

ESCALADE INC  
Form 10-Q  
November 01, 2018

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 October 6, 2018 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   
Smaller reporting company   
Non-accelerated filer   
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.

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<u>Class</u>	<u>Outstanding at October 30, 2018</u>
Common, no par value	14,439,724

INDEX

	<b>Page No.</b>
<u>Part I. Financial Information:</u>	
<u>Item 1</u> <u>Financial Statements:</u>	
=	
<u>Consolidated Condensed Balance Sheets as of October 6, 2018, December 30, 2017, and October 7, 2017</u>	
<u>Consolidated Condensed Statements of Operations for the Three Months and Nine Months Ended October 6, 2018 and October 7, 2017</u>	4
<u>Consolidated Condensed Statements of Comprehensive Income for the Three Months and Nine Months Ended October 6, 2018 and October 7, 2017</u>	5
<u>Consolidated Condensed Statements of Cash Flows for the Nine Months Ended October 6, 2018 and October 7, 2017</u>	6
<u>Notes to Consolidated Condensed Financial Statements</u>	7
<u>Item 2</u> <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	14
=	
<u>Item 3</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	16
=	
<u>Item 4</u> <u>Controls and Procedures</u>	16
=	
<u>Part II. Other Information</u>	
<u>Item 2</u> <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	17
=	
<u>Item 6</u> <u>Exhibits</u>	18
=	
<u>Signature</u>	18

## PART I - FINANCIAL INFORMATION

## Item 1. FINANCIAL STATEMENTS

## ESCALADE, INCORPORATED AND SUBSIDIARIES

## CONSOLIDATED CONDENSED BALANCE SHEETS

All Amounts in Thousands Except Share Information	<b>October 6, 2018</b> (Unaudited)	<b>December 30, 2017</b> (Audited)	<b>October 7, 2017</b> (Unaudited)
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 11,121	\$ 1,572	\$ 1,646
Receivables, less allowance of \$516; \$623; and \$570; respectively	36,522	39,350	34,774
Inventories	45,660	35,160	42,392
Prepaid expenses	2,982	3,414	3,478
Prepaid income tax	—	764	520
Other current assets	12	—	—
<b>TOTAL CURRENT ASSETS</b>	<b>96,297</b>	<b>80,260</b>	<b>82,810</b>
Property, plant and equipment, net	13,367	14,286	14,215
Intangible assets, net	18,624	19,691	20,058
Goodwill	21,548	21,548	21,548
Investments	—	20,278	19,565
Other assets	—	42	51
<b>TOTAL ASSETS</b>	<b>\$ 149,836</b>	<b>\$ 156,105</b>	<b>\$ 158,247</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current Liabilities:			
Current portion of long-term debt	\$ —	\$ 1,250	\$ 1,300
Trade accounts payable	9,465	4,295	9,935
Accrued liabilities	9,859	13,997	10,777
Income tax payable	1,120	—	—
<b>TOTAL CURRENT LIABILITIES</b>	<b>20,444</b>	<b>19,542</b>	<b>22,012</b>
Other Liabilities:			
Long-term debt	—	21,871	24,738
Deferred income tax liability	2,469	2,469	5,375

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Other liabilities	503	553	—
<b>TOTAL LIABILITIES</b>	<b>23,416</b>	<b>44,435</b>	<b>52,125</b>
Stockholders' Equity:			
Preferred stock:			
Authorized 1,000,000 shares; no par value, none issued			
Common stock:			
Authorized 30,000,000 shares; no par value, issued and outstanding – 14,439,724; 14,371,586; and 14,370,586; shares respectively	14,440	14,372	14,371
Retained earnings	111,980	99,908	93,967
Accumulated other comprehensive loss	—	(2,610 )	(2,216 )
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>126,420</b>	<b>111,670</b>	<b>106,122</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 149,836</b>	<b>\$ 156,105</b>	<b>\$ 158,247</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 Data	Three Months Ended		Nine Months Ended	
	October 6, 2018	October 7, 2017	October 6, 2018	October 7, 2017
Net sales	\$ 43,955	\$ 42,861	\$ 124,788	\$ 128,648
Costs and Expenses				
Cost of products sold	31,646	31,502	91,994	95,927
Selling, administrative and general expenses	6,856	6,866	22,927	22,053
Amortization	319	365	1,067	1,212
Operating Income	5,134	4,128	8,800	9,456
Other Income (Expense)				
Interest expense	(35 )	(200 )	(390 )	(601 )
Equity in earnings of affiliates	—	615	121	639
Gain on sale of equity method investment (includes (\$3,729) of accumulated other comprehensive loss reclassification from foreign currency translation adjustment)	—	—	13,020	—
Gain on bargain purchase	—	—	—	256
Other income (expense)	7	(6 )	(92 )	(49 )
Income Before Income Taxes	5,106	4,537	21,459	9,701
Provision for Income Taxes	1,531	1,419	4,597	3,099
Net Income	\$ 3,575	\$ 3,118	\$ 16,862	\$ 6,602
Earnings Per Share Data:				
Basic earnings per share	\$ 0.248	\$ 0.217	\$ 1.169	\$ 0.460
Diluted earnings per share	\$ 0.247	\$ 0.217	\$ 1.167	\$ 0.459
Dividends declared	\$ 0.125	\$ 0.115	\$ 0.375	\$ 0.345

See notes to Consolidated Condensed Financial Statements.

## ESCALADE, INCORPORATED AND SUBSIDIARIES

## CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

All Amounts in Thousands	Three Months Ended		Nine Months Ended	
	October 6, 2018	October 7, 2017	October 6, 2018	October 7, 2017
Net Income	\$ 3,575	\$ 3,118	\$ 16,862	\$ 6,602
Foreign currency translation adjustment before reclassification	—	444	(1,119 )	2,064
Amounts reclassified from comprehensive income due to divestiture of equity investment	—	—	3,729	—
Comprehensive Income	\$ 3,575	\$ 3,562	\$ 19,472	\$ 8,666

All amounts are net of tax

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 6, 2018	October 7, 2017
<b>Operating Activities:</b>		
Net income	\$ 16,862	\$ 6,602
Depreciation and amortization	3,056	3,167
Gain on disposal of property and equipment	—	(4 )
Stock-based compensation	468	391
Gain on sale of equity method investment	(13,020)	—
Gain on insurance proceeds received for damage to property	(241 )	—
Gain on bargain purchase	—	(256 )
Dividends received from equity method investments	2,323	2,168
Adjustments necessary to reconcile net income to net cash provided by operating activities	(4,464 )	(3,640 )
Net cash provided by operating activities	4,984	8,428
<b>Investing Activities:</b>		
Purchase of property and equipment	(1,846 )	(2,298 )
Acquisitions	—	(1,401 )
Proceeds from sale of equity investment	33,705	—
Insurance proceeds received for damage to property	1,018	—
Proceeds from sale of property and equipment	—	4
Net cash provided (used) by investing activities	32,877	(3,695 )
<b>Financing Activities:</b>		
Proceeds from issuance of long-term debt	21,873	44,495
Payments on long-term debt	(44,994)	(43,946 )
Proceeds from exercise of stock options	54	153
Cash dividends paid	(5,410 )	(4,954 )
Director stock compensation	165	152
Net cash used by financing activities	(28,312)	(4,100 )
Net increase in cash and cash equivalents	9,549	633
Cash and cash equivalents, beginning of period	1,572	1,013
Cash and cash equivalents, end of period	\$ 11,121	\$ 1,646
<b>Non-Cash Transactions</b>		
Note payable for deferred purchase price obligation	\$—	\$ 50

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 30, 2017 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 2017 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 and nine month periods ended October 6, 2018 and October 7, 2017 are not necessarily indicative of the results to be expected for the full year.

Note C - Inventories

In thousands	October 6, 2018	December 30, 2017	October 7, 2017
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Raw materials	\$ 3,760	\$ 3,462	\$ 4,049
Work in progress	3,051	2,927	3,660
Finished goods	38,849	28,771	34,683
	\$ 45,660	\$ 35,160	\$ 42,392

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 continues through December 31, 2018. The new license agreement will go 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 statement of operations amounts. Financial information for the current year represents the results of Stiga through the sale completion date. The Company's 50% portion of net income for Stiga, included in equity in earnings of affiliates on the Company's statements of operations, is as follows:

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In thousands	Three Months Ended October 6, 2018	Three Months Ended October 7, 2017	Period from December 31, 2017 through May 17, 2018	Nine Months Ended October 7, 2017
Equity in earnings of affiliates	\$ —	\$ 615	\$ 121	\$ 639

Summarized financial information for Stiga Sports AB balance sheets as of December 30, 2017, and October 7, 2017 and statements of operations for the three month period ended October 6, 2018, the period from December 31, 2017 through May 17, 2018, and the three month and nine month periods ended October 7, 2017 is as follows:

In thousands	December 30, 2017	October 7, 2017
Current assets	\$ 30,623	\$ 33,874
Non-current assets	10,854	10,645
Total assets	41,477	44,519
Current liabilities	6,897	11,481
Non-current liabilities	5,462	5,556
Total liabilities	12,359	17,037
Net assets	\$ 29,118	\$ 27,482

In thousands	Three Months Ended October 6, 2018	Three Months Ended October 7, 2017	Period from December 31, 2017 through May 17, 2018	Nine Months Ended October 7, 2017
Net sales	\$ —	\$ 13,036	\$ 12,978	\$ 29,333
Gross profit	—	6,006	6,019	13,718
Net income	—	1,229	241	1,278

Note E – Income Taxes

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

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During the year ended December 30, 2017, the Company calculated its best estimate of the impact of the Tax Cuts and Jobs Act of 2017 and as a result, recorded \$3.0 million of income tax benefits. During the nine month period ended October 6, 2018, the Company continued its work to determine the amount of accumulated foreign earnings and the corresponding foreign tax credit. Based on the work completed, the Company recorded