

ESCALADE INC
Form 10-Q
April 20, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 25, 2017 or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number 0-6966

ESCALADE, INCORPORATED

(Exact name of registrant as specified in its charter)

Indiana 13-2739290

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

817 Maxwell Ave, Evansville, Indiana 47711

(Address of principal executive office) (Zip Code)

812-467-4449

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(Registrant's Telephone Number)

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 (§232.405 of this chapter) 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company

(Do not check if a smaller reporting company) Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class

Outstanding at April 19, 2017

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Common, no par value 14,346,528

INDEX

| | Page No. |
|---|-------------|
| Part I. <u>Financial Information:</u> | |
| Item 1 <u>Financial Statements:</u> | |
| - | |
| <u>Consolidated Condensed Balance Sheets as of March 25, 2017, December 31, 2016, and March 19, 2016</u> | 3 |
| <u>Consolidated Condensed Statements of Operations for the Three Months Ended March 25, 2017 and March 19, 2016</u> | 4 |
| <u>Consolidated Condensed Statements of Comprehensive Income for the Three Months Ended March 25, 2017 and March 19, 2016</u> | 5 |
| <u>Consolidated Condensed Statements of Cash Flows for the Three Months Ended March 25, 2017 and March 19, 2016</u> | 6 |
| <u>Notes to Consolidated Condensed Financial Statements</u> | 7 |
| Item 2 <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | 12 |
| - | |
| Item 3 <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 13 |
| - | |
| Item 4 <u>Controls and Procedures</u> | 14 |
| - | |
| Part II. <u>Other Information</u> | |
| Item 2 <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 15 |
| - | |
| Item 6 <u>Exhibits</u> | 16 |
| - | |
| <u>Signature</u> | 16 |

PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

ESCALADE, INCORPORATED AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS

| All Amounts in Thousands Except Share Information | March 25, 2017 (Unaudited) | December 31, 2016 (Audited) | March 19, 2016 (Unaudited) |
|--|----------------------------------|-----------------------------------|----------------------------------|
| ASSETS | | | |
| Current Assets: | | | |
| Cash and cash equivalents | \$ 2,536 | \$ 1,013 | \$ 3,260 |
| Receivables, less allowance of \$1,154; \$910; and \$1,888; respectively | 29,265 | 35,894 | 32,469 |
| Inventories | 37,194 | 33,802 | 37,377 |
| Prepaid expenses | 2,885 | 2,798 | 1,969 |
| Deferred income tax benefit | — | 1,283 | 1,598 |
| Prepaid income tax | — | 833 | 1,238 |
| TOTAL CURRENT ASSETS | 71,880 | 75,623 | 77,911 |
| Property, plant and equipment, net | 13,527 | 13,714 | 14,073 |
| Intangible assets, net | 20,912 | 20,857 | 22,396 |
| Goodwill | 21,548 | 21,456 | 21,456 |
| Investments | 17,358 | 19,030 | 19,315 |
| Other assets | 72 | 81 | 113 |
| TOTAL ASSETS | \$ 145,297 | \$ 150,761 | \$ 155,264 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| Current Liabilities: | | | |
| Current portion of long-term debt | \$ 1,300 | \$ 1,250 | \$ 1,910 |
| Trade accounts payable | 6,562 | 4,376 | 6,470 |
| Accrued liabilities | 7,103 | 12,792 | 9,796 |
| Income tax payable | 105 | — | — |
| TOTAL CURRENT LIABILITIES | 15,070 | 18,418 | 18,176 |
| Other Liabilities: | | | |
| Long-term debt | 23,000 | 24,189 | 32,138 |
| Deferred income tax liability | 5,026 | 6,441 | 7,200 |
| TOTAL LIABILITIES | 43,096 | 49,048 | 57,514 |

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Stockholders' Equity:

Preferred stock:

Authorized 1,000,000 shares; no par value, none issued

Common stock:

Authorized 30,000,000 shares; no par value, issued and outstanding –
14,345,528; 14,304,959; and 14,254,972; shares respectively

Retained earnings

Accumulated other comprehensive loss

TOTAL STOCKHOLDERS' EQUITY

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY

| | | |
|------------|------------|------------|
| 14,346 | 14,305 | 14,255 |
| 91,586 | 91,688 | 85,992 |
| (3,731) | (4,280) | (2,497) |
| 102,201 | 101,713 | 97,750 |
| \$ 145,297 | \$ 150,761 | \$ 155,264 |

See notes to Consolidated Condensed Financial Statements.

ESCALADE, INCORPORATED AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS (UNAUDITED)

| All Amounts in Thousands Except Per Share Data | Three Months Ended | |
|--|--------------------|-------------------|
| | March 25, 2017 | March 19, 2016 |
| Net sales | \$ 30,812 | \$ 34,568 |
| Costs and Expenses | | |
| Cost of products sold | 22,528 | 23,539 |
| Selling, administrative and general expenses | 5,930 | 7,763 |
| Amortization | 358 | 788 |
| Operating Income | 1,996 | 2,478 |
| Other Income (Expense) | | |
| Interest expense | (167) | (164) |
| Equity in earnings (loss) of affiliates | (52) | 49 |
| Gain on bargain purchase | 256 | — |
| Other income | 4 | 59 |
| Income Before Income Taxes | 2,037 | 2,422 |
| Provision for Income Taxes | 649 | 725 |
| Net Income | \$ 1,388 | \$ 1,697 |
| Earnings Per Share Data: | | |
| Basic earnings per share | \$ 0.10 | \$ 0.12 |
| Diluted earnings per share | \$ 0.10 | \$ 0.12 |
| Dividends declared | \$ 0.115 | \$ 0.110 |

See notes to Consolidated Condensed Financial Statements.

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

| All Amounts in Thousands Except Share Information | Three Months Ended | |
|---|--------------------|----------------|
| | March 25, 2017 | March 19, 2016 |
| Net Income | \$ 1,388 | \$ 1,697 |
| Foreign currency translation adjustment | 549 | 681 |
| Comprehensive Income | \$ 1,937 | \$ 2,378 |

All amounts are net of tax

See notes to Consolidated Condensed Financial Statements.

ESCALADE, INCORPORATED AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

| All Amounts in Thousands | Three Months Ended | |
|--|--------------------|-------------------|
| | March 25, 2017 | March 19, 2016 |
| Operating Activities: | | |
| Net income | \$ 1,388 | \$ 1,697 |
| Depreciation and amortization | 901 | 1,610 |
| Gain on disposal of property and equipment | (4) | (154) |
| Stock-based compensation | 114 | 107 |
| Gain on bargain purchase | (256) | — |
| Dividends received from equity method investments | 2,168 | 1,060 |
| Adjustments necessary to reconcile net income to net cash provided by operating activities | 1,558 | (2,643) |
| Net cash provided by operating activities | 5,869 | 1,677 |
| Investing Activities: | | |
| Purchase of property and equipment | (197) | (546) |
| Acquisitions | (1,401) | (9,459) |
| Proceeds from sale of property and equipment | 4 | 193 |
| Net cash used by investing activities | (1,594) | (9,812) |
| Financing Activities: | | |
| Proceeds from issuance of long-term debt | 13,954 | 24,315 |
| Payments on long-term debt | (15,142) | (13,604) |
| Proceeds from exercise of stock options | 86 | 353 |
| Deferred financing fees | — | (83) |
| Cash dividends paid | (1,650) | (1,568) |
| Net cash provided by (used by) financing activities | (2,752) | 9,413 |
| Net increase in cash and cash equivalents | 1,523 | 1,278 |
| Cash and cash equivalents, beginning of period | 1,013 | 1,982 |
| Cash and cash equivalents, end of period | \$ 2,536 | \$ 3,260 |
| Supplemental Cash Flows Information | | |
| Dividends payable | \$ — | \$ 2 |
| Non-Cash Transactions | | |
| Note payable for deferred purchase price obligation | \$ 50 | \$ — |

See notes to Consolidated Condensed Financial Statements.

ESCALADE, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

Note A – Summary of Significant Accounting Policies

Presentation of Consolidated Condensed Financial Statements – The significant accounting policies followed by the Company and its wholly owned subsidiaries for interim financial reporting are consistent with the accounting policies followed for its annual financial reporting. All adjustments that are of a normal recurring nature and are in the opinion of management necessary for a fair statement of the results for the periods reported have been included in the accompanying consolidated condensed financial statements. The consolidated condensed balance sheet of the Company as of December 31, 2016 has been derived from the audited consolidated balance sheet of the Company as of that date. Certain information and note disclosures normally included in the Company’s annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted. These consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Form 10-K annual report for 2016 filed with the Securities and Exchange Commission.

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

Note B – Seasonal Aspects

The results of operations for the three month periods ended March 25, 2017 and March 19, 2016 are not necessarily indicative of the results to be expected for the full year.

Note C – Inventories

| In thousands | March 25, 2017 | December 31, 2016 | March 19, 2016 |
|------------------|-------------------|----------------------|-------------------|
| Raw materials | \$ 4,206 | \$ 4,781 | \$ 4,408 |
| Work in progress | 4,068 | 3,671 | 4,964 |
| Finished goods | 28,920 | 25,350 | 28,005 |
| | \$ 37,194 | \$ 33,802 | \$ 37,377 |

Note D – Equity Interest Investments

The Company has a 50% interest in a joint venture, Stiga Sports AB (Stiga). The joint venture is accounted for under the equity method of accounting. Stiga, located in Sweden, is a global sporting goods company producing table tennis equipment, snow sleds, and game products. Financial information for Stiga reflected in the table below has been translated from local currency to U.S. dollars using exchange rates in effect at the respective period-end for balance sheet amounts, and using average exchange rates for statement of operations amounts. Certain differences exist between U.S. GAAP and local GAAP in Sweden, and the impact of these differences is not reflected in the summarized information reflected in the table below. The most significant difference relates to the accounting for goodwill for Stiga which is amortized over eight years in Sweden but is not amortized for U.S. GAAP reporting purposes. The goodwill for Stiga was fully amortized as of December 27, 2014. The effect on Stiga's net assets resulting from the cumulative amortization of goodwill for the periods ended March 25, 2017 and March 19, 2016 are addbacks to Stiga's consolidated financial information of \$10.1 million and \$10.8 million, respectively. These net differences are comprised of cumulative goodwill adjustments of \$14.1 million offset by the related cumulative tax effect of \$4.0 million as of March 25, 2017 and cumulative goodwill adjustments of \$15.1 million offset by the related cumulative tax effect of \$4.3 million as of March 19, 2016. The Company's 50% portion of net income (loss) for Stiga for the periods ended March 25, 2017 and March 19, 2016 was (\$52) thousand and \$49 thousand, respectively, and is included in equity in earnings (loss) of affiliates on the Company's statements of operations.

Summarized financial information for Stiga Sports AB balance sheets as of March 25, 2017, December 31, 2016, and March 19, 2016 and statements of operations for the three months ended March 25, 2017 and March 19, 2016 is as follows:

| In thousands | March 25, 2017 | December 31, 2016 | March 19, 2016 |
|-------------------------|-------------------|----------------------|-------------------|
| Current assets | \$ 27,931 | \$ 28,322 | \$ 29,018 |
| Non-current assets | 9,539 | 9,379 | 10,244 |
| Total assets | 37,470 | 37,701 | 39,262 |
| Current liabilities | 3,642 | 4,847 | 3,857 |
| Non-current liabilities | 5,376 | 5,133 | 6,042 |
| Total liabilities | 9,018 | 9,980 | 9,899 |
| Net assets | \$ 28,452 | \$ 27,721 | \$ 29,363 |

| | Three Months Ended | |
|-------------------|--------------------|-------------------|
| | March 25, 2017 | March 19, 2016 |
| Net sales | \$ 5,125 | \$ 5,399 |
| Gross profit | 2,278 | 2,558 |
| Net income (loss) | (105) | 97 |

Note E – Income Taxes

The provision for income taxes was computed based on financial statement income.

Note F – Fair Values of Financial Instruments

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

Cash and Cash Equivalents

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

Long-term Debt

Fair values of long-term debt is estimated based on borrowing rates currently available to the Company for bank loans with similar terms and maturities and determined through the use of a discounted cash flow model.

The following table presents estimated fair values of the Company's financial instruments and the level within the fair value hierarchy in which the fair value measurements fall in accordance with FASB ASC 825 at March 25, 2017, December 31, 2016 and March 19, 2016.

| March 25, 2017 In thousands | Carrying Amount | Fair Value Measurements Using | | |
|-----------------------------------|--------------------|---|--|---|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Other Significant Unobservable Inputs (Level 3) |
| Financial assets | | | | |
| Cash and cash equivalents | \$2,536 | \$ 2,536 | \$ — | \$ — |
| Financial liabilities | | | | |
| Current portion of long-term debt | \$1,300 | \$ — | \$ 1,300 | \$ — |
| Long-term debt | \$23,000 | \$ — | \$ 23,000 | \$ — |

| December 31, 2016 In thousands | Carrying Amount | Fair Value Measurements Using | | |
|-----------------------------------|--------------------|---|--|------------------------------|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Other Inputs (Level 3) |
| Financial assets | | | | |
| Cash and cash equivalents | \$ 1,013 | \$ 1,013 | \$ — | \$ — |
| Financial liabilities | | | | |
| Current portion of long-term debt | \$ 1,250 | \$ — | \$ 1,250 | \$ — |
| Long-term debt | \$ 24,189 | \$ — | \$ 24,189 | \$ — |

| March 19, 2016 In thousands | Carrying Amount | Fair Value Measurements Using | | |
|-----------------------------------|--------------------|---|--|------------------------------|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Other Inputs (Level 3) |
| Financial assets | | | | |
| Cash and cash equivalents | \$ 3,260 | \$ 3,260 | \$ — | \$ — |
| Financial liabilities | | | | |
| Current portion of long-term debt | \$ 1,910 | \$ — | \$ 1,910 | \$ — |
| Long-term debt | \$ 32,138 | \$ — | \$ 32,138 | \$ — |

Note G – Stock Compensation

The fair value of stock-based compensation is recognized in accordance with the provisions of FASB ASC 718, *Stock Compensation*.

During the three months ended March 25, 2017, the Company awarded 14,250 restricted stock units to directors and 40,782 restricted stock units to employees. The restricted stock units awarded to directors time vest over two years (one-half one year from grant date and one-half two years from grant date) provided that the director is still a director of the Company at the vest date. Director restricted stock units are subject to forfeiture, except for termination of services as a result of retirement, death or disability, if on the vesting date the director no longer holds a position with the Company. The 2017 restricted stock units awarded to employees vest over four years (one-third two years from grant date, one-third three years from grant date and one-third four years from grant date) provided that the employee is still employed by the Company and that the performance criteria related to the market price of the Company's stock is satisfied. The criteria is for any 30 consecutive trading days on the NASDAQ Stock Market (or such other principal securities exchange on which the Company's shares of common stock are then traded) during the period beginning on

the grant date and ending on the fourth anniversary thereof, the cumulative average Volume Weighted Average Price per share is at least 15% higher than the closing price per share on the grant date plus any incremental dividends paid above the current quarterly dividend rate of \$0.115 per share by the Company during such four year period. The Company utilizes the Monte Carlo technique to determine the fair value of restricted stock units granted for awards with market conditions.

For the three months ended March 25, 2017 and March 19, 2016, the Company recognized stock based compensation expense of \$114 thousand and \$107 thousand, respectively. At March 25, 2017 and March 19, 2016, respectively, there was \$1.0 million and \$1.0 million in unrecognized stock-based compensation expense related to non-vested stock awards.

Note H – Segment Information

| In thousands | As of and for the Three Months Ended March 25, 2017 | | |
|----------------------------------|--|----------|-----------|
| | Sporting Goods | Corp. | Total |
| Revenues from external customers | \$30,812 | \$— | \$30,812 |
| Operating income (loss) | 2,359 | (363) | 1,996 |
| Net income (loss) | 1,561 | (173) | 1,388 |
| Total assets | \$125,023 | \$20,274 | \$145,297 |

| In thousands | As of and for the Three Months Ended March 19, 2016 | | |
|----------------------------------|--|----------|-----------|
| | Sporting Goods | Corp. | Total |
| Revenues from external customers | \$34,568 | \$— | \$34,568 |
| Operating income (loss) | 3,189 | (711) | 2,478 |
| Net income (loss) | 1,862 | (165) | 1,697 |
| Total assets | \$128,209 | \$27,055 | \$155,264 |

Note I – Dividend Payment

On March 20, 2017, the Company paid a quarterly dividend of \$0.115 per common share to all shareholders of record on March 13, 2017. The total amount of the dividend was approximately \$1.6 million and was charged against retained earnings.

Note J – Earnings Per Share

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

| In thousands | Three Months Ended | |
|---|--------------------|----------------|
| | March 25, 2017 | March 19, 2016 |
| Weighted average common shares outstanding | 14,317 | 14,200 |
| Dilutive effect of stock options and restricted stock units | 40 | 89 |
| Weighted average common shares outstanding, assuming dilution | 14,357 | 14,289 |

Stock options that are anti-dilutive as to earnings per share and unvested restricted stock units which have a market condition for vesting that has not been achieved are ignored in the computation of dilutive earnings per share. The number of stock options and restricted stock units that were excluded in 2017 and 2016 were 84,200 and 55,200, respectively.

Note K – New Accounting Standards and Changes in Accounting Principles

With the exception of that discussed below, there have been no recent accounting pronouncements or changes in accounting pronouncements during the three months ended March 25, 2017, as compared to the recent accounting pronouncements described in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2016, that are of significance, or potential significance to the Company.

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-09, Improvements to Employee Share-Based Payment Accounting, which amends existing guidance related to accounting for employee share-based payments affecting the income tax consequences of awards, classification of awards as equity or liabilities, and classification on the statement of cash flows. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016.

The new standard requires excess tax benefits and tax deficiencies to be recorded as income tax expense or benefit in the income statement and also requires a policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. The Company has elected to account for forfeitures when they actually occur. The new guidance also requires cash paid by an employer when directly withholding shares for tax withholding purposes to be classified in the Consolidated Statement of Cash Flows as a financing activity, which is the classification currently used by the Company. Lastly, the guidance requires that excess tax benefits should be classified along with other income tax cash flows as an operating activity on the statement of cash flows. The Company elected to apply this provision using the prospective transition method. Adoption of this guidance did not impact the presentation of cash flows in the current period.

In November 2015, the FASB issued ASU 2015-17 Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. ASU 2015-17 eliminates the current requirement for organizations to present deferred tax liabilities and assets as current and noncurrent in a classified balance sheet. Instead, organizations will be required to classify all deferred tax assets and liabilities as noncurrent. The ASU is effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company adopted this standard on January 1, 2017 and has elected to apply the requirements prospectively. Comparative financial statements of prior periods have not been retrospectively adjusted. Adoption of this standard did not impact results of operations or cash flows in the current or previous reporting periods.

Note L – Commitments and Contingencies

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

Note M – Acquisition

During the three months ended March 25, 2017, the Company acquired certain assets and liabilities through two acquisitions. These acquisitions, individually and in aggregate, were not and would not have been material to the Company's net sales, results of operations or total assets during the three months ended March 25, 2017. Accordingly, our consolidated results from operations do not differ materially from historical performance as a result of these acquisitions, and therefore, pro-forma results are not presented.

Total consideration paid for the acquisitions was \$1.5 million, of which \$1.4 million was paid in cash and a note payable was recorded for the remaining \$0.1 million. The consideration paid by the company for these acquisitions was allocated to the assets acquired, net of the liabilities assumed, based upon their estimated fair values as of the date of the acquisition.

ASC 805 requires that when fair value of the net assets acquired exceeds the purchase price, resulting in a bargain purchase, the acquirer must reassess the reasonableness of the values assigned to all of the net assets acquired, liabilities assumed and consideration transferred. The Company has performed such assessment and has concluded that the values assigned appear to be reasonable. The following table summarizes the allocation of the purchase price for the acquisition that resulted in a bargain purchase:

| | |
|---|---------|
| In thousands | |
| Accounts receivable, net | \$852 |
| Inventories, net | 737 |
| Other assets | 64 |
| Intangible assets | 413 |
| Total fair value of assets acquired | 2,066 |
| Total liabilities assumed | (563) |
| Net assets acquired | 1,503 |
| Total consideration paid | (1,101) |
| Gain before deferred income tax liability | 402 |
| Income tax liability – deferred | (146) |
| Gain on bargain purchase | \$256 |

The Company has not yet finalized the purchase price or its final evaluation of the fair value of certain assets acquired. The primary areas of the purchase price allocation that are not yet finalized relate to the valuation of inventory, intangible assets, deferred income taxes and residual gain on bargain purchase. Any changes during the measurement period may have an impact on the allocation of the purchase price presented in the table above.

Item 2. **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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, the ability to successfully negotiate the shifting retail environment and changes in consumer buying habits, 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 business through organic growth of existing categories, strategic acquisitions, and new product development. The Sporting Goods business competes in a variety of categories including basketball goals, archery, indoor and outdoor game recreation and fitness products. Strong brands and on-going investment in product development provide a solid foundation for building customer loyalty and continued growth.

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

To enhance growth opportunities, the Company has focused on promoting new product innovation and development and brand marketing. In addition, the Company has embarked on a strategy of acquiring companies or product lines that complement or expand the Company's existing product lines or provide expansion into new or emerging categories in sporting goods. A key objective is the acquisition of product lines with barriers to entry that the Company can take to market through its established distribution channels or through new market channels. Significant synergies are achieved through assimilation of acquired product lines into the existing Company structure. The Company also sometimes divests or discontinues certain operations, assets, and products that do not perform to the Company's expectations or no longer fit with the Company's strategic objectives.

Results of Operations

The following schedule sets forth certain consolidated statement of operations data as a percentage of net revenue:

| | Three Months Ended | | | |
|--|--------------------|---|----------------|---|
| | March 25, 2017 | | March 19, 2016 | |
| Net revenue | 100.0 | % | 100.0 | % |
| Cost of products sold | 73.1 | % | 68.1 | % |
| Gross margin | 26.9 | % | 31.9 | % |
| Selling, administrative and general expenses | 19.2 | % | 22.4 | % |
| Amortization | 1.2 | % | 2.3 | % |
| Operating income | 6.5 | % | 7.2 | % |

Revenue and Gross Margin

Sales decreased by 10.9% for the first three months of 2017, compared with the same period in the prior year. This decrease was due to retail bankruptcy liquidations, as well as going up against portable basketball pipeline fills from a year ago.

The overall gross margin percentage decreased to 26.9% for the first three months of 2017, compared to 31.9% for the same period in the prior year. This decrease was due primarily to increases in material prices as well as product mix.

Selling, General and Administrative Expenses

Selling, general and administrative expenses (SG&A) were \$5.9 million for the first three months in 2017 compared to \$7.8 million for the same period in the prior year, a decrease of \$1.8 million or 23.6%. SG&A as a percent of sales is 19.2% for the first three months in 2017 compared with 22.5% for the same period in the prior year. The decrease in SG&A is primarily due to one-time costs associated with bad debt expenses incurred related to The Sports Authority's bankruptcy filing in 2016 and increased marketing and selling expenses related to new products introduced in 2016.

Provision for Income Taxes

The effective tax rate for the first three months of 2017 was 31.9% compared to 29.9% for the same period last year.

Financial Condition and Liquidity

Total debt at the end of the first three months of 2017 was \$24.3 million, a decrease of \$1.1 million from December 31, 2016. The following schedule summarizes the Company's total debt:

| In thousands | March 25, 2017 | December 31, 2016 | March 19, 2016 |
|--------------|-------------------|----------------------|-------------------|
|--------------|-------------------|----------------------|-------------------|

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|--------------------------------|-----------|-----------|-----------|
| Current portion long-term debt | \$ 1,300 | \$ 1,250 | \$ 1,910 |
| Long term debt | 23,000 | 24,189 | 32,138 |
| Total | \$ 24,300 | \$ 25,439 | \$ 34,048 |

As a percentage of stockholders' equity, total debt was 23.8%, 25.0% and 34.8% at March 25, 2017, December 31, 2016, and March 19, 2016 respectively.

The Company funds working capital requirements through operating cash flows and revolving credit agreements with its bank. Based on working capital requirements, the Company expects to have access to adequate levels of revolving credit to meet growth needs.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rates

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

Foreign Currency

The Company conducts business in various countries around the world and is therefore subject to risks associated with fluctuating foreign exchange rates. The Sporting Goods foreign currency transactions are denominated primarily in Mexican Peso and Chinese Yuan. The Company has a 50% interest in a joint venture, Stiga, which is denominated in Swedish Krona.

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

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

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

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

Changes in Internal Control over Financial Reporting

Management of the Company has evaluated, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, changes in the Company's internal controls over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act) during the first quarter of 2017.

There have been no changes to the Company's internal control over financial reporting that occurred since the beginning of the Company's first quarter of 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS.

None.

Item 1A. RISK FACTORS.

Not required.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

c) 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 |
|--|---|--|---|---|
| Shares purchases prior to 12/31/2016 under the current repurchase program. | 982,916 | \$ 8.84 | 982,916 | \$ 2,273,939 |
| First quarter purchases: | | | | |
| 1/1/2017–1/28/2017 | None | None | No Change | No Change |
| 1/29/2017-2/25/2017 | None | None | No Change | No Change |
| 2/26/2017-3/25/2017 | None | None | No Change | 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 February 2005, February 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 3. DEFAULTS UPON SENIOR SECURITIES.

None.

Item 4. MINE SAFETY DISCLOSURES.

Not applicable.

Item 5. OTHER INFORMATION.

None.

15

Item 6. EXHIBITS

Number Description

- 3.1 Articles of Incorporation of Escalade, Incorporated. Incorporated by reference from the Company's 2007 First Quarter Report on Form 10-Q.
- 3.2 Amended By-laws of Escalade, Incorporated, as amended April 22, 2014. Incorporated by reference from the Company's 2014 First Quarter Report on Form 10-Q.
- 31.1 Chief Executive Officer Rule 13a-14(a)/15d-14(a) Certification.
- 31.2 Chief Financial Officer Rule 13a-14(a)/15d-14(a) Certification.
- 32.1 Chief Executive Officer Section 1350 Certification.
- 32.2 Chief Financial Officer Section 1350 Certification.
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ESCALADE, INCORPORATED

Date: April 20, 2017 /s/ Stephen R. Wawrin
Vice President and Chief Financial Officer
(On behalf of the registrant and in his
capacities as Principal Financial Officer

