

ESCALADE INC  
Form 10-Q  
April 24, 2012

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarter ended March 24, 2012 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)

812-467-1251

(Registrant's Telephone Number)

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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 definition of “accelerated filer”, “large accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

|   |                                     |                           |                                     |
|---|-------------------------------------|---------------------------|-------------------------------------|
| Large accelerated filer                       | <input checked="" type="checkbox"/> | Accelerated filer         | <input type="checkbox"/>            |
| Non-accelerated filer                         | <input type="checkbox"/>            | Smaller reporting company | <input checked="" type="checkbox"/> |
| (do not check if a 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

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

| Class                | <u>Outstanding at April 11, 2012</u> |
|----------------------|--------------------------------------|
| Common, no par value | 13,172,749                           |

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## PART I. FINANCIAL INFORMATION

## Item 1. FINANCIAL STATEMENTS

## ESCALADE, INCORPORATED AND SUBSIDIARIES

## CONSOLIDATED CONDENSED BALANCE SHEETS

(All amounts in thousands, except share information)

|  | March 24,<br>2012<br>(Unaudited) | December<br>31,<br>2011<br>(Audited) | March 19,<br>2011<br>(Unaudited) |
|--|----------------------------------|--------------------------------------|----------------------------------|
| <b>ASSETS</b>  |                                  |                                      |                                  |
| Current Assets:  |                                  |                                      |                                  |
| Cash and cash equivalents  | \$ 2,581                         | \$ 3,821                             | \$ 1,583                         |
| Time deposits  | 500                              | 950                                  | 1,000                            |
| Receivables, less allowance of \$939; \$938; and \$1,184; respectively | 27,574                           | 26,914                               | 23,938                           |
| Inventories  | 31,457                           | 29,035                               | 29,080                           |
| Prepaid expenses   | 1,474                            | 1,102                                | 1,829                            |
| Deferred income tax benefit  | 1,418                            | 1,478                                | 1,364                            |
| Income tax receivable  | —                                | 846                                  | 430                              |
| <b>TOTAL CURRENT ASSETS</b>  | <b>65,004</b>                    | <b>64,146</b>                        | <b>59,224</b>                    |
| Property, plant and equipment, net                                     | 12,060                           | 11,915                               | 19,675                           |
| Intangible assets  | 13,589                           | 14,064                               | 15,512                           |
| Goodwill   | 25,468                           | 25,285                               | 26,024                           |
| Investments  | 14,862                           | 14,397                               | 12,564                           |
| Other assets   | 274                              | 308                                  | —                                |
|  | <b>\$ 131,257</b>                | <b>\$ 130,115</b>                    | <b>\$ 132,999</b>                |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                            |                                  |                                      |                                  |
| Current Liabilities:   |                                  |                                      |                                  |
| Notes payable  | \$ 13,688                        | \$ 14,947                            | \$ 14,653                        |
| Current portion of long-term debt                                      | 2,000                            | 2,000                                | 2,000                            |
| Trade accounts payable   | 4,692                            | 3,293                                | 4,739                            |
| Accrued liabilities  | 13,757                           | 14,410                               | 12,224                           |
| Income tax payable   | 233                              | —                                    | —                                |
| <b>TOTAL CURRENT LIABILITIES</b>                                       | <b>34,370</b>                    | <b>34,650</b>                        | <b>33,616</b>                    |

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|   |                   |                   |                   |
|---|-------------------|-------------------|-------------------|
| Other Liabilities:  |                   |                   |                   |
| Long-term debt  | 5,000             | 5,000             | 7,000             |
| Deferred income tax liability   | 2,885             | 2,900             | 2,105             |
| <b>TOTAL LIABILITIES</b>  | <b>42,255</b>     | <b>42,550</b>     | <b>42,721</b>     |
| 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 –<br>12,909,132; 12,883,948; and 12,812,943; shares respectively | 12,909            | 12,884            | 12,813            |
| Retained earnings   | 72,180            | 71,348            | 71,651            |
| Accumulated other comprehensive income  | 3,913             | 3,333             | 5,814             |
|   | 89,002            | 87,565            | 90,278            |
|   | <b>\$ 131,257</b> | <b>\$ 130,115</b> | <b>\$ 132,999</b> |

See notes to Consolidated Condensed Financial Statements.

ESCALADE, INCORPORATED AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS (UNAUDITED)

(All amounts in thousands, except per share amounts)

|  | Three Months<br>Ended |                      |
|--|-----------------------|----------------------|
|  | March<br>24,<br>2012  | March<br>19,<br>2011 |
| Net sales                                    | \$30,565              | \$27,998             |
| Costs, expenses and other income:            |                       |                      |
| Cost of products sold                        | 20,009                | 17,873               |
| Selling, general and administrative expenses | 7,297                 | 7,741                |
| Amortization                                 | 517                   | 317                  |
| Operating income                             | 2,742                 | 2,067                |
| Interest expense, net                        | (154 )                | (184 )               |
| Other income                                 | 172                   | 122                  |
| Income before income taxes                   | 2,760                 | 2,005                |
| Provision for income taxes                   | 1,184                 | 802                  |
| Net income                                   | \$1,576               | \$1,203              |
| Per share data:                              |                       |                      |
| Basic earnings per share                     | \$0.12                | \$0.09               |
| Diluted earnings per share                   | \$0.12                | \$0.09               |

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

Three Months  
Ended  
March March  
24, 19,  
2012 2011

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|   |         |         |
|---|---------|---------|
| Net income                              | \$1,576 | \$1,203 |
| Foreign currency translation adjustment | 585     | 1,893   |
| Comprehensive income                    | \$2,161 | \$3,096 |

See notes to Consolidated Condensed Financial Statements.

## ESCALADE, INCORPORATED AND SUBSIDIARIES

## CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

(All amounts in thousands)

|   | Three Months<br>Ended |                      |
|---|-----------------------|----------------------|
|   | March<br>24,<br>2012  | March<br>19,<br>2011 |
| Operating Activities:   |                       |                      |
| Net income  | \$1,576               | \$1,203              |
| Depreciation and amortization   | 992                   | 962                  |
| Loss on disposal of property and equipment  | —                     | 22                   |
| Stock-based compensation  | 135                   | 85                   |
| Adjustments necessary to reconcile net income to net cash provided (used) by operating activities | (2,553)               | (5,157)              |
| Net cash provided (used) by operating activities  | 150                   | (2,885)              |
| Investing Activities:   |                       |                      |
| Purchase of property and equipment  | (533 )                | (223 )               |
| Proceeds from disposal of short-term time deposits  | 450                   | 250                  |
| Net cash provided (used) by investing activities  | (83 )                 | 27                   |
| Financing Activities:   |                       |                      |
| Net increase (decrease) in notes payable  | (1,252)               | 3,924                |
| Net decrease in overdraft facility  | (7 )                  | (324 )               |
| Principal payment on long-term debt   | —                     | (500 )               |
| Proceeds from exercise of stock options   | 36                    | 14                   |
| Director stock compensation   | 36                    | 52                   |
| Net cash provided (used) by financing activities  | (1,187)               | 3,166                |
| Effect of exchange rate changes on cash   | (120 )                | (261 )               |
| Net increase (decrease) in cash and cash equivalents  | (1,240)               | 47                   |
| Cash and cash equivalents, beginning of period  | 3,821                 | 1,536                |
| Cash and cash equivalents, end of period  | \$2,581               | \$1,583              |
| Supplemental Cash Flows Information   |                       |                      |
| Dividends payable   | 926                   | —                    |



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 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, 2011 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 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 2011 filed with the Securities and Exchange Commission.

Note B - 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 C - Seasonal Aspects

The results of operations for the three month periods ended March 24, 2012 and March 19, 2011 are not necessarily indicative of the results to be expected for the full year.

Note D - Inventories

|              |       |          |       |
|--------------|-------|----------|-------|
| In thousands | March | December | March |
|              | 24,   | 31,      | 19,   |

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|                  | 2012     | 2011      | 2011     |
|------------------|----------|-----------|----------|
| Raw materials    | \$8,696  | \$ 7,865  | \$8,420  |
| Work in progress | 4,866    | 3,751     | 3,417    |
| Finished goods   | 17,895   | 17,419    | 17,243   |
|                  | \$31,457 | \$ 29,035 | \$29,080 |

Note E – Equity Interest Investments

The Company has a 50% interest in a joint venture, Stiga Sports AB (Stiga). The joint venture is accounted for under the equity method of accounting. Stiga, located in Sweden, is a global sporting goods company producing table tennis equipment and game products. Financial information for Stiga reflected in the table below has been translated from local currency to U.S. dollars using exchange rates in effect at the respective 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 effect on Stiga's net assets resulting from the amortization of goodwill for the periods ended March 24, 2012 and March 19, 2011 are addbacks to Stiga's consolidated financial information of \$9.7 million and \$8.5 million, respectively. These net differences are comprised of cumulative goodwill adjustments of \$13.5 million offset by the related cumulative tax effect of \$3.8 million as of March 24, 2012 and cumulative goodwill adjustments of \$11.9 million offset by the related cumulative tax effect of \$3.4 million as of March 19, 2011. The statement of operations impact of these goodwill and tax adjustments and other individually insignificant U.S. GAAP adjustments for the periods ended March 24, 2012, and March 19, 2011 are to increase Stiga's net income by approximately \$0.5 million and \$0.3 million, respectively. The Company's 50% portion of net income for Stiga for the periods ended March 24, 2012 and March 19, 2011 was \$188 thousand and \$57 thousand, respectively, and is included in other income on the Company's statements of operations.

In addition, Escalade has a 50% interest in two joint ventures, Escalade International, Ltd. in the United Kingdom, and Neoteric Industries Inc. in Taiwan. Escalade International Ltd. is a sporting goods wholesaler, specializing in fitness equipment. The Company's 50% portion of net income (loss) for Escalade International for the periods ended March 24, 2012 and March 19, 2011 was (\$19,534) and \$53,735 respectively, and is included in other income on the Company's statements of operations. The income and assets of Neoteric have no impact on the Company's financial reporting. Additional information regarding these entities is considered immaterial and has not been included in the totals listed below.

Summarized financial information for Stiga Sports AB balance sheets as of March 24, 2012, December 31, 2011, and March 19, 2011 and statements of operations for the periods ended March 24, 2012 and March 19, 2011 is as follows:

| In thousands            | March<br>24,<br>2012  | December<br>31,<br>2011 | March<br>19,<br>2011 |
|-------------------------|-----------------------|-------------------------|----------------------|
| Current assets          | \$19,182              | \$ 23,451               | \$16,315             |
| Non-current assets      | 9,252                 | 9,460                   | 11,774               |
| Total assets            | 28,434                | 32,911                  | 28,089               |
| Current liabilities     | 5,689                 | 10,033                  | 6,089                |
| Non-current liabilities | 5,956                 | 6,334                   | 9,080                |
| Total liabilities       | 11,645                | 16,367                  | 15,169               |
| Net assets              | \$16,789              | \$ 16,544               | \$12,920             |
|                         | Three Months<br>Ended |                         |                      |
|                         | March                 | March                   |                      |
|                         | 24,<br>2012           | 19,<br>2011             |                      |
| Net Sales               | \$4,147               | \$4,443                 |                      |
| Gross Profit            | 2,167                 | 2,041                   |                      |
| Net Loss                | (97 )                 | (194 )                  |                      |

#### Note F – Notes Payable

On April 14, 2011, the Company entered into the Seventh Amendment to its Credit Agreement with its issuing bank, JP Morgan Chase Bank, N.A. (Chase). The Seventh Amendment amends the Credit Agreement originally dated as of April 30, 2009, and as amended had a maturity date of May 31, 2012. The Seventh Amendment now makes available

to the Company a senior revolving credit facility in the maximum principal amount of up to \$22 million with a maturity date of July 31, 2013 and a term loan in the principal amount of \$8.5 million with a maturity date of May 31, 2015. The term loan agreement requires the Company to make repayment of the principal balance in equal installments of \$0.5 million per quarter beginning in September 2010. A portion of the credit facility not in excess of \$5 million is available for the issuance of commercial or standby letters of credit to be issued by Chase. The Credit Agreement Amendment also provides a Euro 2.0 million (approximately \$2.6 million) overdraft facility.

## Note G – Income Taxes

The provision for income taxes was computed based on financial statement income. In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, the Company has recorded the following changes in uncertain tax positions:

| In thousands                             | Three<br>Months<br>Ended<br>March |        |
|--|-----------------------------------|--------|
|  | 2012                              | 2011   |
| Beginning Balance                        | \$46                              | \$ 220 |
| Additions for current year tax positions | —                                 | —      |
| Additions for prior year tax positions   | —                                 | —      |
| Settlements                              | —                                 | —      |
| Reductions Settlements                   | —                                 | —      |
| Reductions for prior year tax positions  | —                                 | —      |
| Ending Balance                           | \$46                              | \$ 220 |

## Note H – Fair Values of Financial Instruments

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

## Cash and Cash Equivalents and Time Deposits

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

## Notes Payable and Long-term Debt

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Fair values of notes payable and 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 24, 2012 and March 19, 2011.

| March 24, 2012<br>In thousands    | Carrying<br>Amount | Fair Value Measurements Using   |   |  |
|-----------------------------------|--------------------|---|---|--|
|                                   |                    | Quoted<br>Prices<br>in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level<br>1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <b>Financial assets</b>           |                    |   |   |  |
| Cash and cash equivalents         | \$ 2,581           | \$ 2,581  | \$ —  | \$ —   |
| Time deposits                     | \$ 500             | \$ 500  | \$ —  | \$ —   |
| <b>Financial liabilities</b>      |                    |   |   |  |
| Note payable and Short-term debt  | \$ 13,688          | \$ —  | \$ 13,688   | \$ —   |
| Current portion of Long-term debt | \$ 2,000           | \$ —  | \$ 2,000  | \$ —   |
| Long-term debt                    | \$ 5,000           | \$ —  | \$ 5,000  | \$ —   |

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| March 19, 2011<br>In thousands | Carrying<br>Amount | Fair Value Measurements Using   |   |  |
|--------------------------------|--------------------|---|---|--|
|                                |                    | Quoted<br>Prices<br>in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level<br>1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Financial assets               |                    |   |   |  |
| Cash and cash equivalents      | \$ 1,583           | \$ 1,583  | \$ —  | \$ —   |