ESCALADE INC
Form 10-Q
November 01, 2018

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 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)

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 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 x 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 x
	Smaller reporting company x
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 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 October 30, 2018
Common, no par value	14,439,724

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PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

ESCALADE, INCORPORATED AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS

All Amounts in Thousands Except Share Information	**October 6, 2018** (Unaudited)	**December 30, 2017** (Audited)	**October 7, 2017** (Unaudited)
ASSETS			
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	—	—
TOTAL CURRENT ASSETS	96,297	80,260	82,810
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
TOTAL ASSETS	$ 149,836	$ 156,105	$ 158,247
LIABILITIES AND STOCKHOLDERS' EQUITY			
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	—	—
TOTAL CURRENT LIABILITIES	20,444	19,542	22,012
Other Liabilities:			
Long-term debt	—	21,871	24,738
Deferred income tax liability	2,469	2,469	5,375

Other liabilities	503	553	—
TOTAL LIABILITIES	23,416	44,435	52,125
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)
TOTAL STOCKHOLDERS' EQUITY	126,420	111,670	106,122
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 149,836	$ 156,105	$ 158,247

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 October 6, 2018	Three Months Ended October 7, 2017	Nine Months Ended October 6, 2018	Nine Months Ended 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 October 6, 2018	Three Months Ended October 7, 2017	Nine Months Ended October 6, 2018	Nine Months Ended 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
Operating Activities:		
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
Investing Activities:		
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)
Financing Activities:		
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
Non-Cash Transactions		
Note payable for deferred purchase price obligation	$—	$ 50

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 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

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:

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.

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 $0.6 million in income tax expense during the three and nine month periods ended October 6, 2018. We do not expect any further changes or adjustments to be made for the accumulated foreign earnings and corresponding foreign tax credit.

Note F – Fair Values of Financial Instruments

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

Cash and Cash Equivalents

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

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Long-term Debt

Fair values of long-term debt is estimated based on borrowing rates currently available to the Company for bank loans with similar terms and maturities and determined through the use of a discounted cash flow model. Proceeds from the sale of the Company's 50% interest in Stiga were used to pay off outstanding debt during the nine months ending October 6, 2018.

The following table presents estimated fair values of the Company's financial instruments and the level within the fair value hierarchy in which the fair value measurements fall in accordance with FASB ASC 825 at October 6, 2018, December 30, 2017 and October 7, 2017.

October 6, 2018 In thousands	Carrying Amount	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets				
Cash and cash equivalents	$ 11,121	$ 11,121	$ —	$ —

December 30, 2017 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	$ 1,572	$ 1,572	$ —	$ —
Financial liabilities				
Current portion of long-term debt	$ 1,250	$ —	$ 1,250	$ —
Long-term debt	$ 21,871	$ —	$ 21,871	$ —

October 7, 2017 In thousands	Carrying Amount	Fair Value Measurements Using Quoted Prices in Active	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs

		Markets for Identical Assets (Level 1)		(Level 3)
Financial assets				
Cash and cash equivalents	$ 1,646	$ 1,646	$ —	$ —
Financial liabilities				
Current portion of long-term debt	$ 1,300	$ —	$ 1,300	$ —
Long-term debt	$ 24,738	$ —	$ 24,738	$ —

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 nine months ended October 6, 2018 and pursuant to the 2017 Incentive Plan, in lieu of cash payments of director fees, the Company awarded to certain directors 11,530 shares of common stock. During the nine months ended October 6, 2018, the Company awarded 14,250 restricted stock units to directors and 40,278 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 2018 restricted stock units awarded to employees fully 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 on each applicable vesting date and that the performance criteria related to the market price of the Company’s stock is satisfied. The performance 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 $0.125 per share by the Company during such four year period. If the performance criteria is not satisfied as of an applicable vesting date, then one-half of the RSUs eligible to vest on that date will vest and the remaining one-half will vest if, and only if, the performance criteria is met prior to the end of the four year vesting period. 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 and nine months ended October 6, 2018, including expense associated with issuing certain directors stock in lieu of cash for certain director fees, the Company recognized stock based compensation expense of $98 thousand and $633 thousand, respectively compared to stock based compensation expense of $103 thousand and $543 thousand for the same periods in the prior year. At October 6, 2018 and October 7, 2017, respectively, there was $0.7 million and $0.6 million in unrecognized stock-based compensation expense related to non-vested stock awards.

Note H - Segment Information

	For the Three Months Ended October 6, 2018		
In thousands	Sporting Goods	Corp.	Total
Revenues from external customers	$43,955	$—	$43,955
Operating income (loss)	5,483	(349)	5,134
Net income (loss)	3,957	(382)	3,575

	As of and for the Nine Months Ended October 6, 2018		
In thousands	Sporting Goods	Corp.	Total
Revenues from external customers	$124,788	$—	$124,788
Operating income (loss)	10,044	(1,244)	8,800
Net income	7,026	9,836	16,862
Total assets	$138,286	$11,550	$149,836

	For the Three Months Ended October 7, 2017		
In thousands	Sporting Goods	Corp.	Total
Revenues from external customers	$42,861	$—	$42,861
Operating income (loss)	5,046	(918)	4,128
Net income	2,834	284	3,118

	As of and for the Nine Months Ended October 7, 2017		
In thousands		Corp.	Total

	Sporting Goods		
Revenues from external customers	$ 128,648	$ —	$ 128,648
Operating income (loss)	11,215	(1,759)	9,456
Net income	6,233	369	6,602
Total assets	$ 135,574	$ 22,673	$ 158,247

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Note I – Dividend Payment

On September 17, 2018, the Company paid a quarterly dividend of $0.125 per common share to all shareholders of record on September 10, 2018. The total amount of the dividend was approximately $1.8 million and was charged against retained earnings.

On June 14, 2018, the Company paid a quarterly dividend of $0.125 per common share to all shareholders of record on June 7, 2018. The total amount of the dividend was approximately $1.8 million and was charged against retained earnings.

On March 19, 2018, the Company paid a quarterly dividend of $0.125 per common share to all shareholders of record on March 12, 2018. The total amount of the dividend was approximately $1.8 million and was charged against retained earnings.

Note J - Earnings Per Share

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

	Three Months Ended		Nine Months Ended	
In thousands	October 6, 2018	October 7, 2017	October 6, 2018	October 7, 2017
Weighted average common shares outstanding	14,440	14,367	14,417	14,347
Dilutive effect of stock options and restricted stock units	29	33	30	33
Weighted average common shares outstanding, assuming dilution	14,469	14,400	14,447	14,380

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 2018 and 2017 were 69,531 and 77,600, respectively.

Note K – New Accounting Standards and Changes in Accounting Principles

With the exception of that discussed below, there have been no recent accounting pronouncements or changes in accounting pronouncements during the three and nine month periods ended October 6, 2018, as compared to the recent accounting pronouncements described in the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2017, that are of significance, or potential significance to the Company.

In May 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU) 2017-09, Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting, which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. ASU 2017-09 is effective for annual periods beginning after December 15, 2017, with early adoption permitted, including adoption in any interim period for which financial statements have not yet been issued. The Company adopted this standard on December 31, 2017. The adoption of this ASU did not have an impact on our condensed consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805) to clarify the definition of a business to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. ASU 2017-01 is effective for fiscal years beginning after December 15, 2017 including interim periods within those fiscal years. The Company adopted this standard on December 31, 2017. The adoption did not have any impact on our condensed consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The new standard is in response to current diversity in practice and will make eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017 including interim periods within those fiscal years, with early adoption permitted. The Company adopted this standard on December 31, 2017. The adoption of this ASU did not have any impact on our consolidated condensed statements of cash flows.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which outlines a single comprehensive revenue model for entities to use in accounting for revenue arising from contracts with customers. The guidance supersedes most current revenue recognition guidance, including industry-specific guidance, and requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. ASU 2014-09 is effective for fiscal years beginning after December 15, 2017 including interim periods within those fiscal years, with early adoption permitted for periods beginning after December 15, 2016. The guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (modified retrospective method). In 2016, the FASB issued further guidance that offers narrow scope improvements and clarifies certain implementation issues related to revenue recognition, including principal versus agent considerations and the identification of performance obligations and licensing. These additional updates have the same effective date as the new revenue guidance.

The Company adopted this standard on December 31, 2017 using the modified retrospective method. The adoption of this standard did not impact the timing of revenue recognition for our customer sales. We do not incur significant costs to obtain or to fulfill revenue contracts. For the Company, the most significant impact of the new standard is the requirement for enhanced footnote disclosures. Refer to Note L for disclosure requirements related to the adoption of this standard.

Note L – Revenue from Contracts with Customers

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

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

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

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

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

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

All Amounts in Thousands	Three Months Ended October 6, 2018	October 7, 2017	Nine Months Ended October 6, 2018	October 7, 2017
Gross Sales by Channel:				
Mass Merchants	$ 20,074	$ 22,247	$ 52,767	$ 60,510
Specialty Dealers	11,954	12,418	43,915	43,756
E-commerce	13,806	10,490	34,060	31,994
International	1,684	1,568	6,266	4,512
Other	663	58	1,200	347
Total Gross Sales	48,181	46,781	138,208	141,119
Less: Gross-to-Net Sales Adjustments				
Returns	1,315	1,074	3,513	3,445
Warranties	289	245	1,090	566
Customer Allowances	2,622	2,601	8,817	8,460
Total Gross-to-Net Sales Adjustments	4,226	3,920	13,420	12,471
Total Net Sales	$ 43,955	$ 42,861	$ 124,788	$ 128,648

Contract Balances – The following table provides information on changes in our contract liability balances during the three and nine month periods ending October 6, 2018 and October 7, 2017. The contract liability recorded during the nine month periods ending October 6, 2018 is related to a lump sum payment received for consulting services to be provided over the next year. The contract liability will be amortized, and revenues recognized, evenly over the year. At October 6, 2018, the contract liability balance was $671 and was reported within Accrued liabilities in our Consolidated Condensed Balance Sheet.

All Amounts in Thousands	Three Months Ended October 6, 2018	October 7, 2017	Nine Months Ended October 6, 2018	October 7, 2017
Increase due to cash received, excluding amounts recognized as revenue during the period	$ -	$ -	$ 671	$ -
Revenue recognized that was included in the contract liability balance at the beginning of the period	259	-	-	-
Increase (decrease) in contract liability during the period	$ (259)	$ -	$ 671	$ -

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.

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

Forward-Looking Statements

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

Overview

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

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

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

The Company is working to overcome the industry-wide downturn in the archery category, and bankruptcies that have plagued the retail industry. We believe these conditions have masked improvements in our other existing and acquired businesses and the expansion of our online distribution channels. Management believes that key indicators in measuring the success of these strategies are revenue growth, earnings growth, new product introductions, and the expansion of channels of distribution.

Results of Operations

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

	Three Months Ended		Nine Months Ended	
	October 6, 2018	October 7, 2017	October 6, 2018	October 7, 2017
Net revenue	100.0 %	100.0 %	100.0 %	100.0 %
Cost of products sold	72.0 %	73.5 %	73.7 %	74.6 %
Gross margin	28.0 %	26.5 %	26.3 %	25.4 %
Selling, administrative and general expenses	15.6 %	16.0 %	18.3 %	17.1 %
Amortization	0.7 %	0.9 %	0.9 %	0.9 %
Operating income	11.7 %	9.6 %	7.1 %	7.4 %

Revenue and Gross Margin

Sales increased by 2.6% for the third quarter of 2018, compared with the same period in the prior year due to increases in our Archery and Indoor Games product categories. For the first nine months of 2018, sales were down 3.0% compared to prior year.

The overall gross margin percentage increased to 28.0% for the third quarter of 2018, compared to 26.5% for 2017 due to product mix. Gross margin percentage increased to 26.3% for the first nine months of 2018, compared to 25.4% for the same period in the prior year.

Selling, General and Administrative Expenses

Selling, general and administrative expenses (SG&A) were flat for the third quarter of 2018 compared to $6.9 million for the same period in the prior year. SG&A as a percent of sales is 15.6% for the third quarter of 2018 compared with 16.0% for the same period in the prior year. For the first nine months of 2018, SG&A were $22.9 million compared to $22.1 million for the same period in 2017, an increase of $0.8 million or 4.0%. As a percent of sales, SG&A is 18.3% for the first nine months of 2018 compared with 17.1% for the same period in the prior year.

Other Income and Expense

During the first nine months of 2018, the Company sold its 50% equity interest in Stiga Sports AB (Stiga) for $33.7 million, resulting in a gain on sale of $13.0 million. This one time gain substantially increased the Company's year to date earnings for 2018.

Provision for Income Taxes

The effective tax rate for the first nine months of 2018 was 21.4% compared to 31.9% for the same period last year. The effective tax rate for 2018 is lower than 2017 as a result of the Tax Cuts and Jobs Act of 2017 effective for 2018 calendar year.

Financial Condition and Liquidity

Total debt at the end of the first nine months of 2018 was zero. Proceeds from the sale of the Company's 50% interest in Stiga were used to pay off outstanding debt. The following schedule summarizes the Company's total debt:

In thousands	October 6, 2018	December 30, 2017	October 7, 2017
Current portion long-term debt	$ 0	$ 1,250	$ 1,300
Long term debt	0	21,871	24,738
Total	$ 0	$ 23,121	$ 26,038

As a percentage of stockholders' equity, total debt was zero, 20.7% and 24.5% at October 6, 2018, December 30, 2017, and October 7, 2017 respectively.

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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. The Company's use of proceeds from the Stiga sale to repay its outstanding bank indebtedness included repayment of the $4.7 million outstanding amount on its term loan. The Company believes that its revolving credit facility, which had availability of $35.0 million as of October 6, 2018, is sufficient and that such term loan was not needed prior to its scheduled January 2021 maturity.

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 geographic areas outside the United States in which the Company operates 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.

The Company and its subsidiaries conduct substantially all of their business in their respective currencies to avoid the effects of cross-border transactions. The functional currency for the foreign operations of Escalade is the U.S. dollar. 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.

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 third quarter of 2018.

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 2018 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	(b) Average Price Paid	(c) Total Number of Shares (or	(d) Maximum Number (or Approximate

	Units) Purchased	per Share (or Unit)	Units) Purchased as Part of Publicly Announced Plans or Programs	Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
Share purchases prior to 7/14/2018 under the current repurchase program.	982,916	$ 8.84	982,916	$ 2,273,939
Third quarter purchases:				
7/15/2018–8/11/2018	None	None	No Change	No Change
8/12/2018-9/8/2018	None	None	No Change	No Change
9/9/2018-10/6/2018	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 2014 First Quarter Report on Form 10-Q.
31.1	Chief Executive Officer Rule 13a-14(a)/15d-14(a) Certification.
31.2	Chief Financial Officer Rule 13a-14(a)/15d-14(a) Certification.
32.1	Chief Executive Officer Section 1350 Certification.
32.2	Chief Financial Officer Section 1350 Certification.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document

SIGNATURE

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

		ESCALADE, INCORPORATED
Date:	November 1, 2018	/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)

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