ESCALADE INC
Form 10-Q
August 06, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended July 11, 2015 or

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

For the transition period from _____ to _____

Commission File Number 0-6966

ESCALADE, INCORPORATED

(Exact name of registrant as specified in its charter)

Indiana 13-2739290

(State of incorporation) (I.R.S. EIN)

817 Maxwell Ave, Evansville, Indiana 47711

(Address of principal executive office) (Zip Code)

812-467-4449

(Registrant's Telephone Number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No ¨

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

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

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

Yes ¨ No x

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

Class	Outstanding at August 5, 2015
Common, no par value	14,119,810

INDEX

		Page No.
Part I.	Financial Information:	
Item 1 -	Financial Statements:	
	Consolidated Condensed Balance Sheets as of July 11, 2015, December 27, 2014, and July 12, 2014	3
	Consolidated Condensed Statements of Operations for the Three Months and Six Months Ended July 11, 2015 and July 12, 2014	4
	Consolidated Condensed Statements of Comprehensive Income (Loss) for the Three Months and Six Months Ended July 11, 2015 and July 12, 2014	5
	Consolidated Condensed Statements of Cash Flows for the Six Months Ended July 11, 2015 and July 12, 2014	6
	Notes to Consolidated Condensed Financial Statements	7
Item 2 -	Management's Discussion and Analysis of Financial Condition and Results of Operations	14
Item 3 -	Quantitative and Qualitative Disclosures About Market Risk	16
Item 4 -	Controls and Procedures	16
Part II.	Other Information	
Item 2 -	Unregistered Sales of Equity Securities and Use of Proceeds	17
Item 6 -	Exhibits	18
	Signature	18

PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

ESCALADE, INCORPORATED AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS

All Amounts in Thousands Except Share Information	July 11, 2015 (Unaudited)	December 27, 2014 (Audited)	July 12, 2014 (Unaudited)
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 2,268	$ 3,232	$ 1,145
Time deposits	750	1,450	1,700
Receivables, less allowance of $744; $900; and $783; respectively	27,366	32,150	27,285
Inventories	31,601	23,775	26,321
Prepaid expenses	2,264	1,622	1,520
Deferred income tax benefit	1,154	925	2,394
Prepaid income tax	2,317	5,697	2,750
Assets held for sale	—	—	4,348
TOTAL CURRENT ASSETS	67,720	68,851	67,463
Property, plant and equipment, net	12,856	11,596	10,563
Intangible assets, net	11,987	13,465	9,712
Goodwill	14,875	14,875	13,242
Investments	17,562	18,949	18,223
Other assets	—	145	145
TOTAL ASSETS	$ 125,000	$ 127,881	$ 119,348
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Notes payable	$ 9,193	$ 16,200	$ 8,520
Current portion of long-term debt	1,604	1,586	1,580
Trade accounts payable	4,362	1,853	3,735
Accrued liabilities	11,622	12,107	10,716
Liabilities held for sale	—	—	5,130
TOTAL CURRENT LIABILITIES	26,781	31,746	29,681
Other Liabilities:			
Long-term debt	2,155	3,360	3,758

Deferred income tax liability	2,997	2,996	5,456
TOTAL LIABILITIES	31,933	38,102	38,895
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 – 14,115,061; 13,998,090; and 13,909,099; shares respectively	14,115	13,998	13,909
Retained earnings	82,386	77,745	62,363
Accumulated other comprehensive income (loss)	(3,434)	(1,964)	4,181
TOTAL STOCKHOLDERS' EQUITY	93,067	89,779	80,453
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 125,000	$ 127,881	$ 119,348

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		Six Months Ended	
	July 11, 2015	July 12, 2014	July 11, 2015	July 12, 2014
Net sales	$43,795	$38,012	$77,214	$65,733
Costs, Expenses and Other Income				
Cost of products sold	30,595	26,445	53,180	45,157
Selling, administrative and general expenses	8,199	6,879	14,113	11,994
Amortization	844	756	1,477	1,327
Operating Income	4,157	3,932	8,444	7,255
Interest expense	131	104	232	191
Other expense (income)	(515)	(213)	(1,248)	(401)
Income Before Income Taxes from Continuing Operations	4,541	4,041	9,460	7,465
Provision for Income Taxes from Continuing Operations	1,319	1,274	2,741	2,434
Net Income from Continuing Operations	3,222	2,767	6,719	5,031
Discontinued Operations				
Loss from operations	—	(159)	—	(16)
Loss on classification as held for sale	—	(12,945)	—	(12,945)
Gain on disposal	—	547	—	547
Provision (benefit) for income taxes	—	(1,706)	—	(1,549)
Net Loss from Discontinued Operations	—	(10,851)	—	(10,865)
Net Income (Loss)	$3,222	$(8,084)	$6,719	$(5,834)
Basic Earnings Per Share Data:				
Income from continuing operations	$0.23	$0.20	$0.48	$0.36
Loss from discontinued operations	—	(0.78)	—	(0.78)
Net Income (Loss)	$0.23	$(0.58)	$0.48	$(0.42)
Diluted Earnings Per Share Data:				
Income from continuing operations	$0.23	$0.20	$0.47	$0.36
Loss from discontinued operations	—	(0.77)	—	(0.77)
Net Income (Loss)	$0.23	$(0.57)	$0.47	$(0.41)
Dividends declared	$0.11	$0.09	$0.21	$0.18

See notes to Consolidated Condensed Financial Statements.

ESCALADE, INCORPORATED AND SUBSIDIARIES

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

All Amounts in Thousands Except Share Information	Three Months Ended		Six Months Ended	
	July 11, 2015	July 12, 2014	July 11, 2015	July 12, 2014
Net Income (Loss)	$ 3,222	$ (8,084)	$ 6,719	$ (5,834)
Foreign currency translation adjustment	418	(1,163)	(1,470)	(738)
Comprehensive Income (Loss)	$ 3,640	$ (9,247)	$ 5,249	$ (6,572)

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	Six Months Ended	
	July 11, 2015	July 12, 2014
Operating Activities:		
Net income (loss)	$6,719	$(5,834)
Impairment of Information Security business	—	12,678
Depreciation and amortization	2,605	2,305
Loss (gain) on disposal of property and equipment	1	(1)
Stock-based compensation	299	322
Additional discontinued operations activities	—	(1,244)
Adjustments necessary to reconcile net income (loss) to net cash provided by operating activities	626	3,644
Net cash provided by operating activities	10,250	11,870
Investing Activities:		
Purchase of property and equipment	(2,388)	(912)
Purchase of short-term time deposits	—	(500)
Acquisitions	—	(162)
Proceeds from sale of property and equipment	—	7
Dividends received from equity method investments	928	—
Proceeds from disposal of short-term time deposits	700	500
Discontinued operations activities	—	4,861
Net cash provided (used) by investing activities	(760)	3,794
Financing Activities:		
Net decrease in notes payable	(7,007)	(13,383)
Net increase in overdraft facility	—	203
Principal payments on long-term debt	(1,187)	(1,170)
Proceeds from exercise of stock options	672	1,169
Cash dividends paid	(2,956)	(2,498)
Director stock compensation	24	78
Net cash used by financing activities	(10,454)	(15,601)
Effect of exchange rate changes on cash	—	69
Net increase (decrease) in cash and cash equivalents	(964)	132
Cash and cash equivalents, beginning of period (includes zero and $1,255 respectively of cash reported as assets held for sale)	3,232	2,346
Cash and cash equivalents, end of period (includes zero and $1,333 respectively of cash reported as assets held for sale)	$2,268	$2,478

Supplemental Cash Flows Information

Dividends payable	$2	$42

See notes to Consolidated Condensed Financial Statements.

ESCALADE, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

Note A – Summary of Significant Accounting Policies

Presentation of Consolidated Condensed Financial Statements – The significant accounting policies followed by the Company and its wholly owned subsidiaries for interim financial reporting are consistent with the accounting policies followed for its annual financial reporting. All adjustments that are of a normal recurring nature and are in the opinion of management necessary for a fair statement of the results for the periods reported have been included in the accompanying consolidated condensed financial statements. The consolidated condensed balance sheet of the Company as of December 27, 2014 has been derived from the audited consolidated balance sheet of the Company as of that date. Certain information and note disclosures normally included in the Company's annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted. These consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Form 10-K annual report for 2014 filed with the Securities and Exchange Commission.

Note B - Seasonal Aspects

The results of operations for the three and six month periods ended July 11, 2015 and July 12, 2014 are not necessarily indicative of the results to be expected for the full year.

Note C - Inventories

In thousands	July 11, 2015	December 27, 2014	July 12, 2014
Raw materials	$4,074	$ 3,950	$5,486
Work in progress	4,044	3,967	4,286
Finished goods	23,483	15,858	16,549
	$31,601	$ 23,775	$26,321

Additionally, the Company had inventory totaling, zero, zero and $6,785 that has been reclassified to assets held for sale at July 11, 2015, December 27, 2014 and July 12, 2014, respectively.

Note D – Equity Interest Investments

The Company has a 50% interest in a joint venture, Stiga Sports AB (Stiga). The joint venture is accounted for under the equity method of accounting. Stiga, located in Sweden, is a global sporting goods company producing table tennis equipment and game products. Financial information for Stiga reflected in the table below has been translated from local currency to U.S. dollars using exchange rates in effect at the respective period-end for balance sheet amounts, and using average exchange rates for statement of operations amounts. Certain differences exist between U.S. GAAP and local GAAP in Sweden, and the impact of these differences is not reflected in the summarized information reflected in the table below. The most significant difference relates to the accounting for goodwill for Stiga which is amortized over eight years in Sweden but is not amortized for U.S. GAAP reporting purposes. The goodwill for Stiga was fully amortized as of December 27, 2014. The effect on Stiga's net assets resulting from the cumulative amortization of goodwill for the periods ended July 11, 2015 and July 12, 2014 are addbacks to Stiga's consolidated net assets of $10.6 million and $13.8 million, respectively. These net differences are comprised of cumulative goodwill adjustments of $14.8 million offset by the related cumulative tax effect of $4.2 million as of July 11, 2015 and cumulative goodwill adjustments of $19.3 million offset by the related cumulative tax effect of $5.5 million as of July 12, 2014. The Company's 50% portion of the statement of operations impact of these goodwill and tax adjustments and other individually insignificant U.S. GAAP adjustments for the six month periods ended July 11, 2015, and July 12, 2014 are to increase Stiga's net income by approximately zero and $0.3 million, respectively. The Company's 50% portion of net income for Stiga for the six month periods ended July 11, 2015 and July 12, 2014 was $1.0 million and $0.4 million, respectively, and is included in other income (expense) on the Company's statements of operations.

Summarized financial information for Stiga Sports AB balance sheets as of July 11, 2015, December 27, 2014, and July 12, 2014 and statements of operations for the three month and six month periods ended July 11, 2015 and July 12, 2014 is as follows:

In thousands	July 11, 2015	December 27, 2014	July 12, 2014
Current assets	$24,578	$ 30,539	$25,571
Non-current assets	9,101	8,082	8,500
Total assets	33,679	38,621	34,071
Current liabilities	3,911	7,669	6,632
Non-current liabilities	5,781	4,229	4,664
Total liabilities	9,692	11,898	11,296
Net assets	$23,987	$ 26,723	$22,775

	Three Months Ended		Six Months Ended	
	July 11, 2015	July 12, 2014	July 11, 2015	July 12, 2014
Net sales	$ 11,716	$ 11,393	$17,315	$ 16,738
Gross profit	5,724	5,490	8,595	8,346
Net income	690	295	1,208	388

Note E – Income Taxes

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

In thousands	Six Months Ended July 11, 2015	July 12, 2014
Beginning balance	$ —	$ —
Additions for current year tax positions	—	751
Additions for prior year tax positions	—	—
Settlements	—	—
Reductions or settlements	—	—

Reductions for prior year tax positions	—	—
Ending balance	$ —	$ 751

Note F – Fair Values of Financial Instruments

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

Cash and Cash Equivalents and Time Deposits

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

Notes Payable and Long-term Debt

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

The following table presents estimated fair values of the Company's financial instruments and the level within the fair value hierarchy in which the fair value measurements fall in accordance with FASB ASC 825 at July 11, 2015, December 27, 2014 and July 12, 2014.

July 11, 2015 In thousands	Carrying Amount	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets				
Cash and cash equivalents	$ 2,268	$ 2,268	$ —	$ —
Time deposits	$ 750	$ 750	$ —	$ —
Financial liabilities				
Notes payable	$ 9,193	$ —	$ 9,193	$ —
Current portion of long-term debt	$ 1,604	$ —	$ 1,604	$ —
Long-term debt	$ 2,155	$ —	$ 2,155	$ —

December 27, 2014 In thousands	Carrying Amount	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets				
Cash and cash equivalents	$ 3,232	$ 3,232	$ —	$ —
Time deposits	$ 1,450	$ 1,450	$ —	$ —
Financial liabilities				
Notes payable	$ 16,200	$ —	$ 16,200	$ —
Current portion of long-term debt	$ 1,586	$ —	$ 1,586	$ —
Long-term debt	$ 3,360	$ —	$ 3,360	$ —

July 12, 2014 In thousands	Carrying Amount	Fair Value Measurements Using Quoted Prices in Active Markets for	Significant Other Observable Inputs	Significant Unobservable Inputs (Level 3)

		Identical Assets (Level 1)	(Level 2)	
Financial assets				
Cash and cash equivalents	$ 2,478	$ 2,478	$ —	$ —
Time deposits	$ 1,700	$ 1,700	$ —	$ —
Financial liabilities				
Notes payable	$ 8,520	$ —	$ 8,520	$ —
Current portion of Long-term debt	$ 1,580	$ —	$ 1,580	$ —
Long-term debt	$ 3,758	$ —	$ 3,758	$ —

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 six months ended July 11, 2015 and pursuant to the 2007 Incentive Plan, in lieu of director fees, the Company awarded to certain directors 1,562 shares of common stock. In addition, the Company awarded 10,000 restricted stock units to directors and 38,250 restricted stock units to employees. The restricted stock units awarded to directors time vest over two years (one-half one year from grant date and one-half two years from grant date) provided that the director is still a director of the Company at the vest date. Director restricted stock units are subject to forfeiture, except for termination of services as a result of retirement, death or disability, if on the vesting date the director no longer holds a position with the Company. The 2015 restricted stock units awarded to employees vest over four years (one-third two years from grant date, one-third three years from grant date and one-third four years from grant date) provided that the employee is still employed by the Company and that the performance criteria related to the market price of the Company's stock is satisfied. The criteria is for any 30 consecutive trading days on the NASDAQ Stock Market (or such other principal securities exchange on which the Company's shares of common stock are then traded) during the period beginning on the grant date and ending on the fourth anniversary thereof, the cumulative average Volume Weighted Average Price per share is at least 15% higher than the closing price per share on the grant date plus any incremental dividends paid above the current quarterly dividend rate of $0.10 per share by the Company during such four year period. The performance criteria for the 2015 restricted stock units awarded to employees was satisfied during the second quarter of 2015. The Company utilizes the Monte Carlo technique to determine the fair value of restricted stock units granted for awards with market conditions.

For the three months and six months ended July 11, 2015, the Company recognized stock based compensation expense of $188 thousand and $323 thousand, respectively, compared to stock based compensation expense of $243 thousand and $400 thousand for the same periods in the prior year. At July 11, 2015 and July 12, 2014, respectively, there was $0.9 million and $0.9 million in unrecognized stock-based compensation expense related to non-vested stock awards.

Note H – Discontinued Operations

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

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

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

All Amounts in Thousands	Three Months Ended		Six Months Ended	
	July 11, 2015	July 12, 2014	July 11, 2015	July 12, 2014
Net sales	$ —	$ 9,555	$ —	$ 15,908
Cost of products sold	—	6,277	—	10,282
Selling, administrative and general expenses	—	3,331	—	5,467
Interest expense	—	93	—	162
Other expense (income)	—	13	—	13
Loss Before Income Taxes	—	(159)	—	(16)
Discontinued Operations				
Loss on classification as held for sale	—	(12,945)	—	(12,945)
Gain on disposal	—	547	—	547
Provision (benefit) for income taxes	—	(1,706)	—	(1,549)
Net Loss from Discontinued Operations	$ —	$ (10,851)	$ —	$ (10,865)

The assets and liabilities held for sale are summarized below.

All Amounts in Thousands	July 11, 2015	December 27, 2014	July 12, 2014
ASSETS			
Cash and cash equivalents	$ —	$ —	$1,333
Receivables, net	—	—	2,710
Inventories	—	—	6,785
Prepaid expenses	—	—	693
Property, plant and equipment, net	—	—	3,347
Intangible assets	—	—	1,110
Investments	—	—	329
Other assets	—	—	95
Less valuation allowance			12,054
Assets held for sale	$ —	$ —	$4,348
LIABILITIES			
Trade accounts payable	$ —	$ —	$565
Accrued liabilities	—	—	4,565
Liabilities held for sale	$ —	$ —	$5,130

Note I - Segment Information

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

In thousands	For the Three Months Ended July 11, 2015 Sporting Goods	Discontinued Operations	Corp.	Total
Revenues from external customers	$43,795	$ —	$—	$43,795
Operating income (loss)	5,253	—	(1,096)	4,157
Net income (loss)	3,237	—	(15)	3,222

In thousands	As of and for the Six Months Ended July 11, 2015 Sporting Goods	Discontinued Operations	Corp.	Total
Revenues from external customers	$77,214	$ —	$—	$77,214
Operating income (loss)	10,497	—	(2,053)	8,444
Net income	6,453	—	266	6,719
Total assets	$99,163	$ —	$25,837	$125,000

In thousands	For the Three Months Ended July 12, 2014 Sporting Goods	Discontinued Operations	Corp.	Total
Revenues from external customers	$38,012	$ 9,555	$—	$47,567
Operating income (loss)	5,198	(53)	(1,266)	3,879
Net income (loss)	3,144	(10,851)	(377)	(8,084)

In thousands	As of and for the Six Months Ended July 12, 2014 Sporting Goods	Discontinued Operations	Corp.	Total
Revenues from external customers	$65,733	$ 15,908	$—	$81,642
Operating income (loss)	9,467	159	(2,212)	7,414
Net income (loss)	5,763	(10,865)	(732)	(5,834)
Total assets	$88,099	$ 4,348	$26,901	$119,348

Note J – Dividend Payment

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

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

Note K - Earnings Per Share

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

In thousands	Three Months Ended		Six Months Ended	
	July 11, 2015	July 12, 2014	July 11, 2015	July 12, 2014
Weighted average common shares outstanding	14,072	13,867	14,047	13,789
Dilutive effect of stock options and restricted stock units	193	284	185	266
Weighted average common shares outstanding, assuming dilution	14,265	14,151	14,232	14,055

Stock options that are anti-dilutive as to earnings per share and unvested restricted stock units which have a market condition for vesting that has not been achieved are ignored in the computation of dilutive earnings per share. No stock options or restricted stock units were excluded in the computation of dilutive earnings per share in 2015 and 2014.

Note L – New Accounting Standards

There have been no recent accounting pronouncements or changes in accounting pronouncements during the six months ended July 11, 2015, as compared to the recent accounting pronouncements described in the Company's Annual Report on Form 10-K for the fiscal year ended December 27, 2014, that are of significance, or potential significance to the Company.

Note M – Commitments and Contingencies

The Company is involved in litigation arising in the normal course of business. The Company does not believe that the disposition or ultimate resolution of existing claims or lawsuits will have a material adverse effect on the business or financial condition of the Company.

Note N – Subsequent Events

On July 29, 2015, the Company acquired substantially all the business and assets of Onix Sports, Inc., a leader in pickleball equipment.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

This report contains forward-looking statements relating to present or future trends or factors that are subject to risks and uncertainties. These risks include, but are not limited to, the impact of competitive products and pricing, product demand and market acceptance, new product development, Escalade's ability to achieve its business objectives, especially with respect to its Sporting Goods business on which it has chosen to focus, Escalade's ability to successfully achieve the anticipated results of strategic transactions, including the integration of the operations of acquired assets and businesses and of divestitures of non-core assets and businesses, the continuation and development of key customer and supplier relationships, disruptions or delays in our supply chain, Escalade's ability to control costs, general economic conditions, fluctuation in operating results, changes in foreign currency exchange rates, changes in the securities market, Escalade's ability to obtain financing and to maintain compliance with the terms of such financing and other risks detailed from time to time in Escalade's filings with the Securities and Exchange Commission. Escalade's future financial performance could differ materially from the expectations of management contained herein. Escalade undertakes no obligation to release revisions to these forward-looking statements after the date of this report.

Overview

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

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

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

A majority of the Company's products are in markets that are currently experiencing low growth rates. Where the Company enjoys a commanding market position, such as table tennis tables, revenue growth is expected to be roughly equal to general macro-economic consumer trends.

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, and products that do not perform to the Company's expectations or no longer fit with the Company's strategic objectives.

Results of Operations

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

	Three Months Ended		Six Months Ended	
	July 11, 2015	July 12, 2014	July 11, 2015	July 12, 2014
Net revenue	100.0 %	100.0 %	100.0 %	100.0 %
Cost of products sold	69.9 %	69.6 %	68.9 %	68.7 %
Gross margin	30.1 %	30.4 %	31.1 %	31.3 %
Selling, administrative and general expenses	18.7 %	18.1 %	18.3 %	18.2 %
Amortization	1.9 %	2.0 %	1.9 %	2.0 %
Operating income	9.5 %	10.3 %	10.9 %	11.0 %

Revenue and Gross Margin

Revenue from the Sporting Goods business was up 15.2% for the second quarter of 2015 and up 17.5% for the first half of 2015, compared with the same periods in the prior year due to sales growth across most sales channels.

The overall gross margin percentage decreased slightly to 31.1% for the first half of 2015, compared to 31.3% for the same period in the prior year. The decreased gross margin resulted from increased product development investments.

Selling, General and Administrative Expenses

Selling, general and administrative expenses (SG&A) increased as a percent of net sales to 18.3% for the first half of 2014, compared with 18.2% experienced in the same period last year. The increase in SG&A is primarily due to increased marketing efforts in new categories acquired during 2014 as well as in new products to be introduced in the future.

Provision for Income Taxes

The effective tax rate on continuing operations for the first half of 2015 was 29.0% compared to 32.6% for the same period last year. The rate for the first half of this year is lower than prior year due to an increase in the benefit of the domestic production activities deduction and available foreign tax credits.

Financial Condition and Liquidity

Total debt at the end of the first half of 2015 was $13.0 million, a reduction of $8.2 million from December 27, 2014. Cash generated from operating profits was used to reduce debt and pay dividends. Notes payable increased 11% as compared with same period last year and decreased 43% as compared with year end. The following schedule summarizes the Company's total debt:

In thousands	July 11, 2015	December 27, 2014	July 12, 2014
Notes payable short-term	$9,193	$ 16,200	$8,317
Current portion long-term debt	1,604	1,586	1,580
Bank overdraft facility	—	—	203
Long term debt	2,155	3,360	3,758
Total	$12,952	$ 21,146	$13,858

As a percentage of stockholders' equity, total debt was 14%, 24% and 17% at July 11, 2015, December 27, 2014, and July 12, 2014 respectively.

The Company funds working capital requirements through operating cash flows and revolving credit agreements with its bank. Based on working capital requirements, the Company expects to have access to adequate levels of revolving credit to meet growth needs.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to financial market risks, including changes in currency exchange rates and interest rates. The Company attempts to minimize these risks through regular operating and financing activities and, when considered appropriate, through the use of derivative financial instruments. During the quarter there were no derivatives in use. The Company does not purchase, hold or sell derivative financial instruments for trading or speculative purposes. With the divestiture of its Information Security and Print Finishing business completed, the Company reduced its exposure to changes in currency exchange rates.

Interest Rates
The Company's exposure to market-rate risk for changes in interest rates relates primarily to its revolving variable rate bank debt which is based on LIBOR interest rates. A hypothetical 1% or 100 basis point change in interest rates would not have a significant effect on our consolidated financial position or results of operation.

Foreign Currency
The Company conducts business in various countries around the world and is therefore subject to risks associated with fluctuating foreign exchange rates. The Sporting Goods foreign currency transactions are denominated primarily in Mexican Peso and Chinese Yuan. The Company has a 50% interest in a joint venture, Stiga, which is denominated in Swedish Krona. Revenue from discontinued operations was generated from the operations of the Company's subsidiaries in their respective countries and surrounding geographic areas and was primarily denominated in each subsidiary's local functional currency. These former subsidiaries incurred most of their expenses (other than inter-company expenses) in their local functional currency and include the Euro, Great Britain Pound Sterling, Mexican Peso, Chinese Yuan, Swedish Krona and South African Rand.

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

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

performance.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Escalade maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based closely on the definition of "disclosure controls and procedures" in Rules 13a-15(e) and 15d-15(e). In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, could provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Also, the Company has investments in certain unconsolidated entities. As the Company does not control or manage these entities, its disclosure controls and procedures with respect to such entities are necessarily substantially more limited than those it maintains with respect to its consolidated subsidiaries.

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

Changes in Internal Control over Financial Reporting

Management of the Company has evaluated, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, changes in the Company's internal controls over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act) during the second quarter of 2015.

There have been no changes to the Company's internal control over financial reporting that occurred since the beginning of the Company's first quarter of 2015 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS.

None.

Item 1A. RISK FACTORS.

Not required.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

c) Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares (or Units)	(b) Average Price Paid per Share (or	(c) Total Number of Shares (or Units)	(d) Maximum Number (or Approximate Dollar Value)

	Purchased	Unit)	Purchased as Part of Publicly Announced Plans or Programs	of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
Shares purchases prior to 3/21/2015 under the current repurchase program.	982,916	$ 8.84	982,916	$ 2,273,939
Second quarter purchases:				
3/22/2015-4/18/2015	None	None	No Change	No Change
4/19/2015-5/16/2015	None	None	No Change	No Change
5/17/2015-6/13/2015	None	None	No Change	No Change
6/14/2015-7/11/2015	None	None	No Change	No Change
Total share purchases under the current program	982,916	$ 8.84	982,916	$ 2,273,939

The Company has one stock repurchase program which was established in February 2003 by the Board of Directors and which initially authorized management to expend up to $3,000,000 to repurchase shares on the open market as well as in private negotiated transactions. In February 2005, February 2006, August 2007 and February 2008 the Board of Directors increased the remaining balance on this plan to its original level of $3,000,000. The repurchase plan has no termination date and there have been no share repurchases that were not part of a publicly announced program.

Item 3. DEFAULTS UPON SENIOR SECURITIES.

None.

Item 4. MINE SAFETY DISCLOSURES.

Not applicable.

Item 5. OTHER INFORMATION.

None.

Item 6. EXHIBITS

Number	Description
3.1	Articles of Incorporation of Escalade, Incorporated. Incorporated by reference from the Company's 2007 First Quarter Report on Form 10-Q.
3.2	Amended By-laws of Escalade, Incorporated, as amended April 22, 2014. Incorporated by reference from the Company's First Quarter Report on Form 10-Q.
31.1	Chief Executive Officer Rule 13a-14(a)/15d-14(a) Certification.
31.2	Chief Financial Officer Rule 13a-14(a)/15d-14(a) Certification.
32.1	Chief Executive Officer Section 1350 Certification.
32.2	Chief Financial Officer Section 1350 Certification.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document

SIGNATURE

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

ESCALADE, INCORPORATED

Date: August 6, 2015 /s/ Stephen R. Wawrin
Vice President and Chief Financial Officer
(On behalf of the registrant and in his capacities as Principal Financial Officer and Principal Accounting Officer)