

ESCALADE INC  
Form 10-Q  
August 13, 2013

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 quarter ended July 13, 2013 or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-6966

ESCALADE, INCORPORATED

(Exact name of registrant as specified in its charter)

Indiana 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)

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

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

Yes  No

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 August 6, 2013
Common, no par value	13,505,011

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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)

	July 13, 2013 (Unaudited)	December 29, 2012 (Audited)	July 14, 2012 (Unaudited)
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 1,896	\$ 2,544	\$ 1,615
Time deposits	1,950	1,200	1,200
Receivables, less allowance of \$979; \$1,096; and \$822; respectively	28,524	33,496	24,367
Inventories	39,139	30,864	35,074
Prepaid expenses	1,300	1,308	1,177
Deferred income tax benefit	1,684	1,553	1,556
<b>TOTAL CURRENT ASSETS</b>	<b>74,493</b>	<b>70,965</b>	<b>64,989</b>
Property, plant and equipment, net	14,357	12,281	12,045
Intangible assets	11,874	12,919	12,751
Goodwill	12,017	12,017	24,806
Investments	16,521	17,487	14,098
Other assets	163	71	77
<b>TOTAL ASSETS</b>	<b>\$ 129,425</b>	<b>\$ 125,740</b>	<b>\$ 128,766</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current Liabilities:			
Notes payable	\$ 16,930	\$ 17,070	\$ 12,671
Current portion of long-term debt	2,557	2,000	2,000
Trade accounts payable	4,703	3,946	4,533
Accrued liabilities	14,643	15,274	12,975
Income tax payable	747	19	1,926
<b>TOTAL CURRENT LIABILITIES</b>	<b>39,580</b>	<b>38,309</b>	<b>34,105</b>
Other Liabilities:			
Long-term debt	3,338	3,500	4,000

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Deferred income tax liability	3,742	3,474	2,876
<b>TOTAL LIABILITIES</b>	<b>46,660</b>	<b>45,283</b>	<b>40,981</b>
<b>Stockholders' Equity</b>			
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 – 13,497,972; 13,427,339; and 13,364,999; shares respectively	13,498	13,427	13,365
Retained earnings	65,442	62,937	72,331
Accumulated other comprehensive income	3,825	4,093	2,089
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>82,765</b>	<b>80,457</b>	<b>87,785</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 129,425</b>	<b>\$ 125,740</b>	<b>\$ 128,766</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 Ended		Six Months Ended	
	July 13, 2013	July 14, 2012	July 13, 2013	July 14, 2012
Net sales	\$46,985	\$42,029	\$78,823	\$72,594
Costs, expenses and other income:				
Cost of products sold	31,305	29,685	52,265	49,694
Selling, general and administrative expenses	9,625	8,966	16,898	16,263
Amortization	718	689	1,275	1,206
Operating income	5,337	2,689	8,385	5,431
Interest expense, net	(253 )	(192 )	(420 )	(346 )
Other income (expense)	(26 )	240	(64 )	412
Income before income taxes	5,058	2,737	7,901	5,497
Provision for income taxes	2,440	1,650	3,659	2,834
Net income	\$2,618	\$1,087	\$4,242	\$2,663
Per share data:				
Basic earnings per share	\$0.19	\$0.08	\$0.31	\$0.20
Diluted earnings per share	\$0.19	\$0.08	\$0.31	\$0.20
Dividends declared	\$0.08	\$0.15	\$0.16	\$0.15

## CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME(LOSS) (UNAUDITED)

	Three Months Ended		Six Months Ended	
	July 13, 2013	July 14, 2012	July 13, 2013	July 14, 2012
Net income	\$2,618	\$1,087	\$4,242	\$2,663
Foreign currency translation adjustment	(190 )	(1,824 )	(268 )	(1,239 )
Comprehensive income (loss)	\$2,428	\$(737 )	\$3,974	\$1,424

See notes to Consolidated Condensed Financial Statements.



## ESCALADE, INCORPORATED AND SUBSIDIARIES

## CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

(All amounts in thousands)

	Six Months Ended July 13, 2013		July 14, 2012
Operating Activities:			
Net income	\$ 4,242		\$ 2,663
Depreciation and amortization	2,278		2,305
Stock-based compensation	308		306
Gain on disposal of property and equipment	(1 )		—
Adjustments necessary to reconcile net income to net cash used by operating activities	(1,681 )		(116 )
Net cash provided by operating activities	5,146		5,158
Investing Activities:			
Purchase of property and equipment	(1,079 )		(1,461 )
Purchase of short-term time deposits	(1,200 )		(250 )
Proceeds from disposal of short-term time deposits	450		—
Proceeds from sale of property and equipment	2		4
Net cash used by investing activities	(1,827 )		(1,707 )
Financing Activities:			
Dividends paid	(2,164 )		(2,893 )
Principal payment on long-term debt	(1,904 )		(1,000 )
	(549 )		(226 )

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Net decrease in overdraft facility				
Net increase				
(decrease) in notes payable	408		(2,050	)
Proceeds from exercise of stock options	96		395	
Director stock compensation	93		100	
Net cash used by financing activities	(4,020	)	(5,674	)
Effect of exchange rate changes on cash	53		17	
Net decrease in cash and cash equivalents	(648	)	(2,206	)
Cash and cash equivalents, beginning of period	2,544		3,821	
Cash and cash equivalents, end of period	\$	1,896	\$	1,615
Supplemental Cash Flows Information				
Seller note issued in purchase of real estate	\$	2,300	—	

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 29, 2012 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 2012 filed with the Securities and Exchange Commission.

## Note B - Seasonal Aspects

The results of operations for the three and six month periods ended July 13, 2013 and July 14, 2012 are not necessarily indicative of the results to be expected for the full year.

## Note C - Inventories

In thousands	July 13, 2013	December 29, 2012	July 14, 2012
Raw materials	\$9,235	\$ 8,330	\$8,911
Work in progress	5,110	4,247	4,230
Finished goods	24,794	18,287	21,933
	\$39,139	\$ 30,864	\$35,074

## 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 effect on Stiga's net assets resulting from the amortization of goodwill for the periods ended July 13, 2013 and July 14, 2012 are addbacks to Stiga's consolidated financial information of \$12.0 million and \$9.8 million, respectively. These net differences are comprised of cumulative goodwill adjustments of \$16.8 million offset by the related cumulative tax effect of \$4.8 million as of July 13, 2013 and cumulative goodwill adjustments of \$13.7 million offset by the related cumulative tax effect of \$3.9 million as of July 14, 2012. The statement of operations impact of these goodwill and tax adjustments and other individually insignificant U.S. GAAP adjustments for the periods ended July 13, 2013, and July 14, 2012 are to increase Stiga's net income by approximately \$0.8 million and \$1.2 million, respectively. The Company's 50% portion of net income for Stiga for the periods ended July 13, 2013 and July 14, 2012 was \$0.4 million and \$0.5 million, respectively, and is included in other income (expense) 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. During the second quarter of 2013, the decision was made to cease operations and liquidate Escalade International, Ltd. Losses incurred during the period include shutdown costs. As a result, the Company's 50% portion of net loss for Escalade International, Ltd. for the periods ended July 13, 2013 and July 14, 2012 was (\$458) thousand and (\$88) thousand respectively, and is included in other income (expense) on the Company's statements of operations. The losses incurred during 2013 reduce to zero the Company's investment in Escalade International, Ltd. 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 July 13, 2013, December 29, 2012, and July 14, 2012 and statements of operations for the periods ended July 13, 2013 and July 14, 2012 is as follows:

In thousands	July 13, 2013	December 29, 2012	July 14, 2012
Current assets	\$23,118	\$ 28,538	\$17,926
Non-current assets	9,062	8,065	8,076
Total assets	32,180	36,603	26,002
Current liabilities	7,030	10,850	5,580
Non-current liabilities	5,696	4,487	5,266
Total liabilities	12,726	15,337	10,846
Net assets	\$19,454	\$ 21,266	\$15,156

	Three Months Ended		Six Months Ended	
	July 13, 2013	July 14, 2012	July 13, 2013	July 14, 2012
Net sales	\$ 9,929	\$ 8,628	\$14,765	\$12,775
Gross profit	4,892	4,245	7,455	6,412
Net income (loss)	(48 )	(123 )	4	(220 )

#### Note E – Notes Payable

On July 29, 2013, the Company entered into the Tenth Amendment to its Credit Agreement with its issuing bank, JP Morgan Chase Bank, N.A. (Chase). Under the terms of the Credit Agreement as amended by the Tenth Amendment, the Lender has extended the maturity date for the repayment of the outstanding principal balance of the Revolving USD Facility, including all accrued and unpaid interest thereon, from July 31, 2013 to September 30, 2013. The

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Company and the Lender are currently working on a First Amended and Restated Credit Agreement that would further extend the term of the Credit Agreement and certain other mutually agreed changes. The Company and the Lender anticipate entering into the First Amended and Restated Credit Agreement prior to September 30, 2013.

On April 2, 2013, the Company entered into the Ninth Amendment to its Credit Agreement with its issuing bank, Chase. The Ninth Amendment amends the Credit Agreement originally dated as of April 30, 2009.

The Ninth 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.

The Ninth Amendment modifies the loan covenants regarding restrictive covenants as it relates to outside indebtedness. Specifically, the Ninth Amendment allows the Company to purchase two buildings that it currently leases in Rosarito, Mexico through a seller-financed arrangement in an amount not to exceed \$2.5 million. The Company entered into a real estate purchase agreement for that property in connection with entering into the Ninth Amendment.

During the first quarter, the Company entered into a seller-financed agreement for the purchase of its formerly leased real estate in Mexico. The agreement requires sixteen quarterly installments of \$156 thousand each with a maturity date of November 30, 2016. The outstanding principal balance as of July 13, 2013 was \$1.9 million.

#### Note F – 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	Six Months Ended July 13,	July 14, 2012 2013
Beginning Balance	\$—	\$ 46
Additions for current year tax positions	—	—
Additions for prior year tax positions	—	—
Settlements	—	—
Reductions settlements	—	—
Reductions for prior year tax positions	—	—
Ending Balance	\$—	\$ 46

Note G – 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

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 July 13, 2013 and July 14, 2012.



July 13, 2013 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	\$ 1,896	\$ 1,896	\$ —	\$ —
Time deposits	\$ 1,950	\$ 1,950	\$ —	\$ —
Financial liabilities				
Notes payable	\$ 16,930	\$ —	\$ 16,930	\$ —
Current portion of Long-term debt	\$ 2,557	\$ —	\$ 2,557	\$ —
Long-term debt	\$ 3,338	\$ —	\$ 3,338	\$ —

July 14, 2012 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	\$ 1,615	\$ 1,615	\$ —	\$ —
Time deposits	\$ 1,200	\$ 1,200	\$ —	\$ —
Financial liabilities				
Notes payable	\$ 12,671	\$ —	\$ 12,671	\$ —
Current portion of Long-term debt	\$ 2,000	\$ —	\$ 2,000	\$ —
Long-term debt	\$ 4,000	\$ —	\$ 4,000	\$ —

The outstanding balance of the euro overdraft facility is included in Notes payable. For the periods ended July 13, 2013, December 29, 2012, and July 14, 2012, the balance of the euro overdraft facility was \$1.9 million, \$2.5 million, and \$2.0 million, respectively.

#### Note H – Stock Compensation

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

During the six months ended July 13, 2013 and pursuant to the 2007 Incentive Plan, in lieu of director fees, the Company awarded to certain directors 16,508 shares of common stock. In addition, the Company awarded 37,500 stock options to directors and 120,000 stock options to employees. The stock options awarded to directors vest at the end of one year and have an exercise price equal to the market price on the date of grant. Director stock options 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 2013 stock options awarded to employees have a graded vesting of 25% per year over four years and are subject to forfeiture if on the vesting date the employee is no longer employed. The Company utilizes the Black-Scholes option pricing model to determine the fair value of stock options granted.

For the three months and six months ended July 13, 2013, the Company recognized stock based compensation expense of \$225 thousand and \$401 thousand, respectively, compared to stock based compensation expense of \$235 thousand and \$406 thousand for the same periods in the prior year. At July 13, 2013 and July 14, 2012, respectively, there was \$1.0 million and \$1.3 million in unrecognized stock-based compensation expense related to non-vested stock awards.

#### Note I - Segment Information

In thousands	As of and for the Three Months Ended July 13, 2013			
	Information			Total
	Sporting Goods	Security and Print Finishing	Corp.	
Revenues from external customers	\$38,003	\$ 8,982	\$—	\$46,985
Operating income (loss)	6,878	(670 )	(871 )	5,337
Net income (loss)	4,103	(1,233 )	(252 )	2,618

In thousands	As of and for the Six Months Ended July 13, 2013			
	Information			Total
	Sporting Goods	Security and Print Finishing	Corp.	
Revenues from external customers	\$63,268	\$ 15,555	\$—	\$78,823
Operating income (loss)	11,103	(1,122 )	(1,596 )	8,385
Net income (loss)	6,664	(1,850 )	(572 )	4,242
Total assets	\$83,132	\$ 25,140	\$21,153	\$129,425

In thousands	As of and for the Three Months Ended July 14, 2012			
	Information			Total
	Sporting Goods	Security and Print Finishing	Corp.	
Revenues from external customers	\$31,432	\$ 10,597	\$—	\$42,029
Operating income (loss)	4,189	(656 )	(844 )	2,689
Net income (loss)	2,479	(1,046 )	(346 )	1,087

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As of and for the Six Months  
 Ended July 14, 2012

Information

In thousands	Sporting Goods	Security and Print Finishing	Corp.	Total
Revenues from external customers	\$53,646	\$ 18,948	\$—	\$72,594
Operating income (loss)	7,448	(507 )	(1,510 )	5,431
Net income (loss)	4,422	(1,108 )	(651 )	2,663
Total assets	\$72,837	\$ 39,099	\$16,830	\$128,766

## Note J – Dividend Payment

On June 20, 2013, the Company paid a quarterly dividend of \$0.08 per common share to all shareholders of record on June 13, 2013. The total amount of this dividend payment was \$1.1 million and was charged against retained earnings.

On March 20, 2013, the Company paid a quarterly dividend of \$0.08 per common share to all shareholders of record on March 13, 2013. The total amount of the dividend was \$1.1 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:

All amounts in thousands	Three Months Ended		Six Months Ended	
	July 13, 2013	July 14, 2012	July 13, 2013	July 14, 2012
Weighted average common shares outstanding	13,484	13,260	13,468	13,103
Dilutive effect of stock options and restricted stock units	153	188	95	180
Weighted average common shares outstanding, assuming dilution	13,637	13,448	13,563	13,283

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 2013 and 2012 were 522,750 and 456,500, respectively.

## Note L – New Accounting Standards

With the exception of that discussed below, there have been no recent accounting pronouncements or changes in accounting pronouncements during the six months ended July 13, 2013, as compared to the recent accounting pronouncements described in the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2012, that are of significance, or potential significance to the Company.

In February 2013, FASB issued Accounting Standards Update 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* to improve the transparency of reporting these reclassifications. Other comprehensive income (loss) includes gains and losses that are initially excluded from net income for an accounting period. Those gains and losses are later reclassified out of accumulated other comprehensive income into net income. The amendments in this ASU do not change the current requirements for reporting net income or other comprehensive income in financial statements. All of the information that this ASU requires already is required to be disclosed elsewhere in the financial statements under U.S. GAAP. The new amendments will require an organization to (i) present the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income, but only if the item reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period; and (ii) cross-reference to other disclosures currently required under U.S. GAAP for other reclassification items to be reclassified directly to net income in their entirety in the same reporting period. The amendments are effective for interim and annual reporting periods beginning after December 15, 2012. The adoption of this standard did not have a material impact to the Company's consolidated financial statements.

## 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.

## 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, Escalade's ability to successfully integrate the operations of acquired assets and businesses, new product development, the continuation and development of key customer and supplier relationships, 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" or "Company") manufactures and distributes products for two industries: Sporting Goods and Information Security and Print Finishing. Within these industries the Company has successfully built a market presence in niche markets. This strategy is heavily dependent on expanding the customer base, barriers to entry, brand recognition and excellent customer service. A key strategic advantage is the Company's established relationships with major customers that allow the Company to bring new products to the market in a cost effective manner while maintaining a diversified product line and wide customer base. In addition to strategic customer relations, the Company has substantial manufacturing and import experience that enable it to be a low cost supplier.

A majority of the Company's products are in markets that are experiencing low growth rates. Where the Company enjoys a strong market position, such as table tennis tables in the U.S. Sporting Goods segment and paper folding machines in the U.S. Information Security and Print Finishing segment, revenue growth is expected to be roughly

equal to general growth/decline in the economy. However, in markets that are fragmented and where the Company is not the dominant leader, such as archery in the Sporting Goods segment the Company anticipates growth. To enhance growth, the Company has a strategy of promoting new product innovation and development and brand marketing.

The Company is currently facing weak demand and increased competition in the Information Security and Print Finishing segment. The strategic focus for this segment continues to be expanding its Information Security product and service offerings to assist businesses and governments with their document and information high security needs to secure sensitive customer, employee and business information and to comply with new information privacy laws, rules and regulations. The Company continues to extend the capabilities of its line of shredders to include not only the secure destruction of paper but also the secure destruction and/or de-commissioning of other forms of electronic storage media. The Company also continues to monitor the profitability and the overall strategic alignment of its Print Finishing product and service offerings.



In addition, the Company will continue to investigate acquisition opportunities of companies or product lines that complement or expand the Company's existing product lines. 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. Management believes that key indicators in measuring the success of this strategy are revenue growth, earnings growth and the expansion of channels of distribution.

## Results of Operations

Consolidated net sales for the second quarter of 2013 were 11.8% higher compared to the same quarter in the prior year. For the first half of 2013, net sales have increased 8.6% over the same period in the prior year. The Company's operating income for the second quarter and first half of fiscal 2013 was \$5.3 million and \$8.4 million, respectively, compared to operating income of \$2.7 million and \$5.4 million for the same periods in the prior year.

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

	Three Months Ended		Six Months Ended	
	July 13, 2013	July 14, 2012	July 13, 2013	July 14, 2012
Net revenue	100.0 %	100.0 %	100.0 %	100.0 %
Cost of products sold	66.6 %	70.6 %	66.3 %	68.5 %
Gross margin	33.4 %	29.4 %	33.7 %	31.5 %
Selling, administrative and general expenses	20.5 %	21.3 %	21.4 %	22.4 %
Amortization	1.5 %	1.6 %	1.6 %	1.7 %
Operating income	11.4 %	6.5 %	10.7 %	7.4 %

## Consolidated Revenue and Gross Margin

Revenues from the Sporting Goods business were up 20.9% for the quarter and 17.9% for the first half of 2013, compared to the same periods in the prior year. Management expects strong sales in the Sporting Goods segment through the remainder of the year.

Revenues from the Information Security and Print Finishing business decreased 15.2% and 17.9% for the second quarter and first half of 2013, respectively, compared to the same periods in the prior year. Excluding the effects of changes in the currency exchange rates, revenues decreased 16.0% and 18.1%, for the second quarter and first half of

2013, respectively. Contributing to the decrease in revenue is a reduction in government spending along with increased competition. The Company expects challenges in this segment for the remainder of the year.

The overall gross margin ratios for the second quarter and first half of 2013 were 33.4% and 33.7%, respectively, compared to 29.4% and 31.5%, respectively, for same periods in the prior year. The increase in the gross margin ratio is partly due to product mix, with sales in higher margin categories, and increases in volume in the Sporting Goods segment which allows for better absorption of overhead cost.

### **Consolidated Selling, General and Administrative Expenses**

Compared to the same periods in the prior year, consolidated selling, general and administrative (“SG&A”) costs decreased as a percent of net sales to 20.5% and 21.4% for the second quarter and first half of 2013; down from 21.3% and 22.4% for the second quarter and first half of 2012. The Company continues to focus on strategic investments in product development and brand marketing.

## Provision for Income Taxes

The effective tax rate in the second quarter of 2013 was 48.2% compared with 60.3% for the same period in the prior year. The effective tax rate year to date is 46.3% and 51.6% for 2013 and 2012, respectively. The Company continues to experience losses in certain foreign taxing jurisdictions which do not offset gains in other foreign taxing jurisdictions which negatively affects the effective tax rate. During the second quarter 2013, the valuation allowance for foreign net operating losses was increased as the Company does not expect to be able to utilize these losses against future tax liabilities. The income tax adjustment related to the increase in the allowance resulted in an additional \$446 thousand of current period income tax expense. Without this increase, the effective tax rate for second quarter and first half of 2013 would have been 39.4% and 40.7% respectively.

## Financial Condition and Liquidity

Total bank debt and notes payable at the end of the first half of 2013 increased 22.2% or \$4.2 million from the same period in the prior year, and increased 1.1% or \$256 thousand from December 29, 2012. The increase in debt is attributable to the seller-financed liability of \$1.9 million for the purchase of the previously leased real estate in Rosarito, Mexico. Planned increases in inventory levels have been made to better meet customer demand. The following schedule summarizes the Company's total bank debt and notes payable:

In thousands	July 13, 2013	December 29, 2012	July 14, 2012
Notes payable short-term	\$15,027	\$ 14,618	\$10,650
Current portion long-term debt	2,557	2,000	2,000
Bank overdraft facility	1,903	2,452	2,021
Long term debt	3,338	3,500	4,000
Total	\$22,825	\$ 22,570	\$18,671

As a percentage of stockholders' equity, total bank debt and notes payable was 28%, 28% and 21% at July 13, 2013, December 29, 2012, and July 14, 2012 respectively.

The Company funds working capital requirements through operating cash flows and revolving credit agreements with its bank. Inventory and other working capital requirements increased over the same period in the prior year to support sales growth in the Sporting Goods segment. Based on working capital requirements, the Company expects to have access to adequate levels of revolving credit to meet operating and 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 and its overdraft facility which is based on EURIBOR 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. This revenue is generated from the operations of the Company's subsidiaries in their respective countries and surrounding geographic areas and is primarily denominated in each subsidiary's local functional currency. These subsidiaries incur 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 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 Rule 13a-14(c). In designing and evaluating the disclosure controls and procedures, Management recognized that any controls and procedures, no matter how well designed and operated, can 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 the Company's 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 second quarter of 2013.

There have been no changes to the Company’s internal control over financial reporting that occurred since the beginning of the Company’s second quarter of 2013 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. Not Required.

Item 1A. 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

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Shares purchases prior to 3/23/2013 under the current repurchase program.	982,916	\$ 8.84	982,916	\$ 2,273,939
Second quarter purchases:				
03/24/2013–04/20/2013	None	None	No Change	No Change
04/21/2013–05/18/2013	None	None	No Change	No Change
05/19/2013–06/15/2013	None	None	No Change	No Change
06/16/2013–07/13/2013	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 authorized management to expend up to \$3,000,000 to repurchase shares on the open market as well as in private negotiated transactions. The repurchase plan has no termination date. There have been no share repurchases that were not part of a publicly announced program. In February 2008, the Board of Directors increased the remaining amount on this plan to its original level of \$3,000,000. Although authorized by the Board, the Company has agreed to certain restrictions on the repurchase of shares as part of the April 30, 2009 Credit Agreement terms. The Eighth Amendment increased the limit on the share repurchases from \$50,000 to \$1,000,000.



Item 3. Not Required.

Item 4. Not Required.

Item 5. Other Information

As previously discussed in the Company’s Form 8-K filed with the SEC on April 29, 2013, on April 26, 2013, Escalade, Incorporated (the “Company”) held its Annual Meeting of Stockholders for which the Board of Directors solicited proxies. At the Annual Meeting, the stockholders voted on the election of directors, the appointment of the Company’s independent registered public accounting firm for the Company’s 2013 fiscal year, the approval, by non-binding vote, of the compensation of named executive officers and the approval, by non-binding vote, of the frequency to vote on compensation of named executive officers.

In the election of directors, as described in the Company’s proxy statement relating to the Annual Meeting, the four incumbent directors whose terms were expiring were nominated for reelection for a two-year term. The three other incumbent directors are currently serving a two-year term that will expire at the 2014 Annual Meeting. The results of the voting in the election of directors are as follows:

Director Nominee	Number of Votes	
	For	Withheld
Robert Griffin	8,524,977	698,537
Robert Keller	8,473,874	749,640
Richard Baalman, Jr.	8,549,693	673,821
Patrick Griffin	7,069,189	1,154,325

Therefore, Messrs. Robert Griffin, Robert Keller, Richard Baalman, Jr. and Patrick Griffin were re-elected to the Board. There were 3,706,898 broker non-votes with respect to the election of each of the nominees.

As to the appointment of the firm, BKD, LLP to serve as the Company’s independent registered public accounting firm for the Company’s 2013 fiscal year, the Company’s stockholders ratified such appointment by a vote of 12,501,953 shares FOR, 391,714 shares AGAINST, and 36,745 shares ABSTAINED, with no broker non-votes. Therefore, the appointment of BKD, LLP was approved.

As to the approval, by non-binding vote, of the compensation of our named executive officers the Company's stockholders ratified by a vote of 8,921,299 shares FOR, 257,465 shares AGAINST, and 44,750 shares ABSTAINED. There were 3,706,898 broker non-votes. Therefore the compensation for our named executive officers was approved, by non-binding vote.

As to the frequency of future non-binding votes on executive compensation, the Company's stockholders voted 9,079,010 shares for ONE year, 25,946 shares for TWO years and 104,031 shares for THREE years. There were 14,527 shares ABSTAINED. Therefore, the frequency of future non-binding votes on executive compensation was approved, by non-binding vote, to be once a year. In light of such vote, the Company will include a non-binding vote on the compensation of its executive officers in its proxy materials every one year until the next required non-binding vote on the frequency of stockholder votes on the compensation of its executives.

Item 6. Exhibits

(a) Exhibits

Number Description

- 10.1 Tenth Amendment to Credit Agreement dated as of July 29, 2013 by and between Escalade, Incorporated and JPMorgan Chase Bank, N.A., incorporated by reference from Exhibit 10.1 of the Company's Form 8-K filed with the SEC on July 29, 2013.
- 10.2 Ninth Amendment to Credit Agreement dated as of April 2, 2013 by and between Escalade, Incorporated and JPMorgan Chase Bank, N.A., incorporated by reference from Exhibit 10.1 of the Company's Form 8-K filed with the SEC on April 2, 2013.
- 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.

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: August 13,  
2013 /s/ Deborah Meinert  
Vice President and Chief Financial Officer

(On behalf of the registrant and in her capacities as Principal Financial Officer and Principal Accounting Officer)