ESCALADE INC
Form 10-Q
November 05, 2013

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 quarter ended October 5, 2013 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 (State of incorporation)	13-2739290 (I.R.S. EIN)
817 Maxwell Ave, Evansville, Indiana (Address of principal executive office)	47711 (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 definition of “accelerated filer”, “large accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12 b-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 November 1, 2013
Common, no par value	13,538,473

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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 5, 2013 (Unaudited)	December 29, 2012 (Audited)	October 6, 2012 (Unaudited)
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 1,801	$ 2,544	$ 3,255
Time deposits	2,320	1,200	1,200
Receivables, less allowance of $1,124; $1,096; and $979; respectively	34,367	33,496	27,379
Inventories	40,656	30,864	37,968
Prepaid expenses	1,433	1,308	1,279
Deferred income tax benefit	1,478	1,553	1,288
TOTAL CURRENT ASSETS	82,055	70,965	72,369
Property, plant and equipment, net	14,744	12,281	12,095
Intangible assets	11,415	12,919	12,175
Goodwill	12,017	12,017	12,017
Investments	18,232	17,487	15,505
Other assets	147	71	26
TOTAL ASSETS	$ 138,610	$ 125,740	$ 124,187
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Notes payable	$ 18,785	$ 17,070	$ 14,033
Current portion of long-term debt	1,563	2,000	2,000
Trade accounts payable	6,470	3,946	7,089
Accrued liabilities	17,103	15,274	14,222
Income tax payable	272	19	3,318
TOTAL CURRENT LIABILITIES	44,193	38,309	40,662
Other Liabilities:			
Long-term debt	5,196	3,500	3,500
Deferred income tax liability	3,774	3,474	2,723
TOTAL LIABILITIES	53,163	45,283	46,885
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 13,533,183;	13,533	13,427	13,413

13,427,339; and 13,413,094; shares respectively						
Retained earnings		66,952		62,937		59,923
Accumulated other comprehensive income		4,962		4,093		3,966
TOTAL SHAREHOLDERS' EQUITY		85,447		80,457		77,302
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	138,610	$	125,740	$	124,187

See notes to Consolidated Condensed Financial Statements.

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ESCALADE, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS (UNAUDITED)
(All amounts in thousands, except per share amounts)

	Three Months Ended		Nine Months Ended	
	October 5, 2013	October 6, 2012	October 5, 2013	October 6, 2012
Net sales	$ 38,482	$ 34,206	$ 117,305	$ 106,800
Costs, expenses and other income:				
Cost of products sold	26,945	23,249	79,210	72,943
Selling, general and administrative expenses	7,748	7,466	24,646	23,729
Goodwill and intangible asset impairment charges		13,362		13,362
Amortization	544	516	1,819	1,722
Operating income (Loss)	3,245	(10,387)	11,630	(4,956)
Interest expense, net	(176)	(144)	(596)	(490)
Other income	931	919	867	1,331
Equity method investment impairment		(382)		(382)
Income (Loss) before income taxes	4,000	(9,994)	11,901	(4,497)
Provision for income taxes	1,487	1,509	5,146	4,343
Net income (Loss)	$ 2,513	$ (11,503)	$ 6,755	$ (8,840)
Per share data:				
Basic earnings (loss) per share	$ 0.19	$ (0.86)	$ 0.50	$ (0.67)
Diluted earnings (loss) per share	$ 0.18	$ (0.85)	$ 0.50	$ (0.66)
Dividends declared	$ 0.09	$ 0.08	$ 0.25	$ 0.23

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

	Three Months Ended		Nine Months Ended	
	October 5, 2013	October 6, 2012	October 5, 2013	October 6, 2012
Net income (Loss)	$ 2,513	$ (11,503)	$ 6,755	$ (8,840)
Foreign currency translation adjustment	1,137	1,877	869	633
Comprehensive income (loss)	$ 3,650	$ (9,626)	$ 7,624	$ (8,207)

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 5, 2013		October 6, 2012
Operating Activities:				
Net income (loss)	$	6,755	$	(8,840)
Depreciation and amortization		3,349		3,380
Goodwill and intangible asset impairment charges				13,362
Stock-based compensation		439		432
Equity method investment impairment charges				382
Loss on disposal of property and equipment		11		18
Adjustments necessary to reconcile net income (loss) to net cash used by operating activities		(5,976)		(1,463)
Net cash provided by operating activities		4,578		7,271
Investing Activities:				
Purchase of property and equipment		(1,873)		(1,831)
Purchase of short-term time deposits		(1,820)		(250)
Proceeds from disposal of short-term time deposits		700		
Proceeds from sale of property and equipment		2		5
Net cash used by investing activities		(2,991)		(2,076)
Financing Activities:				
Dividends paid		(3,382)		(3,965)
Principal payment on long-term debt		(2,041)		(1,500)
Net increase (decrease) in overdraft facility		(1,831)		113
Net increase (decrease) in notes payable		3,546		(1,027)
Proceeds from restated credit agreement		1,000		
Proceeds from exercise of stock options		168		438
Director stock compensation		139		150
Net cash used by financing activities		(2,401)		(5,791)
Effect of exchange rate changes on cash		71		30
Net decrease in cash and cash equivalents		(743)		(566)
Cash and cash equivalents, beginning of period		2,544		3,821
Cash and cash equivalents, end of period	$	1,801	$	3,255
Supplemental Cash Flows Information				
Seller note issued in purchase of real estate	$	2,300		

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 annual financial reporting. All adjustments that are of a normal recurring nature and are in the opinion of management necessary for a fair statement of the results for the periods reported have been included in the accompanying consolidated condensed financial statements. The consolidated condensed balance sheet of the Company as of December 29, 2012 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 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 2012 filed with the Securities and Exchange Commission.

Note B - Seasonal Aspects

The results of operations for the three and nine month periods ended October 5, 2013 and October 6, 2012 are not necessarily indicative of the results to be expected for the full year.

Note C - Inventories

In thousands	October 5, 2013		December 29, 2012		October 6, 2012	
Raw materials	$	8,619	$	8,330	$	8,949
Work in progress		5,177		4,247		4,697
Finished goods		26,860		18,287		24,322
	$	40,656	$	30,864	$	37,968

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 including winter sport equipment. 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 effect on Stiga's net assets resulting from the amortization of goodwill for the periods ended October 5, 2013 and October 6, 2012 are addbacks to Stiga's consolidated financial information of $13.0 million and $10.9 million, respectively. These net differences are comprised of cumulative goodwill adjustments of $18.2 million offset by the related cumulative tax effect of $5.2 million as of October 5, 2013 and cumulative goodwill adjustments of $15.2 million offset by the related cumulative tax effect of $4.3 million as of October 6, 2012. The statement of operations impact of these goodwill and tax adjustments and other individually insignificant U.S. GAAP adjustments for the periods ended October 5, 2013, and October 6, 2012 are to increase Stiga's net income by approximately $1.2 million and $1.3 million, respectively. The Company's 50% portion of net income for Stiga for the periods ended October 5, 2013 and October 6, 2012 was $1.3 million and $1.4 million, respectively, and is included in other income on the Company's statements of operations.

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In addition, Escalade has a 50% interest in two joint ventures, Escalade International, Ltd. in the United Kingdom, and Neoteric Industries Inc. in Taiwan. Escalade International Ltd. was a sporting goods wholesaler, specializing in fitness equipment. During the second quarter of 2013, the decision was made to cease operations and liquidate Escalade International, Ltd. Losses incurred include shutdown costs. As a result, the Company's 50% portion of net loss for Escalade International, Ltd. for the nine months ended October 5, 2013 and October 6, 2012 was ($609) thousand and ($137) thousand respectively, and is included in other income (expense) on the Company's statements of operations. The losses incurred during 2013 reduce to zero the Company's investment in Escalade International, Ltd. The income and assets of Neoteric have no impact on the Company's financial reporting. Additional information regarding these entities is considered immaterial and has not been included in the totals listed below.

Summarized financial information for Stiga Sports AB balance sheets as of October 5, 2013, December 29, 2012, and October 6, 2012 and statements of operations for the periods ended October 5, 2013 and October 6, 2012 is as follows:

In thousands	October 5, 2013	December 29, 2012	October 6, 2012
Current assets	$ 29,894	$ 28,538	$ 24,086
Non-current assets	10,075	8,065	8,419
Total assets	39,969	36,603	32,505
Current liabilities	12,358	10,850	9,389
Non-current liabilities	5,454	4,487	5,105
Total liabilities	17,812	15,337	14,494
Net assets	$ 22,157	$ 21,266	$ 18,011

	Three Months Ended		Nine Months Ended	
	October 5, 2013	October 6, 2012	October 5, 2013	October 6, 2012
Net sales	$ 11,520	$ 11,148	$ 26,285	$ 23,923
Gross profit	5,957	5,800	13,412	12,212
Net income	1,471	1,829	1,475	1,609

Note E Notes Payable

On August 27, 2013, the Company and each of its domestic subsidiaries entered into a First Amended and Restated Credit Agreement ("Restated Credit Agreement") with its issuing bank, JPMorgan Chase Bank, N.A. ("Chase"), and the other lenders identified in the Restated Credit Agreement (collectively, the "Lender"). The Restated Credit Agreement amends and restates the existing Credit Agreement dated as of April 30, 2009, as amended by the Amendments First through Tenth, between the Company and the Lender.

Under the terms of the Restated Credit Agreement, the Lender has made available to the Company a senior revolving credit facility in the maximum amount of up to $22.0 million ("Revolving USD Facility") and a term loan in the principal amount of $5.0 million ("Term Loan"). Escalade is required to repay the outstanding principal balance of the Revolving USD Facility, including all accrued and unpaid interest thereon, on August 27, 2016. Escalade may prepay the Revolving USD Facility, in whole or in part, and reborrow prior to the maturity date. The Company is required to repay the outstanding principal balance of the Term Loan, including all accrued and unpaid interest thereon, on August 27, 2016. Beginning with the calendar quarter ending September 30, 2013, the Company is required to make repayments of the principal balance of the Term Loan in equal installments of $250 thousand per calendar quarter, with interest accrued thereon. Principal amounts repaid in respect of the Term Loan may not be re-borrowed. In addition, the Euro overdraft facility has been reduced from €2.0 million to €1.0 million. The credit facility and term debt are secured by substantially all assets of the Company.

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During the first quarter, the Company entered into a seller-financed agreement for the purchase of its formerly leased real estate in Mexico. The agreement requires sixteen quarterly installments of $156 thousand each with a maturity date of November 30, 2016. The outstanding principal balance as of October 5, 2013 was $1.8 million.

Note F Income Taxes

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

	Nine Months Ended	
	October 5,	October 6,
In thousands	2013	2012
Beginning Balance	$	$ 46
Additions for current year tax positions		
Additions for prior year tax positions		
Settlements		
Reductions settlements		
Reductions for prior year tax positions		
Ending Balance	$	$ 46

Note G 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 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 October 5, 2013 and October 6, 2012.

October 5, 2013 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	$ 1,801	$ 1,801	$	$
Time deposits	$ 2,320	$ 2,320	$	$
Financial liabilities				
Notes payable	$ 18,785	$	$ 18,785	$
Current portion of Long-term debt	$ 1,563	$	$ 1,563	$
Long-term debt	$ 5,196	$	$ 5,196	$

October 6, 2012 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	$ 3,255	$ 3,255	$	$
Time deposits	$ 1,200	$ 1,200	$	$
Financial liabilities				
Notes payable	$ 14,033	$	$ 14,033	$
Current portion of Long-term debt	$ 2,000	$	$ 2,000	$
Long-term debt	$ 3,500	$	$ 3,500	$

The outstanding balance of the euro overdraft facility is included in Notes payable. For the periods ended October 5, 2013, December 29, 2012, and October 6, 2012, the balance of the euro overdraft facility was $0.6 million, $2.5 million, and $2.4 million, respectively.

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying balance sheet, as well as the general classification of such assets pursuant to the valuation hierarchy.

Goodwill and Other Intangible Assets

During the third quarter of fiscal 2012, the Company determined that sufficient indicators of potential impairment existed to require an interim goodwill impairment analysis for the Martin Yale Group reporting unit, which comprises the Information Security and Print Finishing operating segment. For purposes of the interim impairment testing in the third quarter of 2012, the fair value of the Martin Yale Group reporting unit was determined using a combination of two methods; one based on market earnings multiples of peer companies identified for the business unit (the market approach), and a discounted cash flow model with estimates of cash flows based on internal forecasts of revenues and expenses over a five year period plus a terminal value period (the income approach).

To arrive at the Martin Yale Group reporting unit's future cash flows, the Company uses estimates of economic and market information, including growth rates in revenues, costs, and estimates of future expected changes in operating margins, tax rates, and cash expenditures. Other significant estimates and assumptions include terminal value growth rates, future estimates of capital expenditures, and changes in future working capital requirements. Under the income approach, the Company applied a risk-adjusted discount rate of 11.2% to the future cash flows from the Martin Yale Group reporting unit. In addition to the earnings multiples and the discount rates disclosed above, certain other judgments and estimates are used to prepare the goodwill impairment test.

The fair values of the intangible assets for the Martin Yale Group reporting unit were estimated considering estimated royalty savings, discounted cash flows and average attrition rates associated with these assets.

As a result of the impairment tests performed, the goodwill of the Martin Yale Group reporting unit was written down to the implied fair value of zero from its carrying value of $13.2 million as of October 6, 2012. The intangible assets of this reporting unit were written down to their estimated fair value of $1.7 million from their carrying value of $1.9 million as of October 6, 2012. Because of the significance of the unobservable inputs and management judgment used in the goodwill and intangible asset impairment analyses, these measurements were classified in level three of the valuation hierarchy.

Equity Method Investments

For purposes of the impairment analysis of the equity method investment in Escalade International, Ltd, the Company considered the impact of attrition of certain significant customers on future cash flows of this entity as well as expectations regarding future divestiture of the investment. At the end of the third quarter of 2012 the Company was negotiating to sell its investment to the remaining shareholders of Escalade International, Ltd. Based on consideration of cash flows related to the potential divestiture, the Company determined that an other than temporary impairment in the amount of $0.4 million ($0.2 million, net of tax) was appropriate. Consequently, the investment was written down to its estimated fair value of $0.5 million from its carrying value of $0.9 million as of October 6, 2012. Because of the significance of the unobservable inputs and management judgment used in the equity method impairment analysis, this measurement was classified in level three of the valuation hierarchy.

Note H 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 5, 2013 and pursuant to the 2007 Incentive Plan, in lieu of director fees, the Company awarded to certain directors 23,719 shares of common stock. In addition, the Company awarded 37,500 stock options to directors and 120,000 stock options to employees. The stock options awarded to directors vest at the end of one year and have an exercise price equal to the market price on the date of grant. Director stock options 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 2013 stock options awarded to employees have a graded vesting of 25% per year over four years 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 months and nine months ended October 5, 2013, the Company recognized stock based compensation expense of $177 thousand and $578 thousand, respectively, compared to stock based compensation expense of $176 thousand and $582 thousand for the same periods in the prior year. At October 5, 2013 and October 6, 2012, respectively, there was $0.9 million and $1.1 million in unrecognized stock-based compensation expense related to non-vested stock awards.

Note I - Segment Information

	For the Three Months Ended October 5, 2013			
In thousands	Sporting Goods	Information Security and Print Finishing	Corp.	Total
Revenues from external customers	$ 31,559	$ 6,923	$	$ 38,482
Operating income (loss)	4,679	(741)	(693)	3,245
Net income (loss)	2,813	(862)	562	2,513

	As of and for the Nine Months Ended October 5, 2013			
In thousands	Sporting Goods	Information Security and Print Finishing	Corp.	Total
Revenues from external customers	$ 94,827	$ 22,478	$	$ 117,305
Operating income (loss)	15,782	(1,863)	(2,289)	11,630
Net income (loss)	9,477	(2,712)	(10)	6,755
Total assets	$ 90,189	$ 24,572	$ 23,849	$ 138,610

	For the Three Months Ended October 6, 2012			
In thousands	Sporting Goods	Information Security and Print Finishing	Corp.	Total
Revenues from external customers	$ 25,636	$ 8,570	$	$ 34,206
Operating income (loss)	3,640	(13,378)	(649)	(10,387)
Net income (loss)	2,178	(13,830)	149	(11,503)

In thousands	As of and for the Nine Months Ended October 6, 2012 Sporting Goods	Information Security and Print Finishing	Corp.	Total
Revenues from external customers	$ 79,282	$ 27,518	$	$ 106,800
Operating income (loss)	11,088	(13,885)	(2,159)	(4,956)
Net income (loss)	6,600	(14,938)	(502)	(8,840)
Total assets	$ 77,903	$ 26,882	$ 19,402	$ 124,187

Note J Dividend Payment

On September 20, 2013, the Company paid a quarterly dividend of $0.09 per common share to all shareholders of record on September 13, 2013. The total amount of this dividend payment was $1.2 million and was charged against retained earnings.

On June 20, 2013, the Company paid a quarterly dividend of $0.08 per common share to all shareholders of record on June 13, 2013. The total amount of this dividend payment was $1.1 million and was charged against retained earnings.

On March 20, 2013, the Company paid a quarterly dividend of $0.08 per common share to all shareholders of record on March 13, 2013. The total amount of the dividend was $1.1 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:

All amounts in thousands	Three Months Ended October 5, 2013	October 6, 2012	Nine Months Ended October 5, 2013	October 6, 2012
Weighted average common shares outstanding	13,520	13,391	13,484	13,189
Dilutive effect of stock options and restricted stock units	179	165	148	163
Weighted average common shares outstanding, assuming dilution	13,699	13,556	13,632	13,352

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 2013 and 2012 were 522,750 and 454,500, respectively.

Note L New Accounting Standards

With the exception of that discussed below, there have been no recent accounting pronouncements or changes in accounting pronouncements during the nine months ended October 5, 2013, as compared to the recent accounting pronouncements described in the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2012, that are of significance, or potential significance to the Company.

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740), which clarifies the presentation requirements of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013 and should be applied prospectively. The adoption of this ASU is not expected to have a material impact to the Company's consolidated financial statements.

In February 2013, FASB issued Accounting Standards Update 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* to improve the transparency of reporting these reclassifications. Other comprehensive income (loss) includes gains and losses that are initially excluded from net income for an accounting period. Those gains and losses are later reclassified out of accumulated other comprehensive income into net income. The amendments in this ASU do not change the current requirements for reporting net income or other comprehensive income in financial statements. All of the information that this ASU requires already is required to be disclosed elsewhere in the financial statements under U.S. GAAP. The new amendments will require an organization to (i) present the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income, but only if the item reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period; and (ii) cross-reference to other disclosures currently required under U.S. GAAP for other reclassification items to be reclassified directly to net income in their entirety in the same reporting period. The amendments are effective for interim and annual reporting periods beginning after December 15, 2012. The adoption of this standard did not have a material impact to the Company's consolidated financial statements.

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, Escalade's ability to successfully integrate the operations of acquired assets and businesses, new product development, the continuation and development of key customer and supplier relationships, 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" or "Company") manufactures and distributes products for two industries: Sporting Goods and Information Security and Print Finishing. Within these industries the Company has successfully built a market presence in niche markets. This strategy is heavily dependent on expanding the customer base, barriers to entry, brand recognition and excellent customer service. A key strategic advantage is the Company's established relationships with major customers that allow the Company to bring new products to the market in a cost effective manner while maintaining a diversified product line and wide customer base. In addition to strategic customer relations, the Company has substantial manufacturing and import experience that enable it to be a low cost supplier.

A majority of the Company's products are in markets that are experiencing low growth rates. Where the Company enjoys a strong market position, such as table tennis tables in the U.S. Sporting Goods segment and paper folding machines in the U.S. Information Security and Print Finishing segment, revenue growth is expected to be roughly equal to general growth/decline in the economy. However, in markets that are fragmented and where the Company is not the dominant leader, such as archery in the Sporting Goods segment the Company anticipates growth. To enhance growth, the Company has a strategy of promoting new product innovation and development and brand marketing.

The Company is currently facing weak demand and increased competition in the Information Security and Print Finishing segment. The strategic focus for this segment continues to be expanding its Information Security product and service offerings to assist businesses and governments with their document and information high security needs to secure sensitive customer, employee and business information and to comply with new information privacy laws, rules and regulations. The Company continues to extend the capabilities of its line of shredders to include not only the secure destruction of paper but also the secure destruction and/or de-commissioning of other forms of electronic storage media. The Company also continues to monitor the profitability and explore the overall strategic alignment of its Information Security and Print Finishing product and service offerings.

In addition, the Company will continue to investigate acquisition opportunities of companies or product lines that complement or expand the Company's existing product lines. 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. Management believes that key indicators in measuring the success of this strategy are revenue growth, earnings growth and the expansion of channels of distribution.

Results of Operations

Consolidated net sales for the third quarter of 2013 were 12.5% higher compared to the same quarter in the prior year. For the first nine months of 2013, net sales have increased 9.8% over the same period in the prior year. The Company's operating income for the third quarter and first nine months of 2013 was $3.2 million and $11.6 million, respectively, compared to an operating loss of $(10.4) million and $(5.0) million for the same periods in 2012. In the prior year, the Company recorded a goodwill impairment loss of $13.2 million and intangible asset impairment charge of $0.2 million on its Information Security and Print Finishing segment. Without the impact of goodwill and intangible asset impairment charges in 2012, operating income for the three and nine months of fiscal 2012 would have been $3.0 million and $8.4 million, respectively.

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

	Three Months Ended				Nine Months Ended			
	October 5, 2013		October 6, 2012		October 5, 2013		October 6, 2012	
Net revenue	100.0	%	100.0	%	100.0	%	100.0	%
Cost of products sold	70.0	%	68.0	%	67.5	%	68.3	%
Gross margin	30.0	%	32.0	%	32.5	%	31.7	%
Selling, administrative and general expenses	20.1	%	21.8	%	21.0	%	22.2	%
Goodwill and intangible asset impairment charges			39.1	%			12.5	%
Amortization	1.4	%	1.5	%	1.6	%	1.6	%
Operating income (loss)	8.5	%	(30.4)	%	9.9	%	(4.6)	%

Consolidated Revenue and Gross Margin

Revenues from the Sporting Goods business were up 23.1% for the quarter and 19.6% for the first nine months of 2013, compared to the same periods in the prior year. Management expects strong sales in the Sporting Goods segment through the remainder of the year, although sales growth may be somewhat less than in previous quarters.

Revenues from the Information Security and Print Finishing business decreased 19.2% and 18.3% for the third quarter and first nine months of 2013, respectively, compared to the same periods in the prior year. Excluding the effects of changes in the currency exchange rates, revenues decreased 27.4% and 18.8%, for the third quarter and first nine months of 2013, respectively. Contributing to the decrease in revenue is a reduction in government spending along with increased competition. The Company expects challenges in this segment for the remainder of the year.

The overall gross margin ratios for the third quarter and first nine months of 2013 were 30.0% and 32.5%, respectively, compared to 32.0% and 31.7%, respectively, for same periods in the prior year. The decrease in the gross margin ratio for the third quarter of 2013 is driven mainly by lower sales volume and inventory adjustments in the Information Security and Print Finishing segment.

Consolidated Selling, General and Administrative Expenses

Compared to the same periods in the prior year, consolidated selling, general and administrative (“SG&A”) costs decreased as a percent of net sales to 20.1% and 21.0% for the third quarter and first nine months of 2013; down from 21.8% and 22.2% for the third quarter and first nine months of 2012. The decrease in SG&A as a percent of sales is mainly due to increased sales volume in the Sporting Goods segment partially offset strategic investments in product development and brand marketing.

Provision for Income Taxes

The effective tax rate was 37.2% and 43.2% for the third quarter and first nine months of 2013. During the second quarter of 2013, the valuation allowance for foreign net operating losses was increased as the Company does not expect to be able to utilize these losses against future tax liabilities. Without this increase, the effective tax rate for the first nine months of 2013 would have been 39.5% During the third quarter of 2012, the Company recorded goodwill and intangible asset impairments related to its Information Security and Print Finishing segment which negatively impacted the effective tax rates in that year. Without the impact of goodwill and intangible asset impairment in 2012, the effective tax rate would have been 44.8% and 49.0% for the third quarter and first nine months of 2012. The Company continues to experience losses in certain foreign taxing jurisdictions which do not offset gains in other foreign taxing jurisdictions which negatively impacts the effective tax rate.

Financial Condition and Liquidity

Total bank debt and notes payable at the end of the first nine months of 2013 increased 30.8% or $6.0 million from the same period in the prior year, and increased 13.2% or $3.0 million from December 29, 2012. The increase in debt is attributable to the seller-financed liability of $1.8 million for the purchase of the previously leased real estate in Rosarito, Mexico and working capital requirements including inventory increases. Planned increases in inventory levels have been made to better meet customer demand. The following schedule summarizes the Company’s total bank debt and notes payable:

In thousands	October 5, 2013		December 29, 2012		October 6, 2012	
Notes payable short-term	$	18,164	$	14,618	$	11,673
Current portion long-term debt		1,563		2,000		2,000
Bank overdraft facility		621		2,452		2,360
Long term debt		5,196		3,500		3,500
Total	$	25,544	$	22,570	$	19,533

As a percentage of stockholders’ equity, total bank debt and notes payable were 30%, 28% and 25% at October 5, 2013, December 29, 2012, and October 6, 2012 respectively.

The Company funds working capital requirements through operating cash flows and revolving credit agreements with its bank. Inventory and other working capital requirements increased over the same period in the prior year to support sales growth in the Sporting Goods segment. Based on working capital requirements, the Company expects to have access to adequate levels of revolving credit to meet operating and 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 and its overdraft facility which is based on EURIBOR 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. This revenue is generated from the operations of the Company's subsidiaries in their respective countries and surrounding geographic areas and is primarily denominated in each subsidiary's local functional currency. These subsidiaries incur 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 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. 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 Rule 13a-14(c). In designing and evaluating the disclosure controls and procedures, Management recognized that any controls and procedures, no matter how well designed and operated, can 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 the Company's 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 2013.

There have been no changes to the Company's internal control over financial reporting that occurred since the beginning of the Company's third quarter of 2013 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. Not Required.

Item 1A. 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 7/13/2013 under the current repurchase program.	982,916	$ 8.84	982,916	$ 2,273,939
Third quarter purchases:				
07/14/2013 10/05/2013	None	None	No Change	No Change
Total share purchases under the current program	982,916	$ 8.84	982,916	$ 2,273,939

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The Company has one stock repurchase program which was established in February 2003 by the Board of Directors and which authorized management to expend up to $3,000,000 to repurchase shares on the open market as well as in private negotiated transactions. The repurchase plan has no termination date. There have been no share repurchases that were not part of a publicly announced program. In February 2008, the Board of Directors increased the remaining amount on this plan to its original level of $3,000,000. Although authorized by the Board, the Company has agreed to certain restrictions on the repurchase of shares as part of the August 23, 2013 Restated Credit Agreement terms to limit repurchases to $1,000,000.

Item 3. Not Required.

Item 4. Not Required.

Item 5. Not Required.

Item 6. Exhibits

(a) Exhibits

Number	Description
10.1	First Amended and Restated Credit Agreement dated as of August 23, 2013 among Escalade, Incorporated and JPMorgan Chase Bank, N.A., incorporated by reference from Exhibit 10.1 of the Company's Form 8-K filed with the SEC on August 28, 2013.
10.2	Letter Agreement modifying Overdraft Facility by and between Escalade, Incorporated and JPMorgan Chase Bank, N.A., London Branch, incorporated by reference from Exhibit 10.2 of the Company's Form 8-K filed with the SEC on August 28, 2013.
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.

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 5, 2013

/s/ Deborah Meinert
Vice President and Chief Financial Officer
(On behalf of the registrant and in her
capacities as Principal Financial Officer
and Principal Accounting Officer)