

ESCALADE INC
Form 10-K
February 25, 2014

**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 28, 2013

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
(State of incorporation)

13-2739290
(I.R.S. EIN)

817 Maxwell Ave, Evansville, Indiana
(Address of Principal Executive Office)

47711
(Zip Code)

812-467-4449
(Registrant's Telephone Number)

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

Common Stock, No Par Value
(Title of Class)

The NASDAQ Stock Market LLC
(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 Act
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act
Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or 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 13, 2013 based on the closing sale price as reported on the NASDAQ Global Market: \$65,652,427

The number of shares of Registrant's common stock (no par value) outstanding as of February 12, 2014: 13,663,539.

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 22, 2014 are incorporated by reference into Part III of this Report.

Escalade, Incorporated and Subsidiaries

Table of Contents

	Page
Part I	
Item 1. Business	3
Item 1A. Risk Factors	6
Item 1B. Unresolved Staff Comments	13
Item 2. Properties	13
Item 3. Legal Proceedings	14
Item 4. Mine Safety Disclosures	14
Part II	
Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	14
Item 6. Selected Financial Data	17
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	17
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	24
Item 8. Financial Statements and Supplementary Data	25
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	25
Item 9A. Controls and Procedures	25
Item 9B. Other Information	27
Part III	
Item 10. Directors, Executive Officers and Corporate Governance	27
Item 11. Executive Compensation	27
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	27
Item 13. Certain Relationships and Related Transactions and Director Independence	28
Item 14. Principal Accounting Fees and Services	28
Part IV	
Item 15. Exhibits and Financial Statement Schedules	28

Part I

ITEM 1 BUSINESS

General

Escalade, Incorporated (Escalade, the Company, we, us or our) operates in two business segments: Sporting Goods (Escalade Sports) and Information Security and Print Finishing (or Martin Yale Group). Escalade and its predecessors have more than 80 years of manufacturing and selling experience in these two industries.

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

	2013		2012		2011	
Sporting Goods	81	%	76	%	72	%
Information Security and Print Finishing	19	%	24	%	28	%
Total Net Sales	100	%	100	%	100	%

For additional segment information, see Note 13 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 family recreation, fitness, training, and hunting products through traditional department stores, mass merchandise retailers, and sporting goods specific retailers. Escalade is the world's largest producer of table tennis tables. Some of the Company's most recognized brands include:

Product Segment	Brand Names
Archery	Bear Archery®, Trophy Ridge®, Whisker Biscuit®, Cajun Archery®
Table Tennis	STIGA®, Ping-Pong®, Prince®, Head®
Basketball Backboards and Goals	Goalrilla®, Goaliath®, Silverback®
Play Systems	Woodplay®, Childlife®
Fitness	The STEP®, USWeight
Game Tables (Hockey and Soccer)	Harvard Game®, Atomic®, Accudart®, Redline®
Pool Table Accessories	Mosconi®, Mizerak®, Minnesota Fats®
Darting	Unicorn®, Accudart®, Arachnid®, Nodor®, Winmau®

During 2013, 2012 and 2011 the Company had one customer, Dick's Sporting Goods, which accounted for approximately 16%, 18% and 16%, respectively, of the Company's total consolidated revenues.

As of December 28, 2013 and December 29, 2012 the Company had a significant portion of its total accounts receivable with two customers, Dick's Sporting Goods and Sports Authority. These two customers accounted for approximately 24% and 10% of total accounts receivable at December 28, 2013, respectively, and approximately 31% and 10% of total accounts receivable at December 29, 2012, 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.

Information Security and Print Finishing

The Information Security and Print Finishing segment has a worldwide presence with manufacturing facilities in the USA and in Germany and joint venture manufacturing facilities in the Czech Republic and Taiwan, in addition to sales offices in the USA, Germany, United Kingdom, France, Spain, China, South Africa and Sweden.

The Company has implemented a plan to promote brand recognition of its information security product line under the tradename intimus®. The print finishing product lines will continue under the martin yale® tradename. As a result of this focus, the Company has initiated legal name changes for several of its European subsidiaries. Most notably, Martin Yale International, GmbH has changed its name to Intimus International GmbH. The Martin Yale and Intimus entities continue to focus on the information security and print finishing requirements of larger corporate customers, governments, and strategic business partners. The information security product line is particularly focused on addressing information security issues including the decommissioning or destruction of data stored on optical, solid state, magnetic, and traditional media like paper to meet the increasingly strict security standards set by the National Security Administration, National Institute of Standards and Technology, Deutsches Institut für Normung (German Institute for Standardization), the European Union, and many other governments and organizations around the world. The print finishing product line is focusing attention to the digital print finishing application market.

The Information Security and Print Finishing products include: shredders, disintegrators, degaussers, paper folders, letter openers, and paper cutters/trimmers. The key brands include martin yale® and intimus®.

Martin Yale and Intimus products and services are sold directly to end-users as well as through retailers, wholesalers, catalogs, specialty dealers, and business partners. No single Information Security and Print Finishing customer accounted for more than 10% of Information Security and Print Finishing sales during 2013, 2012 and 2011.

Marketing and Product Development

The Company makes a substantial investment in product development and brand marketing to differentiate its product line from its competition. Each operating segment conducts 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 \$1.8 million, \$1.6 million, and \$1.4 million in 2013, 2012 and 2011, respectively.

The Company also makes investments in brand marketing to properly communicate the specific attributes and qualities of its products. 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 produced or sold by Escalade. The Company is not aware of any other single company that is engaged in both the same industries as Escalade or that produces the same range of products as Escalade within such industries. Nonetheless, competition exists for many Escalade products within both the Sporting Goods and Information Security and Print Finishing industries. 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 and Information Security and Print Finishing 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® which are used in the Sporting Goods business segment and martin yale® and intimus® which are used in the Information Security and Print Finishing business segment.

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, Sporting Goods revenues have not been seasonal and are not expected to be so in the future. Demand for Information Security and Print Finishing has not been seasonal and is not expected to be so in the future.

Employees

The number of employees at December 28, 2013 and December 29, 2012 for each business segment were as follows:

	2013	2012
Sporting Goods		
USA	356	321
Mexico	106	103
Asia	10	8
	472	432
Information Security and Print Finishing		
USA	68	79
Europe	91	104
Asia	10	10
Africa	7	8
	176	201
Total	648	633

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 28, 2013. A three year labor contract was negotiated and renewed in April 2013; the new agreement 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 certain of its game tables and non-security paper shredders. 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. 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.

Sales declines and operating losses in the Information Security and Print Finishing segment could continue.

Declines in overall sales in Information Security and Print Finishing and increases in losses in this segment are due mainly to intense competition and changes in market demand. Continued weakness in the global office products channel and the government sales channel primarily in the United States and the United Kingdom and prolonged economic weakness in Spain and certain other European countries continue to provide challenges. Improving profitability in the Information Security and Print Finishing segment continues to be difficult and the Company is continuing to explore the strategic fit of Information Security and Print Finishing with the Company's overall objectives. The Company cannot provide any assurance that it will be able to maintain or increase sales levels or achieve profitability in the future.

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

The market for sporting goods and information security and print finishing products 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. In Sporting Goods, 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. Similarly, the Company has traditionally sold information security and print finishing products to office products retailers, specialty machine dealers and government channels. 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, and in information security and print finishing products with office supply superstores, computer and electronics superstores, contract stationers, and others. 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 and information security and print finishing products. 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 or information security and print finishing 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 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 and Information Security and Print Finishing 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.

In the past, 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'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.

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 in both its Sporting Goods and Information Security and Print Finishing business segments. 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 and information security and print finishing products that it sells. 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, Europe, South Africa and Asia. 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 the information security and print finishing international operations headquartered in Germany further increase its exposure to these foreign operating risks, which could have an adverse impact on the Company's international income and worldwide 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 from international operations. 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 the Information Security and Print Finishing Indiana and Germany locations and for the Sporting Goods North Carolina and 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, the Securities and Exchange Commission and the Public Company Accounting Oversight Board, 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-national, multi-channel provider of sporting goods and 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;

Lack of 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 \$0.09 per common share. The dividend program requires the use of a modest 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 28, 2013, the Company operated from the following locations:

Location	Square Footage	Owned or Leased	Use
Sporting Goods			
Evansville, Indiana, USA	359,000	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	2,500	Leased	Sales and marketing
Shanghai, China	1,130	Leased	Sales and sourcing
Information Security and Print Finishing			
Wabash, Indiana, USA	141,000	Owned	Manufacturing and distribution; sales and marketing; administration
Markdorf, Germany	70,300	Owned	Manufacturing and distribution; sales and marketing; administration
Paris, France	1,335	Leased	Distribution; sales and marketing
Crawley, UK	8,300	Leased	Sales and marketing
Barcelona, Spain	1,750	Leased	Distribution; sales and marketing
Johannesburg, South Africa	3,435	Leased	Distribution; sales and marketing
Sollentuna, Sweden	400	Leased	Sales and marketing
Beijing, China	9,300	Leased	Sales and marketing

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.

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
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		