ESCALADE INC
Form 10-Q
November 05, 2013

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 quarter ended October 5, 2013 or

¨ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission File Number 0-6966

ESCALADE, INCORPORATED
(Exact name of registrant as specified in its charter)

Indiana (State of incorporation)	13-2739290 (I.R.S. EIN)
817 Maxwell Ave, Evansville, Indiana (Address of principal executive office)	47711 (Zip Code)

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

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 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 x

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12 b-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 November 1, 2013
Common, no par value	13,538,473

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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)

	October 5, 2013 (Unaudited)	December 29, 2012 (Audited)	October 6, 2012 (Unaudited)
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 1,801	$ 2,544	$ 3,255
Time deposits	2,320	1,200	1,200
Receivables, less allowance of $1,124; $1,096; and $979; respectively	34,367	33,496	27,379
Inventories	40,656	30,864	37,968
Prepaid expenses	1,433	1,308	1,279
Deferred income tax benefit	1,478	1,553	1,288
TOTAL CURRENT ASSETS	82,055	70,965	72,369
Property, plant and equipment, net	14,744	12,281	12,095
Intangible assets	11,415	12,919	12,175
Goodwill	12,017	12,017	12,017
Investments	18,232	17,487	15,505
Other assets	147	71	26
TOTAL ASSETS	$ 138,610	$ 125,740	$ 124,187
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Notes payable	$ 18,785	$ 17,070	$ 14,033
Current portion of long-term debt	1,563	2,000	2,000
Trade accounts payable	6,470	3,946	7,089
Accrued liabilities	17,103	15,274	14,222
Income tax payable	272	19	3,318
TOTAL CURRENT LIABILITIES	44,193	38,309	40,662
Other Liabilities:			
Long-term debt	5,196	3,500	3,500
Deferred income tax liability	3,774	3,474	2,723
TOTAL LIABILITIES	53,163	45,283	46,885
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 13,533,183;	13,533	13,427	13,413

13,427,339; and 13,413,094; shares respectively						
Retained earnings		66,952		62,937		59,923
Accumulated other comprehensive income		4,962		4,093		3,966
TOTAL SHAREHOLDERS’ EQUITY		85,447		80,457		77,302
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY	$	138,610	$	125,740	$	124,187

See notes to Consolidated Condensed Financial Statements.

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ESCALADE, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS (UNAUDITED)
(All amounts in thousands, except per share amounts)

	Three Months Ended		Nine Months Ended	
	October 5, 2013	October 6, 2012	October 5, 2013	October 6, 2012
Net sales	$ 38,482	$ 34,206	$ 117,305	$ 106,800
Costs, expenses and other income:				
Cost of products sold	26,945	23,249	79,210	72,943
Selling, general and administrative expenses	7,748	7,466	24,646	23,729
Goodwill and intangible asset impairment charges		13,362		13,362
Amortization	544	516	1,819	1,722
Operating income (Loss)	3,245	(10,387)	11,630	(4,956)
Interest expense, net	(176)	(144)	(596)	(490)
Other income	931	919	867	1,331
Equity method investment impairment		(382)		(382)
Income (Loss) before income taxes	4,000	(9,994)	11,901	(4,497)
Provision for income taxes	1,487	1,509	5,146	4,343
Net income (Loss)	$ 2,513	$ (11,503)	$ 6,755	$ (8,840)
Per share data:				
Basic earnings (loss) per share	$ 0.19	$ (0.86)	$ 0.50	$ (0.67)
Diluted earnings (loss) per share	$ 0.18	$ (0.85)	$ 0.50	$ (0.66)
Dividends declared	$ 0.09	$ 0.08	$ 0.25	$ 0.23

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

	Three Months Ended		Nine Months Ended	
	October 5, 2013	October 6, 2012	October 5, 2013	October 6, 2012
Net income (Loss)	$ 2,513	$ (11,503)	$ 6,755	$ (8,840)
Foreign currency translation adjustment	1,137	1,877	869	633
Comprehensive income (loss)	$ 3,650	$ (9,626)	$ 7,624	$ (8,207)

See notes to Consolidated Condensed Financial Statements.

ESCALADE, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)
(All amounts in thousands)

	Nine Months Ended			
		October 5, 2013		October 6, 2012
Operating Activities:				
Net income (loss)	$	6,755	$	(8,840)
Depreciation and amortization		3,349		3,380
Goodwill and intangible asset impairment charges				13,362
Stock-based compensation		439		432
Equity method investment impairment charges				382
Loss on disposal of property and equipment		11		18
Adjustments necessary to reconcile net income (loss) to net cash used by operating activities		(5,976)		(1,463)
Net cash provided by operating activities		4,578		7,271
Investing Activities:				
Purchase of property and equipment		(1,873)		(1,831)
Purchase of short-term time deposits		(1,820)		(250)
Proceeds from disposal of short-term time deposits		700		
Proceeds from sale of property and equipment		2		5
Net cash used by investing activities		(2,991)		(2,076)
Financing Activities:				
Dividends paid		(3,382)		(3,965)
Principal payment on long-term debt		(2,041)		(1,500)
Net increase (decrease) in overdraft facility		(1,831)		113
Net increase (decrease) in notes payable		3,546		(1,027)
Proceeds from restated credit agreement		1,000		
Proceeds from exercise of stock options		168		438
Director stock compensation		139		150
Net cash used by financing activities		(2,401)		(5,791)
Effect of exchange rate changes on cash		71		30
Net decrease in cash and cash equivalents		(743)		(566)
Cash and cash equivalents, beginning of period		2,544		3,821
Cash and cash equivalents, end of period	$	1,801	$	3,255
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 nine month periods ended October 5, 2013 and October 6, 2012 are not necessarily indicative of the results to be expected for the full year.

Note C - Inventories

In thousands	October 5, 2013	December 29, 2012	October 6, 2012
Raw materials	$ 8,619	$ 8,330	$ 8,949
Work in progress	5,177	4,247	4,697
Finished goods	26,860	18,287	24,322
	$ 40,656	$ 30,864	$ 37,968

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 including winter sport equipment. 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 October 5, 2013 and October 6, 2012 are addbacks to Stiga's consolidated financial information of $13.0 million and $10.9 million, respectively. These net differences are comprised of cumulative goodwill adjustments of $18.2 million offset by the related cumulative tax effect of $5.2 million as of October 5, 2013 and cumulative goodwill adjustments of $15.2 million offset by the related cumulative tax effect of $4.3 million as of October 6, 2012. The statement of operations impact of these goodwill and tax adjustments and other individually insignificant U.S. GAAP adjustments for the periods ended October 5, 2013, and October 6, 2012 are to increase Stiga's net income by approximately $1.2 million and $1.3 million, respectively. The Company's 50% portion of net income for Stiga for the periods ended October 5, 2013 and October 6, 2012 was $1.3 million and $1.4 million, respectively, and is included in other income on the Company's statements of operations.

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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. was 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 include shutdown costs. As a result, the Company's 50% portion of net loss for Escalade International, Ltd. for the nine months ended October 5, 2013 and October 6, 2012 was ($609) thousand and ($137) 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 October 5, 2013, December 29, 2012, and October 6, 2012 and statements of operations for the periods ended October 5, 2013 and October 6, 2012 is as follows:

In thousands	October 5, 2013	December 29, 2012	October 6, 2012
Current assets	$ 29,894	$ 28,538	$ 24,086
Non-current assets	10,075	8,065	8,419
Total assets	39,969	36,603	32,505
Current liabilities	12,358	10,850	9,389
Non-current liabilities	5,454	4,487	5,105
Total liabilities	17,812	15,337	14,494
Net assets	$ 22,157	$ 21,266	$ 18,011

	Three Months Ended		Nine Months Ended	
	October 5, 2013	October 6, 2012	October 5, 2013	October 6, 2012
Net sales	$ 11,520	$ 11,148	$ 26,285	$ 23,923
Gross profit	5,957	5,800	13,412	12,212
Net income	1,471	1,829	1,475	1,609

Note E Notes Payable

On August 27, 2013, the Company and each of its domestic subsidiaries entered into a First Amended and Restated Credit Agreement ("Restated Credit Agreement") with its issuing bank, JPMorgan Chase Bank, N.A. ("Chase"), and the other lenders identified in the Restated Credit Agreement (collectively, the "Lender"). The Restated Credit Agreement amends and restates the existing Credit Agreement dated as of April 30, 2009, as amended by the Amendments First through Tenth, between the Company and the Lender.

Under the terms of the Restated Credit Agreement, the Lender has made available to the Company a senior revolving credit facility in the maximum amount of up to $22.0 million ("Revolving USD Facility") and a term loan in the principal amount of $5.0 million ("Term Loan"). Escalade is required to repay the outstanding principal balance of the Revolving USD Facility, including all accrued and unpaid interest thereon, on August 27, 2016. Escalade may prepay the Revolving USD Facility, in whole or in part, and reborrow prior to the maturity date. The Company is required to repay the outstanding principal balance of the Term Loan, including all accrued and unpaid interest thereon, on August 27, 2016. Beginning with the calendar quarter ending September 30, 2013, the Company is required to make repayments of the principal balance of the Term Loan in equal installments of $250 thousand per calendar quarter, with interest accrued thereon. Principal amounts repaid in respect of the Term Loan may not be re-borrowed. In addition, the Euro overdraft facility has been reduced from €2.0 million to €1.0 million. The credit facility and term debt are secured by substantially all assets of the Company.

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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 October 5, 2013 was $1.8 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:

	Nine Months Ended	
In thousands	October 5, 2013	October 6, 2012
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 October 5, 2013 and October 6, 2012.

		Fair Value Measurements Using		
October 5, 2013 In thousands	Carrying Amount	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	$ 1,801	$ 1,801	$	$
Time deposits	$ 2,320	$ 2,320	$	$
Financial liabilities				
Notes payable	$ 18,785	$	$ 18,785	$
Current portion of Long-term debt	$ 1,563	$	$ 1,563	$
Long-term debt	$ 5,196	$	$ 5,196	$

		Fair Value Measurements Using		
October 6, 2012 In thousands	Carrying Amount	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	$ 3,255	$ 3,255	$	$
Time deposits	$ 1,200	$ 1,200	$	$
Financial liabilities				
Notes payable	$			