ESCALADE INC
Form 10-Q
August 04, 2016

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 9, 2016 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 3, 2016
Common, no par value	14,271,209

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PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

ESCALADE, INCORPORATED AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS

All Amounts in Thousands Except Share Information	July 9, 2016 (Unaudited)	December 26, 2015 (Audited)	July 11, 2015 (Unaudited)
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 3,263	$ 1,982	$ 2,268
Time deposits	—	—	750
Receivables, less allowance of $453; $1,086; and $744; respectively	33,385	38,984	27,366
Inventories	37,520	25,862	31,601
Prepaid expenses	2,194	2,534	2,264
Deferred income tax benefit	1,700	1,543	1,154
Prepaid income tax	1,139	1,910	2,317
TOTAL CURRENT ASSETS	79,201	72,815	67,720
Property, plant and equipment, net	14,256	14,363	12,856
Intangible assets, net	21,597	16,868	11,987
Goodwill	21,456	20,047	14,875
Investments	18,691	19,644	17,562
TOTAL ASSETS	$ 155,201	$ 143,737	$ 125,000
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Notes payable	$ 26,806	$ 19,776	$ 9,193
Current portion of long-term debt	1,605	1,810	1,604
Trade accounts payable	5,846	2,547	4,362
Accrued liabilities	10,312	14,174	11,622
TOTAL CURRENT LIABILITIES	44,569	38,307	26,781
Other Liabilities:			
Long-term debt	5,625	1,750	2,155
Deferred income tax liability	7,200	7,200	2,997
TOTAL LIABILITIES	57,394	47,257	31,933

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 – 14,271,209; 14,179,844; and 14,115,061; shares respectively	14,271	14,180	14,115
Retained earnings	86,783	85,478	82,386
Accumulated other comprehensive loss	(3,247)	(3,178)	(3,434)
TOTAL STOCKHOLDERS' EQUITY	97,807	96,480	93,067
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 155,201	$ 143,737	$ 125,000

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 9, 2016	July 11, 2015	July 9, 2016	July 11, 2015
Net sales	$48,463	$43,795	$83,031	$77,214
Costs and Expenses				
Cost of products sold	35,749	30,595	59,288	53,180
Selling, administrative and general expenses	8,910	8,199	16,673	14,113
Amortization	799	844	1,587	1,477
Operating Income	3,005	4,157	5,483	8,444
Other Income (Expense)				
Interest expense	(256)	(131)	(420)	(232)
Equity in earnings of affiliates	127	344	176	1,011
Other income	74	171	133	237
Income Before Income Taxes	2,950	4,541	5,372	9,460
Provision for Income Taxes	860	1,319	1,585	2,741
Net Income	$2,090	$3,222	$3,787	$6,719
Earnings Per Share Data:				
Basic earnings per share	$0.15	$0.23	$0.27	$0.48
Diluted earnings per share	$0.15	$0.23	$0.26	$0.47
Dividends declared	$0.11	$0.11	$0.22	$0.21

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		Six Months Ended	
	July 9, 2016	July 11, 2015	July 9, 2016	July 11, 2015
Net Income	$ 2,090	$ 3,222	$ 3,787	$ 6,719
Foreign currency translation adjustment	(750)	418	(69)	(1,470)
Comprehensive Income	$ 1,340	$ 3,640	$ 3,718	$ 5,249

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 9, 2016	July 11, 2015
Operating Activities:		
Net income	$3,787	$ 6,719
Depreciation and amortization	3,498	2,605
Loss (gain) on disposal of property and equipment	(154)	1
Stock-based compensation	243	299
Dividends received from equity method investments	1,060	928
Adjustments necessary to reconcile net income to net cash provided by operating activities	(4,053)	626
Net cash provided by operating activities	4,381	11,178
Investing Activities:		
Purchase of property and equipment	(1,817)	(2,388)
Acquisitions	(9,459)	—
Proceeds from sale of property and equipment	193	—
Proceeds from disposal of short-term time deposits	—	700
Net cash used in investing activities	(11,083)	(1,688)
Financing Activities:		
Net increase (decrease) in notes payable	7,030	(7,007)
Principal payments on long-term debt	(1,330)	(1,187)
Proceeds from issuance of long-term debt	5,000	—
Proceeds from exercise of stock options	364	672
Deferred financing fees	(83)	—
Cash dividends paid	(3,142)	(2,956)
Director stock compensation	144	24
Net cash provided by (used in) financing activities	7,983	(10,454)
Net increase (decrease) in cash and cash equivalents	1,281	(964)
Cash and cash equivalents, beginning of period	1,982	3,232
Cash and cash equivalents, end of period	$3,263	$ 2,268
Supplemental Cash Flows Information		
Dividends payable	$6	$ 2

See notes to Consolidated Condensed Financial Statements.

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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 26, 2015 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 2015 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 six month periods ended July 9, 2016 and July 11, 2015 are not necessarily indicative of the results to be expected for the full year.

Note C - Inventories

In thousands	July 9, 2016	December 26, 2015	July 11, 2015
Raw materials	$4,858	$ 3,621	$4,074
Work in progress	4,690	4,297	4,044
Finished goods	27,972	17,944	23,483

$37,520	$ 25,862	$31,601

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, snow sleds 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 9, 2016 and July 11, 2015 are addbacks to Stiga's consolidated net assets of $10.4 million and $10.6 million, respectively. These net differences are comprised of cumulative goodwill adjustments of $14.5 million offset by the related cumulative tax effect of $4.1 million as of July 9, 2016 and cumulative goodwill adjustments of $14.8 million offset by the related cumulative tax effect of $4.2 million as of July 11, 2015. The Company's 50% portion of the statement of operations impact of other individually insignificant U.S. GAAP adjustments for the six month periods ended July 9, 2016, and July 11, 2015 are to increase Stiga's net income by approximately zero and $0.4 million, respectively. The Company's 50% portion of net income for Stiga, included in equity in earnings of affiliates on the Company's statements of operations, for the three and six month periods ended July 9, 2016 and July 11, 2015 is as follows:

In thousands	Three Months Ended		Six Months Ended	
	July 9, 2016	July 11, 2015	July 9, 2016	July 11, 2015
Equity in earnings of affiliates	$ 127	$ 344	$ 176	$ 1,011

Summarized financial information for Stiga Sports AB balance sheets as of July 9, 2016, December 26, 2015, and July 11, 2015 and statements of operations for the three month and six month periods ended July 9, 2016 and July 11, 2015 is as follows:

In thousands	July 9, 2016	December 26, 2015	July 11, 2015
Current assets	$24,963	$ 29,300	$24,578
Non-current assets	9,860	9,908	9,101
Total assets	34,823	39,208	33,679
Current liabilities	3,013	5,096	3,911
Non-current liabilities	5,673	5,835	5,781
Total liabilities	8,686	10,931	9,692
Net assets	$26,137	$ 28,277	$23,987

In thousands	Three Months Ended		Six Months Ended	
	July 9, 2016	July 11, 2015	July 9, 2016	July 11, 2015
Net sales	$ 11,127	$ 11,716	$16,526	$ 17,315
Gross profit	5,185	5,724	7,743	8,595
Net income	255	690	352	1,208

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 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 9, 2016, December 26, 2015 and July 11, 2015.

July 9, 2016 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	$3,263	$ 3,263	$ —	$ —
Financial liabilities				
Notes payable	$26,806	$ —	$ 26,806	$ —
Current portion of long-term debt	$1,605	$ —	$ 1,605	$ —
Long-term debt	$5,625	$ —	$ 5,625	$ —

December 26, 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	$1,982	$ 1,982	$ —	$ —
Financial liabilities				
Notes payable	$19,776	$ —	$ 19,776	$ —
Current portion of long-term debt	$1,810	$ —	$ 1,810	$ —
Long-term debt	$1,750	$ —	$ 1,750	$ —

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	$ —

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 9, 2016 and pursuant to the 2007 Incentive Plan, in lieu of cash payments of director fees, the Company awarded to certain directors 13,112 shares of common stock. During the six months ended July 9, 2016, the Company awarded 13,250 restricted stock units to directors and 34,000 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 2016 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 $0.11 per share by the Company during such four year period. The Company utilizes the Monte Carlo technique to determine the fair value of restricted stock units granted for awards with market conditions. In addition, the Company awarded 20,000 stock options to an employee. The stock options awarded will vest over five years (one-third three years from the grant date, one-third four years from the grant date and one-third five years from the grant date). The stock options have an exercise price 15% higher than the closing price of a share of Escalade common stock on the grant date and are subject to forfeiture if on the vesting date the employee is no longer employed. The Company utilizes the Black-Scholes option pricing model to determine the fair value of stock options granted.

For the three and six month periods ended July 9, 2016, including expense associated with issuing certain directors stock in lieu of cash for certain director fees, the Company recognized stock based compensation expense of $280 thousand and $387 thousand, respectively, compared to stock based compensation expense of $188 thousand and $323 thousand for the same periods in the prior year. At July 9, 2016 and July 11, 2015, respectively, there was $0.8 million and $0.9 million in unrecognized stock-based compensation expense related to non-vested stock awards.

Note H - Segment Information

	For the Three Months Ended July 9, 2016		
In thousands	Sporting Goods	Corp.	Total
Revenues from external customers	$48,463	$—	$48,463
Operating income (loss)	3,801	(796)	3,005
Net income (loss)	2,128	(38)	2,090

	As of and for the Six Months Ended July 9, 2016		

In thousands	Sporting Goods	Corp.	Total
Revenues from external customers	$83,031	$—	$83,031
Operating income (loss)	6,990	(1,507)	5,483
Net income (loss)	3,990	(203)	3,787
Total assets	$128,809	$26,392	$155,201

In thousands	For the Three Months Ended July 11, 2015		
	Sporting Goods	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	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

Note I – Dividend Payment

On June 17, 2016, the company paid a quarterly dividend of $0.11 per common share to all shareholders of record on June 10, 2016. The total amount of the dividend was approximately $1.6 million and was charged against retained earnings.

On March 21, 2016, the Company paid a quarterly dividend of $0.11 per common share to all shareholders of record on March 14, 2016 (the amount was funded to the transfer agent by the Company on March 16, 2016). The total amount of the dividend was approximately $1.6 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		Six Months Ended	
	July 9, 2016	July 11, 2015	July 9, 2016	July 11, 2015
Weighted average common shares outstanding	14,265	14,072	14,237	14,047
Dilutive effect of stock options and restricted stock units	74	193	81	185
Weighted average common shares outstanding, assuming dilution	14,339	14,265	14,318	14,232

Stock options that are anti-dilutive as to earnings per share and unvested restricted stock units which have a market condition for vesting that has not been achieved are ignored in the computation of dilutive earnings per share. The number of stock options and restricted stock units that were excluded in 2016 and 2015 were 68,700 and zero, respectively.

Note K – New Accounting Standards

With the exception of that discussed below, there have been no recent accounting pronouncements or changes in accounting pronouncements during the three and six month periods ended July 9, 2016, as compared to the recent accounting pronouncements described in the Company's Annual Report on Form 10-K for the fiscal year ended December 26, 2015, 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)*. 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. This amendment is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is evaluating the effect, if any, on its financial statements.

In March 2016, FASB issued ASU 2016-09, "*Compensation – Stock Compensation (Topic 718)*. The amendments in this update are intended to simplify accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This amendment is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted for any interim or annual period. The Company is currently evaluating the effect that the updated standard will have on its consolidated financial statements and related disclosures.

Note L – 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 M – Acquisitions

On January 21, 2016, the Company acquired substantially all of the business and assets of Triumph Sports USA, Inc.'s business, a brand known for its innovative lines of indoor and outdoor games. Of the $10.0 million purchase price for the acquisition, $9.5 million was paid in cash and the remaining $0.5 million is contingent upon the attainment of certain targets. The more significant assets acquired and liabilities assumed were comprised of receivables ($1.4 million), inventory ($1.4 million), prepaid and other assets ($0.1 million), accounts payable ($0.6 million), goodwill ($1.4 million) and other intangible assets ($6.3 million).

This acquisition was not and would not have been material to the Company's net sales, results of operations or total assets during the three and six month periods ended July 9, 2016. Accordingly, our consolidated results from operations do not differ materially from historical performance as a result of this acquisition, and therefore, pro-forma results are not presented.

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 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. Concentrated focus on the sporting goods industry will allow the Company to leverage its strength in these markets.

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. In the first quarter of 2016, the Company acquired substantially all of the business and assets of Triumph Sports USA, Inc.’s business, a brand known for its innovative lines of indoor and outdoor games. 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 as a percentage of net revenue:

	Three Months Ended				Six Months Ended			
	July 9, 2016		July 11, 2015		July 9, 2016		July 11, 2015	
Net revenue	100.0	%	100.0	%	100.0	%	100.0	%
Cost of products sold	73.8	%	69.9	%	71.4	%	68.9	%
Gross margin	26.2	%	30.1	%	28.6	%	31.1	%
Selling, administrative and general expenses	18.4	%	18.7	%	20.1	%	18.3	%
Amortization	1.6	%	1.9	%	1.9	%	1.9	%
Operating income	6.2	%	9.5	%	6.6	%	10.9	%

Revenue and Gross Margin

Revenue from the Sporting Goods business was up 10.7% for the second quarter of 2016 and up 7.5% for the first half of 2016. Sales increased with the introduction of new products and acquisitions completed during 2015 and 2016, but were partially offset by continued declines in the archery business.

The overall gross margin percentage decreased to 28.6% for the first six months of 2016, compared to 31.1% for the same period in the prior year. The reduction in gross margin is a combination of decreased sales in the archery category as well as an unfavorable change in product mix.

Selling, General and Administrative Expenses

Selling, general and administrative expenses (SG&A) increased as a percent of net sales to 20.1% for the first half of 2016, compared with 18.3% experienced in the same period last year. The increase in SG&A is primarily due to one-time costs associated with bad debt expenses incurred related to Sports Authority’s bankruptcy filing and increased marketing efforts and selling expenses for new products introduced in 2016.

Provision for Income Taxes

The effective tax rate for the first half of 2016 was 29.5% compared to 29.0% for the same period last year.

Financial Condition and Liquidity

Total debt at the end of the first half of 2016 was $34.0 million, an increase of $10.7 million from December 26, 2015. Cash used for acquisitions was the primary driver for the increase in total debt. Notes payable increased 192% as compared with same period last year and increased 36% as compared with year end. The following schedule summarizes the Company’s total debt:

In thousands

	July 9, 2016	December 26, 2015	July 11, 2015
Notes payable short-term	$26,806	$ 19,776	$9,193
Current portion long-term debt	1,605	1,810	1,604
Long term debt	5,625	1,750	2,155
Total	$34,036	$ 23,336	$12,952

As a percentage of stockholders' equity, total debt was 35%, 24% and 14% at July 9, 2016, December 26, 2015, and July 11, 2015 respectively.

On January 21, 2016, the Company entered into a Second Amended and Restated Credit Agreement ("Restated Credit Agreement") with its issuing bank, JP Morgan Chase Bank, N.A. ("Chase"), and the other lenders identified in the Restated Credit Agreement (collectively, the "Lender"). Under the terms of the Restated Credit Agreement, the Lender has made available to the Company a senior revolving credit facility in an increased maximum amount of up to $35.0 million and a term loan in an increased principal amount of $7.5 million. The maturity date of the revolving credit facility was extended to January 21, 2019 and the maturity of the term loan facility was extended to January 21, 2021.

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.

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.

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 2016.

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 2016 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
Shares purchases prior to 3/19/2016 under the current repurchase program.	982,916	$ 8.84	982,916	$ 2,273,939
Second quarter purchases:				
3/20/2016-4/16/2016	None	None	No Change	No Change
4/17/2016-5/14/2016	None	None	No Change	No Change
5/15/2016-6/11/2016	None	None	No Change	No Change
6/12/2016-7/9/2016	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.
10.1	Executive Severance Agreement dated as of June 9, 2016 by and between Escalade, Incorporated and David L. Fetherman. Incorporated by reference from the Company's Form 8-K filed on June 13, 2016.
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 4, 2016

/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)