ESCALADE INC
Form 10-Q
October 30, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended October 3, 2015 or

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

For the transition period from _____ to _____

Commission File Number 0-6966

ESCALADE, INCORPORATED

(Exact name of registrant as specified in its charter)

Indiana	13-2739290
(State of incorporation)	(I.R.S. EIN)

817 Maxwell Ave, Evansville, Indiana 47711

(Address of principal executive office) (Zip Code)

812-467-4449

(Registrant's Telephone Number)

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 x 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 x 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” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

Yes ¨ No x

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 October 27, 2015
Common, no par value	14,129,986

INDEX

PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

ESCALADE, INCORPORATED AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS

All Amounts in Thousands Except Share Information	October 3, 2015	December 27, 2014	October 4, 2014
	(Unaudited)	(Audited)	(Unaudited)
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 2,701	$ 3,232	$ 798
Time deposits	—	1,450	2,450
Receivables, less allowance of $885; $900; and $844; respectively	31,407	32,150	30,214
Inventories	40,337	23,775	33,182
Prepaid expenses	2,134	1,622	1,699
Deferred income tax benefit	949	925	2,302
Prepaid income tax	1,699	5,697	7,966
TOTAL CURRENT ASSETS	79,227	68,851	78,611
Property, plant and equipment, net	13,848	11,596	10,858
Intangible assets, net	17,517	13,465	9,145
Goodwill	20,142	14,875	13,242
Investments	18,799	18,949	18,782
Other assets	5	145	145
TOTAL ASSETS	$ 149,538	$ 127,881	$ 130,783
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Notes payable	$ 27,963	$ 16,200	$ 15,631
Current portion of long-term debt	1,810	1,586	1,586
Trade accounts payable	6,630	1,853	5,949
Accrued liabilities	12,430	12,107	11,003
TOTAL CURRENT LIABILITIES	48,833	31,746	34,169
Other Liabilities:			
Long-term debt	1,750	3,360	3,360
Deferred income tax liability	5,031	2,996	5,456

TOTAL LIABILITIES	55,614	38,102	42,985
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 – 14,125,935; 13,998,090; and 13,950,874; shares respectively	14,126	13,998	13,951
Retained earnings	83,064	77,745	74,892
Accumulated other comprehensive loss	(3,266)	(1,964)	(1,045)
TOTAL STOCKHOLDERS' EQUITY	93,924	89,779	87,798
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 149,538	$ 127,881	$ 130,783

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 October 3, 2015	Three Months Ended October 4, 2014	Nine Months Ended October 3, 2015	Nine Months Ended October 4, 2014
Net sales	$ 34,584	$ 31,599	$ 111,798	$ 97,332
Costs, Expenses and Other Income				
Cost of products sold	25,156	21,945	78,336	67,102
Selling, administrative and general expenses	6,905	4,871	21,018	16,865
Amortization	650	567	2,127	1,894
Operating Income	1,873	4,216	10,317	11,471
Interest expense	108	133	340	324
Other expense (income)	(1,108)	(1,914)	(2,356)	(2,315)
Income Before Income Taxes from Continuing Operations	2,873	5,997	12,333	13,462
Provision for Income Taxes from Continuing Operations	845	2,160	3,586	4,594
Net Income from Continuing Operations	2,028	3,837	8,747	8,868
Discontinued Operations				
Loss from operations	—	(379)	—	(395)
Loss on classification as held for sale	—	—	—	(12,945)
Gain on disposal (includes $2,565 of accumulated other comprehensive income reclassification from foreign currency translation adjustment)	—	5,591	—	6,138
Provision (benefit) for income taxes	—	(4,572)	—	(6,121)
Net Income (Loss) from Discontinued Operations	—	9,784	—	(1,081)
Net Income	$ 2,028	$ 13,621	$ 8,747	$ 7,787
Basic Earnings Per Share Data:				
Income from continuing operations	$ 0.14	$ 0.28	$ 0.62	$ 0.64
Income (Loss) from discontinued operations	—	0.70	—	(0.08)
Net Income	$ 0.14	$ 0.98	$ 0.62	$ 0.56
Diluted Earnings Per Share Data:				
Income from continuing operations	$ 0.14	$ 0.27	$ 0.61	$ 0.63

Income (Loss) from discontinued operations	—	0.69	—	(0.08)
Net Income	$ 0.14	$ 0.96	$ 0.61	$ 0.55
Dividends declared	$ 0.11	$ 0.10	$ 0.32	$ 0.28

See notes to Consolidated Condensed Financial Statements.

4

ESCALADE, INCORPORATED AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

All Amounts in Thousands Except Share Information	Three Months Ended October 3, 2015	Three Months Ended October 4, 2014	Nine Months Ended October 3, 2015	Nine Months Ended October 4, 2014
Net Income	$ 2,028	$ 13,621	$ 8,747	$ 7,787
Foreign currency translation adjustment before reclassifications	168	(2,661)	(1,302)	(3,399)
Amounts reclassified from comprehensive income due to divestiture	—	(2,565)	—	(2,565)
Comprehensive Income	$ 2,196	$ 8,395	$ 7,445	$ 1,823

All amounts are net of tax

See notes to Consolidated Condensed Financial Statements.

5

ESCALADE, INCORPORATED AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

All Amounts in Thousands	Nine Months Ended October 3, 2015	October 4, 2014
Operating Activities:		
Net income	$ 8,747	$ 7,787
Depreciation and amortization	3,812	3,331
Loss (gain) on disposal of property and equipment	1	(1)
Stock-based compensation	440	447
Additional discontinued operations activities	—	2,722
Adjustments necessary to reconcile net income (loss) to net cash provided by operating activities	(8,147)	(5,198)
Net cash provided by operating activities	4,853	9,088
Investing Activities:		
Purchase of property and equipment	(3,900)	(1,680)
Purchase of short-term time deposits	—	(2,000)
Acquisitions	(10,300)	(162)
Proceeds from sale of property and equipment	—	17
Dividends received from equity method investments	928	—
Proceeds from disposal of short-term time deposits	1,450	1,250
Discontinued operations activities	—	5,700
Net cash provided (used) by investing activities	(11,822)	3,125
Financing Activities:		
Net increase (decrease) in notes payable	11,764	(6,069)
Principal payments on long-term debt	(1,586)	(1,562)
Proceeds from exercise of stock options	733	1,354
Cash dividends paid	(4,511)	(3,894)
Director stock compensation	38	114
Net cash provided (used) by financing activities	6,438	(10,057)
Effect of exchange rate changes on cash	—	(3,704)
Net decrease in cash and cash equivalents	(531)	(1,548)
Cash and cash equivalents, beginning of period (includes zero and $1,255 respectively of cash reported as assets held for sale)	3,232	2,346
Cash and cash equivalents, end of period	$ 2,701	$ 798
Supplemental Cash Flows Information		
Dividends payable	$ 3	$ 45
Non-Cash Transactions		

Note payable for deferred purchase price obligation	$200	$—

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 27, 2014 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 2014 filed with the Securities and Exchange Commission.

Note B - Seasonal Aspects

The results of operations for the three and nine month periods ended October 3, 2015 and October 4, 2014 are not necessarily indicative of the results to be expected for the full year.

Note C - Inventories

In thousands	October 3, 2015	December 27, 2014	October 4, 2014
Raw materials	$ 4,943	$ 3,950	$ 6,125
Work in progress	5,168	3,967	5,269
Finished goods	30,226	15,858	21,788
	$ 40,337	$ 23,775	$ 33,182

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 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 October 3, 2015 and October 4, 2014 are addbacks to Stiga's consolidated net assets of $10.7 million and $12.4 million, respectively. These net differences are comprised of cumulative goodwill adjustments of $14.9 million offset by the related cumulative tax effect of $4.2 million as of October 3, 2015 and cumulative goodwill adjustments of $17.3 million offset by the related cumulative tax effect of $4.9 million as of October 4, 2014. The Company's 50% portion of the statement of operations impact of these goodwill and tax adjustments and other individually insignificant U.S. GAAP adjustments for the nine month periods ended October 3, 2015, and October 4, 2014 are to increase Stiga's net income by approximately zero and $0.3 million, respectively. The Company's 50% portion of net income for Stiga, included in other income (expense) on the Company's statements of operations, for the periods ended October 3, 2015 and October 4, 2014 is as follows:

	Three Months Ended		Nine Months Ended	
In thousands	October 3, 2015	October 4, 2014	October 3, 2015	October 4, 2014
Other income	$ 1,069	$ 1,786	$ 2,080	$ 2,169

Summarized financial information for Stiga Sports AB balance sheets as of October 3, 2015, December 27, 2014, and October 4, 2014 and statements of operations for the three month and nine month periods ended October 3, 2015 and October 4, 2014 is as follows:

In thousands	October 3, 2015	December 27, 2014	October 4, 2014
Current assets	$ 31,044	$ 30,539	$ 33,046
Non-current assets	9,533	8,082	8,064
Total assets	40,577	38,621	41,110
Current liabilities	7,777	7,669	10,921
Non-current liabilities	5,736	4,229	4,370
Total liabilities	13,513	11,898	15,291
Net assets	$ 27,064	$ 26,723	$ 25,819

	Three Months Ended		Nine Months Ended	
In thousands	October 3, 2015	October 4, 2014	October 3, 2015	October 4, 2014
Net sales	$ 12,846	$ 17,206	$ 30,161	$ 33,944
Gross profit	6,304	8,308	14,899	16,654
Net income	2,138	3,581	3,346	3,969

Note E – Income Taxes

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

	Nine Months Ended	
In thousands	October 3, 2015	October 4, 2014
Beginning balance	$ —	$ —
Additions for current year tax positions	—	751
Additions for prior year tax positions	—	—

Settlements	—	—
Reductions or settlements	—	(751)
Reductions for prior year tax positions	—	—
Ending balance	$ —	$ —

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 and Time Deposits

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

8

Notes Payable and Long-term Debt

Fair values of notes payable and long-term debt approximates the carrying value and 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 October 3, 2015, December 27, 2014 and October 4, 2014.

October 3, 2015 In thousands	Carrying Amount	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets				
Cash and cash equivalents	$ 2,701	$ 2,701	$ —	$ —
Time deposits	$ —	$ —	$ —	$ —
Financial liabilities				
Notes payable	$ 27,963	$ —	$ 27,963	$ —
Current portion of long-term debt	$ 1,810	$ —	$ 1,810	$ —
Long-term debt	$ 1,750	$ —	$ 1,750	$ —

December 27, 2014 In thousands	Carrying Amount	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets				
Cash and cash equivalents	$ 3,232	$ 3,232	$ —	$ —
Time deposits	$ 1,450	$ 1,450	$ —	$ —

Financial liabilities				
Notes payable	$16,200	$ —	$ 16,200	$ —
Current portion of long-term debt	$1,586	$ —	$ 1,586	$ —
Long-term debt	$3,360	$ —	$ 3,360	$ —

October 4, 2014 In thousands	Carrying Amount	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets				
Cash and cash equivalents	$798	$ 798	$ —	$ —
Time deposits	$2,450	$ 2,450	$ —	$ —
Financial liabilities				
Notes payable	$15,631	$ —	$ 15,631	$ —
Current portion of Long-term debt	$1,586	$ —	$ 1,586	$ —
Long-term debt	$3,360	$ —	$ 3,360	$ —

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 nine months ended October 3, 2015 and pursuant to the 2007 Incentive Plan, in lieu of cash payments of director fees, the Company awarded to certain directors 2,311 shares of common stock. In addition, the Company awarded 10,000 restricted stock units to directors and 42,450 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 2015 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 $0.10 per share by the Company during such four year period. The performance criteria for the 38,250 restricted stock units awarded to employees in the first quarter of 2015 was satisfied during the second quarter of 2015. 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 and nine months ended October 3, 2015, including expense associated with issuing certain directors stock in lieu of cash for certain director fees, the Company recognized stock based compensation expense of $155 thousand and $478 thousand, respectively, compared to stock based compensation expense of $161 thousand and $561 thousand for the same periods in the prior year. At October 3, 2015 and October 4, 2014, respectively, there was $0.8 million and $0.8 million in unrecognized stock-based compensation expense related to non-vested stock awards.

Note H – Discontinued Operations

On October 1, 2014, the Company completed the sale of the Information Security business. The sale of the Information Security business, coupled with the sale of our Print Finishing business on June 30, 2014, represents the Company's exit from the Information Security and Print Finishing segment. As a result, the Information Security and Print Finishing segment has been classified as discontinued operations for all periods presented and certain assets and liabilities in prior periods are classified as held for sale.

The carrying value of these assets was greater than their fair value, less the cost to sell the Information Security business, resulting in an impairment of certain accounts receivables, inventories, long-lived assets, intangible assets and other assets totaling $12.9 million. The impairment charge reduced the carrying value of intangible assets to fair value and the remaining assets to the lower of their carrying amount or fair value less cost to sell. The fair value for these assets was determined by estimating the most likely sale price with a third-party buyer based on market data. The Company does not expect to have any further significant losses to record in the future for these assets. Because of the significance of the unobservable inputs and management's judgment used in the assets held for sell analysis, these measurements were classified in level three of the valuation hierarchy.

The results of operations presented as discontinued operations are summarized below.

All Amounts in Thousands	Three Months Ended October 3, 2015	Three Months Ended October 4, 2014	Nine Months Ended October 3, 2015	Nine Months Ended October 4, 2014
Net sales	$—	$4,957	$—	$20,865
Cost of products sold	—	3,530	—	13,812
Selling, administrative and general expenses	—	1,830	—	7,297
Interest expense (income)	—	(24)	—	138
Other expense	—	—	—	13
Loss Before Income Taxes	—	(379)	—	(395)
Discontinued Operations				
Loss on classification as held for sale	—	—	—	(12,945)
Gain on disposal	—	5,591	—	6,138
Benefit for income taxes	—	(4,572)	—	(6,121)
Net Income (Loss) from Discontinued Operations	$—	$9,784	$—	$(1,081)

Note I - Segment Information

The Information Security and Print Finishing segment has been classified as discontinued operations for all periods presented.

In thousands	For the Three Months Ended October 3, 2015 Sporting Goods	Discontinued Operations	Corp.	Total
Revenues from external customers	$34,584	$ —	$—	$34,584
Operating income (loss)	2,875	—	(1,002)	1,873
Net income	1,582	—	446	2,028

In thousands	As of and for the Nine Months Ended October 3, 2015 Sporting Goods	Discontinued Operations	Corp.	Total
Revenues from external customers	$111,798	$ —	$—	$111,798
Operating income (loss)	13,372	—	(3,055)	10,317
Net income	8,035	—	712	8,747
Total assets	$124,423	$ —	$25,115	$149,538

11

In thousands	For the Three Months Ended October 4, 2014 Sporting Goods	Discontinued Operations	Corp.	Total
Revenues from external customers	$31,599	$ 4,957	$—	$36,556
Operating income (loss)	5,113	(403)	(897)	3,813
Net income	3,103	9,784	734	13,621

In thousands	As of and for the Nine Months Ended October 4, 2014 Sporting Goods	Discontinued Operations	Corp.	Total
Revenues from external customers	$97,332	$ 20,865	$—	$118,197
Operating income (loss)	14,580	(244)	(3,109)	11,227
Net income (loss)	8,866	(1,081)	2	7,787
Total assets	$97,343	$ —	$33,440	$130,783

Note J – Dividend Payment

On September 21, 2015, the company paid a quarterly dividend of $0.11 per common share to all shareholders of record on September 14, 2015. The total amount of the dividend was approximately $1.6 million and was charged against retained earnings.

On June 19, 2015, the company paid a quarterly dividend of $0.11 per common share to all shareholders of record on June 12, 2015. The total amount of the dividend was approximately $1.6 million and was charged against retained earnings.

On March 20, 2015, the Company paid a quarterly dividend of $0.10 per common share to all shareholders of record on March 13, 2015. The total amount of the dividend was approximately $1.4 million and was charged against retained earnings.

Note K - 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 October 3, 2015	Three Months Ended October 4, 2014	Nine Months Ended October 3, 2015	Nine Months Ended October 4, 2014
Weighted average common shares outstanding	14,120	13,922	14,069	13,821
Dilutive effect of stock options and restricted stock units	190	264	188	257
Weighted average common shares outstanding, assuming dilution	14,310	14,186	14,257	14,078

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. No stock options or restricted stock units were excluded in the computation of dilutive earnings per share in 2014. In 2015, there were 4,200 restricted stock units excluded from the computation of dilutive earnings per share.

Note L – New Accounting Standards

There have been no recent accounting pronouncements or changes in accounting pronouncements during the nine months ended October 3, 2015, as compared to the recent accounting pronouncements described in the Company's Annual Report on Form 10-K for the fiscal year ended December 27, 2014, that are of significance, or potential significance to the Company.

Note M – 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 N – Acquisitions

During the third quarter of 2015, the Company acquired certain assets and liabilities of Onix Sports, Inc. and acquired all of the issued and outstanding shares of capital stock of Goalsetter Systems, Inc. for total consideration of cash and notes of approximately $10.3 million, subject to adjustments for working capital. The Company anticipates that total working capital adjustments will result in $0.6 million of additional consideration to the sellers, of which $0.2 million was paid during the third quarter of 2015.

The consideration paid by the company for these acquisitions is allocated to the assets acquired, net of the liabilities assumed, based upon their estimated fair values as of the date of the acquisition. The excess of the purchase price over the estimated fair value of the assets acquired, net of the estimated fair value of the liabilities assumed, is recorded as goodwill. 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 intangible assets acquired, deferred income taxes and residual goodwill. Any changes during the measurement period may have an impact on the allocation of the purchase price, including values assigned to assets, liabilities and the amount of estimated goodwill and intangible assets represented in the table below.

In thousands	
Assets acquired and liabilities assumed:	
Accounts receivable	$801

Inventories	968
Other assets	51
Goodwill	5,267
Intangible assets	6,180
Accounts payable	(259)
Other liabilities	(73)
Deferred income tax liability	(2,035)
	$10,900

These acquisitions were not and would not have been material to the Company's net sales, results of operations or total assets during the three and nine month periods ended October 3, 2015. 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.

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, disruptions or delays in our supply chain, Escalade’s ability to control costs, general economic conditions, fluctuation in operating results, changes in foreign currency exchange rates, changes in the securities market, Escalade’s ability to obtain financing and to maintain compliance with the terms of such financing and other risks detailed from time to time in Escalade’s filings with the Securities and Exchange Commission. Escalade’s future financial performance could differ materially from the expectations of management contained herein. Escalade undertakes no obligation to release revisions to these forward-looking statements after the date of this report.

Overview

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

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

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

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

Results of Operations

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

	Three Months Ended		Nine Months Ended	
	October 3, 2015	October 4, 2014	October 3, 2015	October 4, 2014
Net revenue	100.0 %	100.0 %	100.0 %	100.0 %
Cost of products sold	72.7 %	69.5 %	70.1 %	68.9 %
Gross margin	27.3 %	30.5 %	29.9 %	31.1 %
Selling, administrative and general expenses	20.0 %	15.4 %	18.8 %	17.3 %
Amortization	1.9 %	1.8 %	1.9 %	2.0 %
Operating income	5.4 %	13.3 %	9.2 %	11.8 %

Revenue and Gross Margin

Revenue from the Sporting Goods business was up 9.4% for the third quarter of 2015 and up 14.9% for the first nine months of 2015, compared with the same periods in the prior year due to sales growth across most sales channels.

The overall gross margin percentage decreased slightly to 29.9% for the first nine months of 2015, compared to 31.1% for the same period in the prior year. The decreased gross margin resulted from increased product development investments and product mix.

Selling, General and Administrative Expenses

Selling, general and administrative expenses (SG&A) increased as a percent of net sales to 18.8% for the first nine months of 2015, compared with 17.3% experienced in the same period last year. The increase in SG&A is primarily due to increased marketing efforts in new categories acquired during 2014 as well as in new products to be introduced in the future for which the expected benefits are not immediately realized. The Company intends to continue its focus on strategic investments in product development and brand marketing throughout the remainder of the year.

Provision for Income Taxes

The effective tax rate on continuing operations for the first nine months of 2015 was 29.1% compared to 34.1% for the same period last year. The rate for the first nine months of this year is lower than prior year due to an increase in the benefit of the domestic production activities deduction and available foreign tax credits.

Financial Condition and Liquidity

Total debt at the end of the first nine months of 2015 was $31.5 million, an increase of $10.4 million from December 27, 2014. Cash used for acquisitions was the primary driver for the increase in total debt. Cash from operating profits was used to reduce long term debt and pay dividends. Notes payable increased 79% as compared with same period last year and increased 73% as compared with year end. The following schedule summarizes the Company's total debt:

In thousands	October 3, 2015	December 27, 2014	October 4, 2014
Notes payable short-term	$ 27,963	$ 16,200	$ 15,631
Current portion long-term debt	1,810	1,586	1,586
Long term debt	1,750	3,360	3,360
Total	$ 31,523	$ 21,146	$ 20,577

As a percentage of stockholders' equity, total debt was 34%, 24% and 23% at October 3, 2015, December 27, 2014, and October 4, 2014 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. With the divestiture of its Information Security and Print Finishing business completed, the Company reduced its exposure to changes in currency exchange rates.

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. Revenue from discontinued operations was generated from the operations of the Company's subsidiaries in their respective countries and surrounding geographic areas and was primarily denominated in each subsidiary's local functional currency. These former subsidiaries incurred most of their expenses (other than inter-company expenses) in their local functional currency and include the Euro, Great Britain Pound Sterling, Mexican Peso, Chinese Yuan, Swedish Krona and South African Rand.

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

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

Item 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 third quarter of 2015.

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 2015 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 7/11/2015 under the current repurchase program.	982,916	$ 8.84	982,916	$ 2,273,939
Third quarter purchases:				
7/12/2015-8/8/2015	None	None	No Change	No Change
8/9/2015-9/5/2015	None	None	No Change	No Change
9/6/2015-10/3/2015	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.

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 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: October 30, 2015	/s/ Stephen R. Wawrin Vice President and Chief Financial Officer (On behalf of the registrant and in his capacities as Principal Financial Officer and Principal Accounting Officer)

18