

ESCALADE INC
Form 10-K
February 23, 2016

United States

Securities and Exchange Commission
Washington, D.C. 20549

Form 10-K

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

For the Fiscal Year Ended December 26, 2015

Or

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

For the transition period from _____ to _____

Commission File Number 0-6966

ESCALADE, INCORPORATED

(Exact name of registrant as specified in its charter)

Indiana

13-2739290

Edgar Filing: ESCALADE INC - Form 10-K

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

817 Maxwell Ave, Evansville, Indiana 47711

(Address of Principal Executive Office) (Zip Code)

812-467-4449

(Registrant's Telephone Number)

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

Common Stock, No Par Value The NASDAQ Stock Market LLC

(Title of Class)

(Name of Exchange on Which Registered)

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

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

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Edgar Filing: ESCALADE INC - Form 10-K

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

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

Large accelerated filer Accelerated filer

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

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

Yes No

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

Escalade, Incorporated and Subsidiaries

Table of Contents

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

Part I

ITEM 1—BUSINESS

General

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

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

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

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

Sporting Goods

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

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

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

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

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

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

Marketing and Product Development

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

Competition

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

Licenses, Trademarks and Brand Names

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

Backlog and Seasonality

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

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

Employees

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

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

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

Sources of Supplies

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

SEC Reports

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

ITEM 1A—RISK FACTORS

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

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

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

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

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

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

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

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

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

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

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

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

Quarterly operating results are subject to fluctuation.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Company's effective tax rate may fluctuate.

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

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

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

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

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

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

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

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

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

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

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

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

These risks are not exhaustive.

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

ITEM 1B—UNRESOLVED STAFF COMMENTS

None.

ITEM 2—PROPERTIES

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

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

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

ITEM 3—LEGAL PROCEEDINGS

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

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

ITEM 4—MINE SAFETY DISCLOSURES

Not applicable.

Part II

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

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

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

Edgar Filing: ESCALADE INC - Form 10-K

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

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

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

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

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

SHAREHOLDER RETURN PERFORMANCE GRAPH

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

COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN

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

Edgar Filing: ESCALADE INC - Form 10-K

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

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

ISSUER PURCHASES OF EQUITY SECURITIES

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

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

ITEM 6—SELECTED FINANCIAL DATA

(In thousands, except per share data)

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

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

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

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

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

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

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

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

Forward-Looking Statements

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

Overview

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

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

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

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

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

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

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

Results of Operations

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

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

Revenue and Gross Margin

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

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

Selling, General and Administrative Expenses

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

Other Income

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

Provision for Income Taxes

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

Sporting Goods

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

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

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

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

Information Security and Print Finishing

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

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

Financial Condition and Liquidity

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

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

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

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

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