows for the first nine months of 2012, coupled with continued economic weakness in the European and Asian markets.

Based on this continuing trend, the earnings forecast for the next five years was revised resulting in a goodwill impairment loss of \$13.2 million in the third quarter. In addition, the Company recorded an intangible asset impairment for the Information Security and Print Finishing segment related to other intangibles of \$0.2 million. The goodwill impairment loss reduced to zero the carrying value of goodwill recorded as part of various acquisitions in the Information Security and Print Finishing segment for purchases from 2003 through 2008.

### ***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 (loss). 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 2014, 2013, and 2012.

***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	2014	2013	2012
Income from non-marketable equity investments accounted for on the equity method	\$3,923	\$2,934	\$2,998
Royalty income from patents	—	—	30
Proceeds from insurance for involuntary conversion	603	—	—
Rent income from real estate	106	—	—
Other	94	—	—
	\$4,726	\$2,934	\$3,028

***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 2014, 2013 and 2012 were approximately \$1.7 million, \$1.2 million, and \$1.0 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 April 2014, the FASB issued ASU 2014-08 "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." ASU 2014-08 provides a narrower definition of discontinued operations than under existing GAAP. The standard update requires that only disposals of components of an entity (or groups of components) that represent a strategic shift that has or will have a major effect on the reporting entity's operations are reported in the financial statements as discontinued operations. The standard also provides guidance on the financial statement presentations and disclosures of discontinued operations. The ASU is effective prospectively for disposals (or classifications of businesses as held-for-sale) of components of an entity that occur in annual or interim periods beginning after December 15, 2014 and early adoption is permitted. We early adopted ASU 2014-08 effective in the

second quarter of 2014.

In May 2014, the FASB issued ASU 2014-09 "Revenue from Contracts with Customers" (ASU 2014-09). ASU 2014-09 is a comprehensive new revenue recognition model requiring a company to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. In adopting ASU 2014-09, companies may use either a full retrospective or a modified retrospective approach. ASU 2014-09 is effective for the first interim period within annual reporting periods beginning after December 15, 2016, and early adoption is not permitted. Management is evaluating the provisions of this statement and has not determined what impact the adoption of ASU 2014-09 will have on the Company's financial position or results of operations.

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***

In evaluating the recoverability of goodwill, it is necessary to estimate the fair values of the reporting unit. In making this assessment, the Company estimates the fair market values of the reporting unit using a discounted cash flow model and comparable market value data for similar entities. Key assumptions and estimates used in the cash flow model include discount rate, internal sales growth, margins, capital expenditure requirements, and working capital requirements. Recent performance of the reporting unit is an important factor, but not the only factor, in the assessment.

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 13 years; non-compete agreements, the lesser of the term or 5 years; and patents, the lesser of the remaining life or 5 to 9 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	2014	2013	2012
Beginning balance	\$620	\$523	\$414
Additions	1,156	978	833
Deductions	(1,081)	(881)	(724)
Ending balance	\$695	\$620	\$523

***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	2014	2013	2012
Beginning balance	\$469	\$414	\$378
Additions	287	426	179
Deductions	(219)	(371)	(143)
Ending balance	\$537	\$469	\$414



***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	2014	2013	2012
Beginning balance	\$1,104	\$787	\$698
Additions	251	475	91
Deductions	(455 )	(158 )	(2 )
Ending balance	\$900	\$1,104	\$787

***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	2014	2013	2012
Beginning balance	\$2,494	\$1,787	\$1,640
Additions	4,747	4,584	4,489
Deductions	(5,086)	(3,877)	(4,342)
Ending balance	\$2,155	\$2,494	\$1,787

**Note 3 — Accrued Liabilities**

Accrued liabilities consist of the following:

In Thousands	2014	2013
Employee compensation	\$3,314	\$3,800
Customer related allowances and accruals	5,055	5,334
Other accrued items	3,738	2,387

\$12,107 \$11,521

## 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 \$0.7 million in 2014, \$.07 million in 2013, and \$1.0 million in 2012.

At December 27, 2014, minimum rental payments under non-cancelable leases with terms of more than one year were as follows:

In Thousands	Amount
2015	\$ 601
2016	406
2017	347
2018	201
Thereafter	285
	\$ 1,840

## 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	2014		2013	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Patents	\$24,220	\$ 19,882	\$24,356	\$ 17,730
Non-compete agreements	2,367	2,053	2,352	1,943
Customer list	5,054	548	994	325
Trademarks	4,429	122	3,417	122
	\$36,070	\$ 22,605	\$31,119	\$ 20,120

Amortization expense was \$2.6 million, \$2.4 million and \$2.2 million for 2014, 2013 and 2012, respectively.

Estimated future amortization expense is summarized in the following table:

In Thousands	2015	2016	2017	2018	2019	Thereafter
Sporting Goods	\$2,777	\$1,547	\$748	\$571	\$471	\$ 3,044

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 29, 2012	12,017
Acquisition	1,096
Balance at December 28, 2013	\$ 13,113
Acquisition	1,762
Balance at December 27, 2014	\$ 14,875

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 2014 and 2013 are addbacks of \$11.4 million and \$13.1 million, respectively. These net differences are comprised of cumulative goodwill adjustments of \$16.0 million offset by the related cumulative tax effect of \$4.6 million as of December 27, 2014 and cumulative goodwill adjustments of \$18.3 million offset by the related cumulative tax effect of \$5.2 million as of December 28, 2013. The income statement impact of these goodwill and tax adjustments and other individually insignificant U.S. GAAP adjustments for the years ended December 27, 2014, December 28, 2013, and December 29, 2012 are to increase total Stiga net income by approximately \$0.8 million, \$1.8 million, and \$1.7 million, respectively.

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 other income on the Company's statements of operations. The Company's 50% portion of net income (loss) for Escalade International for the years ended December 29, 2012, was (\$137) thousand, and is included in other income on the Company's statements of operations. Additional information regarding these entities is considered immaterial and has not been included in the combined totals listed below.

During 2012, Escalade International, Ltd. performed below expectations, and the entity encountered unexpected attrition of certain significant customers through the end of the third quarter 2012. Due to these events, the Company evaluated the economic and strategic benefits of continuing to hold this investment. Based on the review as of October 6, 2012, the Company determined that the fair value of this investment was less than its carrying value and that this impairment was other than temporary. As a result, the Company recognized other than temporary impairment of \$382 thousand.

In accordance with Rule 8-03(b)(3) of Regulation S-X, summarized financial information for Stiga Sports AB balance sheets as of December 31, 2014 and 2013, and statements of operations for the years ended December 31, 2014, 2013 and 2012 is as follows:

In Thousands	2014	2013
Current assets	\$30,539	\$31,399
Non-current assets	8,082	8,967
Total assets	38,621	40,366
Current liabilities	7,669	10,019
Non-current liabilities	4,229	4,893
Total liabilities	11,898	14,912
Net assets	\$26,723	\$25,454

	2014	2013	2012
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Net sales	\$52,583	\$48,914	\$41,957
Gross profit	25,737	23,636	20,756
Net income	7,537	4,914	4,534

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Note 7 — Borrowings

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 (“Restated Credit Agreement”) with its issuing bank, JPMorgan Chase Bank, N.A., and the other lenders identified in the 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 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 Restated Credit Agreement also permitted Escalade and its subsidiaries that are parties to the 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 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 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 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
<u>Category 1</u> Greater than or equal to 2.50 to 1.0	2.50 %	2.75 %	0.50 %	0.75 %	2.50 %	0.45 %
<u>Category 2</u> 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 %
<u>Category 3</u> 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 %
<u>Category 4</u> 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 %
<u>Category 5</u> 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 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 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 27, 2014 was \$1.2 million.

#### *Short-Term Debt*

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

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In Thousands	2014	2013
Senior secured revolving credit facility of \$31.0 million with a maturity of August 27, 2016. The interest rates at December 27, 2014 was 1.688%.	\$13,500	\$19,000
Short-term debt reclassified from long-term debt	4,286	4,263
	\$17,786	\$23,263

The weighted average interest rate on short-term debt outstanding at December 27, 2014 and December 28, 2013 was 1.57% and 2.03%, respectively.

*Long-Term Debt*

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

In Thousands	2014	2013
Term loan of \$5.0 million with a maturity date of August 27, 2018. The interest rate at December 27, 2014, was 1.9375%.	\$3,750	\$4,750
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	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.	1,196	1,759
	7,646	9,209
Portion classified as short-term debt	(4,286)	(4,263)
	\$3,360	\$4,946

Maturities of long-term debt outstanding at December 27, 2014 are as follows: \$4.3 million in 2015, \$1.6 million in 2016, \$1.0 million in 2017, and \$0.7 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	2014	2013	2012
Weighted average common shares outstanding	13,853	13,506	13,244
Dilutive effect of stock options	214	125	160
Weighted average common shares outstanding, assuming dilution	14,067	13,631	13,404
Number of anti-dilutive stock options	—	271	451

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 \$532 thousand, \$517 thousand and \$446 thousand for 2014, 2013 and 2012, 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 2014, the Company awarded 50,000 restricted stock units to certain employees at fair market value on the date of grant. The 2014 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 quarterly dividend rate on the grant date by the Company during such four year period. The performance criteria for the 2014 restricted stock units awarded to employees was satisfied during the second quarter of 2014.

The restricted stock units granted to directors vest immediately or within two years. All restricted stock units are payable in shares of the Company's common stock upon vesting, subject to the deferral election arrangement, and are subject to forfeiture if on the vesting date the director no longer holds a position with the Company.

The Company issued no restricted stock units to employees or directors in 2013 and 2012. The following table presents a summary of non-vested restricted stock units granted to employees and directors as of December 27, 2014:

	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	

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 2014, 2013, and 2012 the Company recognized \$191 thousand, \$0, and \$0 thousand respectively in compensation expense related to restricted stock units and as of December 27, 2014 and December 28, 2013, there was \$334 thousand and \$0 respectively, of unrecognized compensation expense related to restricted stock units.

**Stock Options**

Total compensation expense recorded in the statements of operations for 2014, 2013 and 2012 relating to stock options was \$525 thousand, \$557 thousand and \$574 thousand, respectively. As of December 27, 2014, there were \$237 thousand of total unrecognized compensation costs related to stock options. These costs are expected to be recognized over a weighted average period of 1.5 years.

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.

The following table summarizes option activity for each of the three years ended 2014:

	Incentive Stock Options		Director Stock Options	
	Granted	Outstanding	Granted	Outstanding
2014	—	284,375	25,000	60,000
2013	120,000	559,950	37,500	80,000
2012	200,000	607,875	37,500	85,000

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:

	2014		2013		2012	
Risk-free interest rates	0.68	%	0.52	%	0.84	%
Dividend yields	4.23	%	5.97	%	5.50	%
Volatility factors of expected market price of common stock	35.86	%	48.79% to 74.05	%	95.56% to 110.39	%
Weighted average expected life of the options	1-4 years		1-4 years		1-4 years	

The following table summarizes stock option transactions for the three years ended 2014:

	2014		2013		2012	
	Shares	Option Price	Shares	Option Price	Shares	Option Price
Outstanding at beginning of year	639,950	\$0.64 to \$6.07	692,875	\$0.64 to 6.07	984,649	\$0.64 to \$9.35
Issued during year	25,000	\$11.86	157,500	\$5.85 to \$6.06	237,500	\$5.28 to \$5.66
Canceled or expired	(19,000 )		(27,000 )		(25,024 )	
Exercised during year	(301,575)	\$0.64 to \$6.07	(183,425)	\$0.64 to \$6.07	(504,250)	\$0.64 to \$2.56
Outstanding at end of year	344,375	\$2.56 to \$11.86	639,950	\$0.64 to \$6.07	692,875	\$0.64 to \$6.07
Exercisable at end of year	158,875		198,825		192,625	
Weighted-average fair value of options granted during the year	\$3.06		\$2.21		\$3.12	

The total intrinsic value of options exercised was \$2.7 million, \$929 thousand, and \$2.4 million for 2014, 2013 and 2012, respectively.

The following table summarizes information about stock options outstanding at December 27, 2014:

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
\$2.56	8,625	0.2 years	\$ 2.56	8,625	\$ 2.56
\$5.28 - \$5.66	116,750	2.2 years	\$ 5.29	50,000	\$ 5.30
\$5.85 - \$6.06	97,875	3.2 years	\$ 5.86	34,875	\$ 5.90
\$6.07	96,125	1.2 years	\$ 6.07	65,375	\$ 6.07
\$11.86	25,000	4.2 years	\$ 11.86		
	344,375			158,875	

During the year ended December 27, 2014, the following activity occurred under the Company's stock option plan:



	Number of Options	Weighted Average Grant Date Fair Value
Nonvested balance, beginning of year	441,125	\$ 2.79
Granted	25,000	\$ 2.31
Vested	(266,625 )	\$ 2.69
Forfeited	(14,000 )	\$ 2.98
Nonvested balance, end of year	185,500	\$ 2.85

## 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 previously announced sale of our Print Finishing business on June 30, 2014, represents 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 27, 2014	December 28, 2013
Net sales	\$20,865	\$ 30,686
Cost of products sold	13,813	20,358
Selling, administrative and general expenses	7,535	11,997
Amortization	—	18
Interest expense	98	335

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Other expense	30	4
Loss Before Income Taxes	(611 )	(2,026 )
Discontinued Operations		
Loss on classification as held for sale	(12,945)	—
Gain on disposal	5,929	—
Provision (benefit) for income taxes	(6,099 )	764
Net Loss from Discontinued Operations	\$(1,528 )	\$ (2,790 )

The assets and liabilities held for sale are summarized below.

All Amounts in Thousands	October 4, 2014	December 28, 2013
<b>ASSETS</b>		
Cash and cash equivalents	\$ —	\$ 1,255
Receivables, net	—	5,480
Inventories	—	9,366
Prepaid expenses	—	429
Property, plant and equipment, net	—	4,323
Intangible assets	—	1,754
Investments	—	331
Other assets	—	93
Assets held for sale	\$ —	\$ 23,031
<b>LIABILITIES</b>		
Trade accounts payable	\$ —	\$ 428
Accrued liabilities	—	6,412
Liabilities held for sale	\$ —	\$ 6,840

Note 12 — Other Comprehensive Income (Loss)

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

In Thousands	2014	2013	2012
Change in foreign currency translation adjustment before reclassifications	\$(4,318)	\$826	\$760
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	2014	2013	2012
Foreign currency translation adjustment	\$(1,964)	\$4,919	\$4,093

## Note 13 — Provision for Taxes

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

In Thousands	2014	2013	2012
Income (loss) before taxes:			
United States of America (USA)	\$5,001	\$19,803	\$11,104
Non USA	7,155	(3,115 )	(11,642)
	\$12,156	\$16,688	\$(538 )
Provision for taxes:			
Current			
Federal	\$3	\$5,060	\$3,671
State	306	560	303
International	566	(26 )	83
	875	5,594	4,057
Deferred			
Federal	(667 )	299	397
State	131	616	15
International	—	374	(77 )
	(536 )	1,289	335
	\$339	\$6,883	\$4,392
Continuing Operations	\$6,438	\$6,119	\$3,848
Discontinued Operations	(6,099 )	764	544
	\$339	\$6,883	\$4,392

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	2014	2013	2012
Income tax at statutory rate	\$4,255	\$5,840	\$(188 )
Increase (decrease) in income tax resulting from			
State tax expense, net of federal effect	291	764	509
Federal true-ups	55	(18 )	(113 )
Federal tax credits	(568 )	(256 )	(247 )
Effect of foreign tax rates	(1,107)	(362 )	(94 )
Valuation allowances (state and foreign)	(1,406)	1,400	39
Goodwill impairment (worldwide)	—	—	4,684
Captive insurance earnings	(398 )	(390 )	(379 )

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Incentive stock options	155	130	152
Foreign exchange gain on sale of Information Security	(898 )	—	—
Other	(40 )	(225 )	29
Recorded provision for income taxes	\$339	\$6,883	\$4,392

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 27, 2014 and December 28, 2013.

In Thousands	2014	2013
Balance, beginning of year	\$ —	\$ —
Additions for current year tax positions	—	—
Additions for prior year tax positions	—	—
Settlements	—	—
Reductions settlements	—	—
Reductions for prior year tax positions	—	—
Balance, end of year	\$ —	\$ —

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 2010.

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

In Thousands	2014	2013
<b>Assets</b>		
Employee benefits	\$ 120	\$ 308
Valuation reserves	1,412	2,427
Property and equipment	566	57
Stock based compensation	191	195
Federal and state credits	878	165
Net operating loss carry forward	1,038	8,632
Total assets	4,205	11,784
<b>Liabilities</b>		
Unrealized equity investment income	(3,079)	(3,157)
Goodwill and intangible assets	(2,660)	(2,708)
Prepaid insurance	(102)	(175)
Total liabilities	(5,841)	(6,040)
<b>Valuation Allowance</b>		
Beginning balance	(8,949)	(7,264)
Decrease (increase) during period	8,514	(1,685)
Ending balance	(435)	(8,949)
	\$(2,071)	\$(3,205)

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

In Thousands	2014	2013
Deferred income tax asset - current	\$925	\$2,283
Deferred income tax asset (liability) – long-term	(2,996)	(5,488)
	\$(2,071)	\$(3,205)

The Company has federal and state unused net operating losses of approximately \$2.4 million and \$3.7 million, respectively. All operating loss carry-forwards expire in various amounts through 2035.



## 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	2014	2013	2012
<b>Sporting Goods</b>			
Net revenue	\$ 137,975	\$ 132,991	\$ 112,600
Operating income	18,194	18,469	14,160
Interest expense (income)	(17 )	170	273
Provision for taxes	7,420	7,212	5,482
Net income	11,394	11,087	8,433
Identifiable assets	95,506	91,137	77,902
Non-marketable equity investments (equity method)	—	—	—
Depreciation & amortization	4,380	3,844	3,398
Capital expenditures	2,739	2,170	2,065
<b>Discontinued Operations</b>			
Net revenue	20,865	30,686	34,990
Operating loss	(483 )	(1,687 )	(14,628 )
Interest expense	98	335	515
Provision (benefit) for taxes	(6,099 )	764	543
Net loss	(1,528 )	(2,790 )	(15,683 )
Identifiable assets	—	23,203	25,578
Non-marketable equity investments (equity method)	—	331	323
Depreciation & amortization	373	774	924
Capital expenditures	246	185	358
<b>All Other</b>			
Net revenue	—	—	—
Operating loss	(2,689 )	(2,285 )	(2,117 )
Interest expense	465	233	(186 )
Benefit for taxes	(982 )	(1,093 )	(1,633 )
Net income	1,951	1,508	2,320
Identifiable assets	32,375	27,634	22,260
Non-marketable equity investments (equity method)	18,949	19,455	17,164
Depreciation & amortization	—	—	—
Capital expenditures	—	—	—
<b>Total</b>			
Net revenue	158,840	163,677	147,589
Operating income (loss)	15,022	14,497	(2,585 )
Interest expense	546	738	602

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Provision (benefit) for taxes	339	6,883	4,392
Net income (loss)	11,817	9,805	(4,930 )
Identifiable assets	127,881	141,974	125,740
Non-marketable equity investments (equity method)	18,949	19,786	17,487
Depreciation & amortization	4,753	4,618	4,322
Capital expenditures	2,985	2,355	2,423

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 2014, other than the divestiture of the Information Security and Print Finishing segment as discussed in this Note. 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 deguassers, 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 2014, 2013 and 2012 the Company had one customer which accounted for approximately 16%, 16% and 18%, 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 19%, 20% and 23% of total revenues in 2014, 2013 and 2012, respectively.

As of December 27, 2014 the Company had a significant portion of its total accounts receivable with one customer. As of December 28, 2013 the Company had a significant portion of its total accounts receivable with two customers. The one customer accounted for approximately 23% of total accounts receivable at December 27, 2014, and approximately 24% and 10% of total accounts receivable at December 28, 2013, respectively.

As of December 27, 2014, approximately 18 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	2014	2013	2012
North America	\$ 135,585	\$ 129,435	\$ 109,043
Europe	1,408	1,946	1,940
Other	982	1,610	1,617
	\$ 137,975	\$ 132,991	\$ 112,600

Identified assets by geographic region/country were as follows:

In Thousands	2014	2013	2012
North America	\$127,881	\$127,393	\$110,977
Europe	—	14,581	14,763
	\$127,881	\$141,974	\$125,740

#### 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 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
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

In thousands, except per share data (unaudited)	March 23	July 13	October 5	December 28
2013				
Net sales	\$ 25,265	\$38,003	\$ 31,559	\$ 38,164
Operating income	3,499	6,007	3,987	2,691
Net income from continuing operations	2,241	3,851	3,375	3,128
Net loss from discontinued operations	(617 )	(1,233 )	(862 )	(78 )
Net income	1,624	2,618	2,513	3,050

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Basic Earnings Per Share Data:

Income from continuing operations	\$ 0.16	\$0.29	\$ 0.25	\$ 0.23
Loss from discontinued operations	(0.04 )	(0.10 )	(0.06 )	0.00
Net Income	\$ 0.12	\$0.19	\$ 0.19	\$ 0.23

Diluted Earnings Per Share Data:

Income from continuing operations	\$ 0.17	\$0.28	\$ 0.24	\$ 0.23
Loss from discontinued operations	(0.04 )	(0.09 )	(0.06 )	(0.01 )
Net Income	\$ 0.13	\$0.19	\$ 0.18	\$ 0.22

Note 16 — Acquisitions

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

**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 27, 2014, December 28, 2013 and December 29, 2012, 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 has obtained a letter of credit for the benefit of a certain mortgage holder. At December 27, 2014, the balance of the letter of credit was \$2.7 million. It is to be used in the event of a default in either interest or principal payments.

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 27, 2014, the Company had future estimated minimum non-cancelable royalty and license payments as follows:

In Thousands	Amount
2015	\$ 475
2016	460
2017	460
2018	375
2019	—
Thereafter	—
	\$ 1,770

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 27, 2014 and December 28, 2013.

2014 In Thousands	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)
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	\$ —

2013 In Thousands	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)
Financial assets				
Cash and cash equivalents	\$2,346	\$ 2,346	\$ —	\$ —
Time deposits	\$1,700	\$ 1,700	\$ —	\$ —
Financial liabilities				

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Note payable and Short-term debt	\$21,700	\$ —	\$ 21,700	\$ —
Current portion of Long-term debt	\$1,563	\$ —	\$ 1,563	\$ —
Long-term debt	\$4,946	\$ —	\$ 4,946	\$ —

**Signatures**

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

ESCALADE,  
INCORPORATED

By: /s/ Robert J. Keller February 25, 2015  
Robert J. Keller  
President and Chief  
Executive Officer

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

/s/ Robert E. Griffin Robert E. Griffin	Chairman and Director	February 25, 2015
/s/ Edward E. Williams Edward E. Williams	Director	February 25, 2015
/s/ Richard D. White Richard D. White	Director	February 25, 2015
/s/ George Savitsky George Savitsky	Director	February 25, 2015
/s/ Richard Baalman, Jr. Richard Baalman, Jr.	Director	February 25, 2015
/s/ Patrick Griffin Patrick Griffin	Director	February 25, 2015
/s/ Robert J. Keller Robert J. Keller	Director and President and Chief Executive Officer (Principal Executive Officer)	February 25, 2015
/s/ Stephen R. Wawrin Stephen R. Wawrin	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	February 25, 2015

