

ESCALADE INC
Form 10-Q
April 18, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 23, 2019 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)

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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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☒
Non-accelerated filer ☐ Smaller reporting company ☒
Emerging growth company ☐

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

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

Yes ☐ No ☒

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

Class

Outstanding at April 17, 2019

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Common, no par value 14,471,496

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PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

ESCALADE, INCORPORATED AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS

All Amounts in Thousands Except Share Information	March 23, 2019 (Unaudited)	December 29, 2018 (Audited)	March 24, 2018 (Unaudited)
ASSETS			
Current Assets:			
Cash and cash equivalents	\$4,299	\$ 2,824	\$2,863
Receivables, less allowance of \$548; \$532; and \$484; respectively	31,951	40,682	28,850
Inventories	47,744	39,122	40,114
Prepaid expenses	2,986	4,151	2,866
Prepaid income tax	1,033	1,082	501
Other current assets	—	2	33
TOTAL CURRENT ASSETS	88,013	87,863	75,227
Property, plant and equipment, net	15,523	15,498	13,903
Operating lease right-of-use assets	878	—	—
Intangible assets, net	19,447	19,785	19,368
Goodwill	26,381	26,381	21,548
Investments	—	—	20,175
Other assets	90	—	—
TOTAL ASSETS	\$150,332	\$ 149,527	\$150,221
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Current portion of long-term debt	\$—	\$ —	\$18,941
Trade accounts payable	7,756	5,631	5,188
Accrued liabilities	6,512	11,072	8,128
Current operating lease liabilities	595	—	—
TOTAL CURRENT LIABILITIES	14,863	16,703	32,257
Other Liabilities:			
Long-term debt	3,662	—	3,750

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Deferred income tax liability	3,409	3,409	2,452
Operating lease liabilities	288	—	—
Other liabilities	1,094	1,094	553
TOTAL LIABILITIES	23,316	21,206	39,012
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 –			
14,471,496; 14,438,824; and 14,415,690; shares respectively	14,471	14,439	14,416
Retained earnings	112,545	113,882	99,495
Accumulated other comprehensive loss	—	—	(2,702)
TOTAL STOCKHOLDERS' EQUITY	127,016	128,321	111,209
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$150,332	\$ 149,527	\$ 150,221

See notes to Consolidated Condensed Financial Statements.

ESCALADE, INCORPORATED AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS (UNAUDITED)

All Amounts in Thousands Except Per Share Data	Three Months Ended	
	March 23, 2019	March 24, 2018
Net sales	\$ 32,102	\$ 32,149
Costs and Expenses		
Cost of products sold	23,625	23,161
Selling, administrative and general expenses	7,745	6,950
Amortization	338	323
Operating Income	394	1,715
Other Income (Expense)		
Interest expense	(68)	(189)
Equity in loss of affiliates	—	(12)
Other income (loss)	6	(23)
Income Before Income Taxes	332	1,491
Provision for Income Taxes	65	275
Net Income	\$ 267	\$ 1,216
Earnings Per Share Data:		
Basic earnings per share	\$ 0.02	\$ 0.09
Diluted earnings per share	\$ 0.02	\$ 0.08
Dividends declared	\$ 0.125	\$ 0.125

See notes to Consolidated Condensed Financial Statements.

ESCALADE, INCORPORATED AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

All Amounts in Thousands Except Share Information	Three Months Ended	
	March 23, 2019	March 24, 2018
Net Income	\$ 267	\$ 1,216
Foreign currency translation adjustment	—	(91)
Comprehensive Income	\$ 267	\$ 1,125

All amounts are net of tax

See notes to Consolidated Condensed Financial Statements.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)

All Amounts in Thousands	Common Shares	Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances at December 30, 2017	14,372	\$14,372	\$99,908	\$ (2,610)	\$111,670
Other comprehensive loss				(92)	(92)
Net income			1,216		1,216
Expense of stock options and restricted stock units			161		161
Exercise of stock options	9	9	46		55
Settlement of restricted stock units	35	35	(35)		—
Dividends declared			(1,801)		(1,801)
Balances at March 24, 2018	14,416	\$14,416	\$99,495	\$ (2,702)	\$111,209
Balances at December 29, 2018	14,439	\$14,439	\$113,882	\$ —	\$128,321
Other comprehensive income				—	—

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Net income			267		267
Expense of stock options and restricted stock units			144		144
Exercise of stock options	10	10	108		118
Settlement of restricted stock units	25	25	(25)		—
Dividends declared			(1,809)		(1,809)
Purchase of stock	(3)	(3)	(22)		(25)
Balances at March 23, 2019	14,471	\$ 14,471	\$ 112,545	\$ —	\$ 127,016

See notes to Consolidated Condensed Financial Statements.

ESCALADE, INCORPORATED AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

All Amounts in Thousands	Three Months Ended	
	March 23, 2019	March 24, 2018
Operating Activities:		
Net income	\$ 267	\$ 1,216
Depreciation and amortization	936	913
Gain on disposal of property and equipment	—	—
Stock-based compensation	144	161
Adjustments necessary to reconcile net income to net cash provided by operating activities	(1,099)	1,384
Net cash provided by operating activities	248	3,674
Investing Activities:		
Purchase of property and equipment	(623)	(206)
Net cash used by investing activities	(623)	(206)
Financing Activities:		
Proceeds from issuance of long-term debt	14,200	12,888
Payments on long-term debt	(10,538)	(13,318)
Proceeds from exercise of stock options	118	54
Deferred financing fees	(96)	—
Purchase of stock	(25)	—
Cash dividends paid	(1,809)	(1,801)
Net cash provided (used) by financing activities	1,850	(2,177)
Net increase in cash and cash equivalents	1,475	1,291
Cash and cash equivalents, beginning of period	2,824	1,572
Cash and cash equivalents, end of period	\$ 4,299	\$ 2,863

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 29, 2018 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 2018 filed with the Securities and Exchange Commission.

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

Note B - Seasonal Aspects

The results of operations for the three months ended March 23, 2019 and March 24, 2018 are not necessarily indicative of the results to be expected for the full year.

Note C - Inventories

	March 23,	December 29,	March 24,
In thousands	2019	2018	2018

Raw materials	\$ 4,052	\$ 3,622	\$ 3,466
Work in progress	2,891	2,892	3,346
Finished goods	40,801	32,608	33,302
	\$ 47,744	\$ 39,122	\$ 40,114

Note D – Equity Interest Investments

The Company had a 50% interest in a joint venture, Stiga Sports AB (Stiga). The joint venture was accounted for under the equity method of accounting. Stiga, located in Sweden, is a global sporting goods company producing table tennis equipment, snow sleds, and game products. The Company entered into a share purchase agreement for the private sale of the Company's 50% interest in the Stiga joint venture. On May 17, 2018, the Company completed the sale of its 50% interest for \$33.7 million, resulting in a gain on sale of \$13.0 million. In conjunction with the sale, the Company entered into a new license agreement with Stiga for the licensing rights to manufacture, market, promote, sell and distribute Stiga-branded table tennis hobby products in the United States, Mexico and Canada. The Company has had the licensing rights for such products since 1995 pursuant to an existing license agreement that expired December 31, 2018. The new license agreement went into effect on January 1, 2019.

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 income statement amounts. The Company's 50% portion of net loss for Stiga for the period ended March 24, 2018 was (\$12) thousand and is included in equity in loss of affiliates on the Company's statements of operations.

Summarized financial information for Stiga Sports AB balance sheet as of March 24, 2018 and statements of operations for the three months ended March 24, 2018 is as follows:

In thousands	March 24, 2018
Current assets	\$ 29,841
Non-current assets	10,560
Total assets	40,401
Current liabilities	6,020
Non-current liabilities	5,429
Total liabilities	11,449
Net assets	\$ 28,952

	Three Months Ended March 24, 2018
Net sales	\$ 6,174
Gross profit	2,677
Net loss	(23)

Note E – Income Taxes

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

Note F – Fair Values of Financial Instruments

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

Cash and Cash Equivalents

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

Long-term Debt

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

The following table presents estimated fair values of the Company's financial instruments and the level within the fair value hierarchy in which the fair value measurements fall in accordance with FASB ASC 825 at March 23, 2019, December 29, 2018 and March 24, 2018.

March 23, 2019 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	\$ 4,299	\$ 4,299	\$ —	\$ —
Financial liabilities				
Long-term debt	\$ 3,662	\$ —	\$ 3,662	\$ —

December 29, 2018 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	\$ 2,824	\$ 2,824		\$	—		\$	—

March 24, 2018 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		\$2,863	\$ 2,863	\$	—		\$	—
Financial liabilities								
Current portion of long-term debt		\$ 18,941	\$ —	\$	18,941		\$	—
Long-term debt		\$ 3,750	\$ —	\$	3,750		\$	—

Note G – Stock Compensation

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

During the three months ended March 23, 2019, the Company awarded 11,400 restricted stock units to directors and 35,900 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 2019 restricted stock units awarded to employees are subject to a three year cliff vesting schedule, which means that these restricted stock units will fully vest, if at all, three years from the grant date provided that the employee is still employed by the Company on the vesting date. In addition, vesting of certain of the restricted stock units is subject to the Company meeting certain conditions based on Return on Equity and Adjusted EBITDA.

For the three months ended March 23, 2019 and March 24, 2018, the Company recognized stock based compensation expense of \$144 thousand and \$161 thousand, respectively. At March 23, 2019 and March 24, 2018, respectively, there was \$1.2 million and \$1.0 million in unrecognized stock-based compensation expense related to non-vested stock awards.

Note H - Segment Information

As of and for the Three Months

Ended March 23, 2019

In thousands	Sporting Goods	Corp.	Total
Revenues from external customers	\$ 32,102	\$ —	\$ 32,102
Operating income (loss)	761	(367)	394
Net income (loss)	507	(240)	267
Total assets	\$ 144,006	\$ 6,326	\$ 150,332

As of and for the Three Months**Ended March 24, 2018**

In thousands	Sporting Goods	Corp.	Total
Revenues from external customers	\$ 32,149	\$—	\$ 32,149
Operating income (loss)	2,093	(378)	1,715
Net income (loss)	1,384	(168)	1,216
Total assets	\$ 124,354	\$ 25,867	\$ 150,221

Note I – Dividend Payment

On March 18, 2019, the Company paid a quarterly dividend of \$0.125 per common share to all shareholders of record on March 11, 2019. The total amount of the dividend was approximately \$1.8 million and was charged against retained earnings.

Note J - Earnings Per Share

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

In thousands	Three Months Ended	
	March 23, 2019	March 24, 2018
Weighted average common shares outstanding	14,447	14,383
Dilutive effect of stock options and restricted stock units	28	24
Weighted average common shares outstanding, assuming dilution	14,475	14,407

Stock options that are anti-dilutive as to earnings per share and unvested restricted stock units which have a market or performance 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 2019 and 2018 were 89,431 and 96,481, respectively.

Note K – New Accounting Standards and Changes in Accounting Principles

With the exception of that discussed below, there have been no recent accounting pronouncements or changes in accounting pronouncements during the three months ended March 23, 2019, 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, 2018, that are of significance, or potential significance to the Company.

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, Leases (Topic 842), which supersedes ASC 840, Leases. The amendments in this update will increase the transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Under ASU 2016-02, a lessee will recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-to-use asset representing its right to use the underlying asset for the lease term. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from current GAAP. ASU 2016-02 retains a distinction between finance leases and operating leases. The classification criteria for distinguishing between finance leases and operating leases will be substantially similar to the classification criteria for distinguishing between capital leases and operating leases under prior GAAP. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The guidance permits a practical expedient with regards to initial adoption, allowing adopters the option to apply the new leases standard prospectively at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Under this expedient, comparative periods presented in the financial statements in which the new lease standard is adopted, will continue to be presented in accordance with prior GAAP.

The Company adopted this standard on December 30, 2018 using the prospective application method practical expedient. The adoption of this standard had an immaterial impact on our consolidated balance sheet, recognizing a ROU asset and lease liability of \$985 thousand. Refer to Note M for disclosure requirements related to the adoption of this standard.

Note L – Revenue from Contracts with Customers

Revenue Recognition – Effective December 31, 2017, we adopted ASC 606. The adoption of this standard did not impact the timing of revenue recognition for customer sales. Revenue is recognized when obligations under the terms of a contract with our customer are satisfied; generally this occurs with the transfer of control of our goods at a point in time based on shipping terms and transfer of title. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods. Sales, value add, and other taxes we collect concurrent with revenue-producing activities are excluded from revenue. Shipping and handling fees charged to customers are reported within revenue.

Gross-to-net sales adjustments – We recognize revenue net of various sales adjustments to arrive at net sales as reported on the statement of operations. These adjustments are referred to as gross-to-net sales adjustments and primarily fall into one of three categories; returns, warranties and customer allowances.

Returns – The Company records an accrued liability and reduction in sales for estimated product returns based upon historical experience. An accrued liability and reduction in sales is also recorded for approved return authorizations that have been communicated by the customer.

Warranties – Limited warranties are provided on certain products for varying periods. We record an accrued liability and reduction in sales for estimated future warranty claims based upon historical experience and management's estimate of the level of future claims. Changes in the estimated amounts recognized in prior years are recorded as an adjustment to the accrued liability and sales in the current year.

Customer Allowances – Customer allowances are common practice in the industries in which the Company operates. These agreements are typically in the form of advertising subsidies, volume rebates and catalog allowances and are accounted for as a reduction to gross sales. The Company reviews such allowances on an ongoing basis and accruals are adjusted, if necessary, as additional information becomes available.

Disaggregation of Revenue – We generate revenue from the sale of widely recognized sporting goods brands in basketball goals, archery, indoor and outdoor game recreation and fitness products. These products are sold through multiple sales channels that include; mass merchants, specialty dealers, key on-line retailers (“E-commerce”) and international. The following table depicts the disaggregation of revenue according to sales channel:

All Amounts in Thousands	Three Months Ended	
	March 23, 2019	March 24, 2018
Gross Sales by Channel:		
Mass Merchants	\$ 11,430	\$ 13,089
Specialty Dealers	13,601	12,651
E-commerce	9,934	7,358
International	1,174	2,315
Other	702	188
Total Gross Sales	36,841	35,601
Less: Gross-to-Net Sales Adjustments		
Returns	1,175	926
Warranties	373	307
Customer Allowances	3,191	2,219
Total Gross-to-Net Sales Adjustments	4,739	3,452
Total Net Sales	\$ 32,102	\$ 32,149

Note M – Leases

We have operating leases for office, manufacturing and distribution facilities as well as for certain equipment. Our leases have remaining lease terms of 1 year to 3 years. As of March 23, 2019, the Company has not entered into any lease arrangements classified as a finance lease.

We determine if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (“ROU”) assets, current operating lease liabilities and operating lease liabilities on our consolidated balance sheet. The Company has elected an accounting policy to not recognize short-term leases (one year or less) on the balance sheet. The Company also elected the package of practical expedients which applies to leases that commenced before the adoption date. By electing the package of practical expedients, the Company did not need to reassess the following; whether any existing contracts are or contain leases, the lease classification for any existing leases and initial direct costs for any existing leases.

ROU assets and operating lease liabilities are recognized based on the present value of future minimum lease payments over the lease term at commencement date. When the implicit rate of the lease is not provided or cannot be determined, we use our incremental borrowing rate based on the information available at the commencement date to determine the present value of future payments. Lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise those options. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term. Components of lease expense and other information as follows:

All Amounts in Thousands	March 23, 2019
Lease Expense	
Operating Lease Cost	\$ 191
Short-term Lease Cost	90
Variable Lease Cost	55
Total Operating Lease Cost	\$ 336
Operating Lease – Operating Cash Flows	\$ 175
New ROU Assets – Operating Leases	\$ 73
Weighted Average Remaining Lease Term – Operating Leases	1.65 years
Weighted Average Discount Rate – Operating Leases	5.00 %

Future minimum lease payments under non-cancellable leases as of March 23, 2019 were as follows:

All Amounts in Thousands

Year 1	\$619
Year 2	227
Year 3	59
Year 4	10
Year 5	-
Thereafter	-
Total future minimum lease payments	915
Less imputed interest	(32)
Total	\$883

Reported as of March 23, 2019

Current operating lease liabilities	595
Long-term operating lease liabilities	288
Total	\$883

Note N – 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, 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 or discontinuances of certain operations, assets, brands, and products, the continuation and development of key customer, supplier, licensing and other business relationships, the ability to successfully negotiate the shifting retail environment and changes in consumer buying habits, the financial health of our customers, 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, the availability, integration and effective operation of information systems and other technology, and the potential interruption of such systems or technology, risks related to data security of privacy breaches, and other risks detailed from time to time in Escalade's filings with the Securities and Exchange Commission. Escalade's future financial performance could differ materially from the expectations of management contained herein. Escalade undertakes no obligation to release revisions to these forward-looking statements after the date of this report.

Overview

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

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

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

The Company's balance sheet is strong and we continue to maintain a low level of long-term debt. Management believes that key indicators in measuring the success of these strategies are revenue growth, earnings growth, new product introductions, and the expansion of channels of distribution.

Results of Operations

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

	Three Months Ended			
	March 23, 2019		March 24, 2018	
Net revenue	100.0	%	100.0	%
Cost of products sold	73.6	%	72.0	%
Gross margin	26.4	%	28.0	%
Selling, administrative and general expenses	24.1	%	21.6	%
Amortization	1.1	%	1.0	%
Operating income	1.2	%	5.4	%

Revenue and Gross Margin

Net sales remained relatively flat at \$32.1 million for the first three months of 2019 compared with the same period in the prior year.

The overall gross margin percentage decreased to 26.4% for the first quarter of 2019, compared to 28.0% for 2018. During their slowest quarter of the year, operating costs related to Victory Tailgate, LLC, which was acquired during the fourth quarter of 2018, negatively affected gross margin within the quarter. Gross profit was \$8.5 for the first quarter of 2019 compared to \$9.0 million for the same period in the prior year, a decrease of \$0.5 million or 5.7%.

Selling, General and Administrative Expenses

Selling, general and administrative expenses (SG&A) were \$7.7 million for the first quarter of 2019 compared to \$7.0 million for the same period in the prior year, an increase of \$0.7 million or 11.4%. SG&A as a percent of sales is 24.1% for the first quarter of 2019 compared with 21.6% for the same period in the prior year. SG&A spend increased due to non-recurring costs of new basketball displays.

Provision for Income Taxes

The effective tax rate for the first three months of 2019 was 19.6% compared to 18.4% for the same period last year.

Financial Condition and Liquidity

Total debt at the end of the first three months of 2019 was \$3.7 million, an increase of \$3.7 million from December 29, 2018. The following schedule summarizes the Company's total debt:

In thousands	March 23, 2019	December 29, 2018	March 24, 2018
Current portion long-term debt	\$ —	\$ —	\$ 18,941
Long term debt	3,662	—	3,750
Total	\$ 3,662	\$ —	\$ 22,691

As a percentage of stockholders' equity, total debt was 2.9%, zero and 20.4% at March 23, 2019, December 29, 2018, and March 24, 2018 respectively.

On January 21, 2019, the Company entered into an Amended and Restated Credit Agreement ("2019 Restated Credit Agreement") with its issuing bank, JP Morgan Chase Bank, N.A. ("Chase"), and the other lenders identified in the 2019 Restated Credit Agreement (collectively, the "Lender"). Under the terms of the 2019 Restated Credit Agreement, the Lender has made available to the Company a senior revolving credit facility with increased maximum availability of \$50.0 million. The maturity date was extended to January 31, 2022. In addition to the increased borrowing amount and extended maturity date, other significant changes reflected in the 2019 Restated Credit Agreement include: more favorable interest rate provisions; increases in borrowing base availability; releases of existing mortgages on the Company's real property; and increasing to \$25.0 million the total consideration that the Company may use for acquisitions without obtaining the Lender's consent, as long as no event of default exists.

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**

Not Required.

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.

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

Changes in Internal Control over Financial Reporting

Management of the Company has evaluated, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, changes in the Company's internal controls over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act) during the first quarter of 2019.

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 2019 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
Share purchases prior to 12/29/2018 under the current repurchase program.	983,816	\$ 8.85	983,816	\$ 2,264,304
First quarter purchases:				
12/30/2018–1/26/2019	None	None	No Change	No Change
1/27/2019-2/23/2019	2,216	\$ 11.00	986,032	\$ 2,239,928
2/24/2019-3/23/2019	None	None	No Change	No Change
Total share purchases under the current program	986,032	\$ 8.85	986,032	\$ 2,239,928

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 2014 First Quarter Report on Form 10-Q.
- 31.1 Chief Executive Officer Rule 13a-14(a)/15d-14(a) Certification.
- 31.2 Chief Financial Officer Rule 13a-14(a)/15d-14(a) Certification.
- 32.1 Chief Executive Officer Section 1350 Certification.
- 32.2 Chief Financial Officer Section 1350 Certification.

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

SIGNATURE

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

ESCALADE, INCORPORATED

Date: April 18, 2019 /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)