

ESCALADE INC
Form 10-K
February 22, 2019

United States

Securities and Exchange Commission
Washington, D.C. 20549

Form 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 29, 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)

Securities registered pursuant to Section 12(b) of the Act

Common Stock, No Par Value	The NASDAQ Stock Market LLC
(Title of Class)	(Name of Exchange on Which Registered)

Securities registered pursuant to section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities

Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act

Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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.

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Large accelerated filer ☐ Accelerated filer ☒

Non-accelerated filer ☐ Smaller reporting company ☒

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

Yes ☐ No ☒

Aggregate market value of common stock held by nonaffiliates of the registrant as of July 14, 2018 based on the closing sale price as reported on the NASDAQ Global Market: \$146,185,880.

The number of shares of Registrant's common stock (no par value) outstanding as of February 20, 2019: 14,441,608.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the registrant's Proxy Statement relating to its annual meeting of stockholders scheduled to be held on May 15, 2019 are incorporated by reference into Part III of this Report.

Escalade, Incorporated and Subsidiaries

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Part I

ITEM 1—BUSINESS

General

Escalade, Incorporated (Escalade, the Company, we, us or our) operates in one business segment: Sporting Goods (Escalade Sports). Escalade and its predecessors have more than 80 years of manufacturing and selling experience in this industry.

Sporting Goods

Headquartered in Evansville, Indiana, Escalade Sports manufactures, imports, and distributes widely recognized sporting goods brands in basketball goals, archery, indoor and outdoor game recreation and fitness products through major sporting goods retailers, specialty dealers, key on-line retailers, traditional department stores and mass merchants. Escalade is a leader in table tennis tables, residential in-ground basketball goals and in archery bows. Some of the Company's most recognized brands, owned or distributed, include:

Product Category	Brand Names
Archery	Bear® Archery, Trophy Ridge®, Whisker Biscuit®, Cajun Bowfishing™, Karnage™, Fletcher™, Rocket®, SIK™, BearX™
Table Tennis	STIGA®, Ping-Pong®
Basketball Goals	Goalrilla™, Goliath®, Silverback®, Hoopstar®, Goalsetter®
Trampoline	Vuly™
Play Systems	Woodplay®, Childlife®
Fitness	The STEP®, USWeight™, Lifeline®, Kettleworx®, Natural Fitness™, PER4M®
Game Tables (Hockey and Soccer)	Atomic®, American Legend®, Redline®, Triumph Sports™
Billiard Accessories	Mizerak®, Minnesota Fats®, Lucasi®, PureX®, Rage®, Players®
Darting	Unicorn®, Accudart®, Arachnid®, Nodor®, Winmau®
Outdoor Games	Zume Games®, Pickleball Now, Onix®, Viva Sol®, Triumph Sports™, Victory Tailgate™

During 2018, 2017 and 2016, the Company had one customer, Amazon.com, Inc., that accounted for approximately 19%, 18% and 13%, respectively of the Company's revenues. During 2018, 2017 and 2016 the Company had another

customer, Dick's Sporting Goods, which accounted for approximately 13%, 17% and 18%, respectively, of the Company's revenues.

As of December 29, 2018, the Company had approximately 14% and 24% of its total accounts receivable with Dick's Sporting Goods and Amazon.com, Inc., respectively. As of December 30, 2017, the Company had approximately 22% and 25% of its total accounts receivable with Dick's Sporting Goods and Amazon.com, Inc., respectively.

Escalade Sports manufactures in the USA and Mexico and imports product from Asia, where the Company utilizes a number of contract manufacturers.

Certain products produced by Escalade Sports are subject to regulation by the Consumer Product Safety Commission. The Company believes it is in material compliance with all applicable regulations.

Marketing and Product Development

The Company makes a substantial investment in product development and brand marketing to differentiate its product line from its competition. We conduct market research and development efforts to design products which satisfy existing and emerging consumer needs. The Company markets directly to the consumer or end-user as well as through its retail partners in the form of advertising and other promotional allowances.

Competition

Escalade is subject to competition with various manufacturers in each product line. The Company is not aware of any other single company that is engaged in the same product lines as Escalade or that produces the same range of products as Escalade. Nonetheless, competition exists for many Escalade products. Some competitors are larger and have substantially greater resources than the Company. Escalade believes that its long-term success depends on its ability to strengthen its relationship with existing customers, attract new customers and develop new products that satisfy the quality and price requirements of sporting goods customers.

Licenses, Trademarks and Brand Names

The Company has an agreement and contract with STIGA Sports AB for the exclusive right and license to distribute and produce table tennis equipment under the brand name STIGA® for North America. The Company also owns several registered trademarks and brand names including but not limited to Goalrilla™, Goalsetter®, Bear® Archery, Ping-Pong®, The Step®, Lifeline® and Woodplay®.

Backlog and Seasonality

Sales are based primarily on standard purchase orders and in most cases orders are shipped within the same month received. Unshipped orders at the end of the fiscal year (backlog) were not material and therefore are not an indicator of future results. Due to diversity in product categories, revenues have not been seasonal and are not expected to be so in the future.

Employees

The number of employees at December 29, 2018 and December 30, 2017 were as follows:

	2018	2017
Sporting Goods		
USA	416	353
Mexico	97	131
Asia	18	17
Total	531	501

The I.U.E./C.W.A. (United Electrical Communication Workers of America, AFL-CIO) represents hourly rated employees at the Escalade Sports' Evansville, Indiana distribution center. There were approximately 27 covered employees at December 29, 2018. A five year labor contract was negotiated and renewed in May 2016 and expires on May 1, 2021.

Sources of Supplies

Raw materials for Escalade's various product lines consist of, but are not limited to, wood, steel, aluminum, plastics, fiberglass and packaging. Escalade relies upon suppliers in various countries and upon various third party Asian manufacturers for many of its products. The Company believes that these sources will continue to provide adequate supplies as needed and that all other materials needed for the Company's various operations are available in adequate quantities from a variety of domestic and foreign sources.

SEC Reports

The Company's Internet site (www.escaladeinc.com) makes available free of charge to all interested parties the Company's annual report on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, and all amendments to those reports, as well as all other reports and schedules filed electronically with the Securities and Exchange Commission (the Commission), as soon as reasonably practicable after such material is electronically filed with or furnished to the Commission. Interested parties may also find reports, proxy and information statements and other information on issuers that file electronically with the Commission at the Commission's Internet site at www.sec.gov.

ITEM 1A—RISK FACTORS

Operating results may be impacted by changes in the economy that influence business and consumer spending.

Operating results are directly impacted by the health of the North American and to a lesser extent, European and Asian economies. We cannot predict how robust the economy will be or whether or not it will be sustained. If the economic recovery slows, or if the economy experiences a prolonged period of decelerating or negative growth, the Company's results of operations may be negatively impacted. In general, the Company's sales depend on discretionary spending by consumers. Business and financial performance may be adversely affected by current and future economic conditions, including unemployment levels, energy costs, interest rates, recession, inflation, the impact of natural disasters and terrorist activities, and other matters that influence business and consumer spending.

Fluctuation in economic conditions could prevent the Company from accurately forecasting demand for its products which could adversely affect its operating results or market share.

Fluctuation in economic conditions and market instability in the United States and globally makes it difficult for the Company, customers and suppliers to accurately forecast future product demand trends, which could cause the Company to produce excess products that can increase inventory carrying costs and result in obsolete inventory. Alternatively, this forecasting difficulty could cause a shortage of products, or materials used in products, that could result in an inability to satisfy demand for products and a loss of market share.

Markets are highly competitive which could limit the Company's growth and reduce profitability.

The market for sporting goods is highly fragmented and intensely competitive. A majority of the Company's products are in markets that are experiencing low growth rates. Escalade competes with a variety of regional, national and international manufacturers for customers, employees, products, services and other important aspects of the business. The Company has historically sold a large percentage of its sporting goods products to mass merchandisers and has increasingly attempted to expand sales to specialty retailer and dealer markets and to on-line retailers. In addition to competition for sales into those distribution channels, vendors also must compete in sporting goods with large format sporting goods stores, traditional sporting goods stores and chains, warehouse clubs, discount stores and department stores. Competition from on-line retailers may also impact sales. Some of the current and potential competitors are larger than Escalade and have substantially greater financial resources that may be devoted to sourcing, promoting and selling their products, and may discount prices more heavily than the Company can afford.

If the Company is unable to predict or effectively react to changes in consumer demand, it may lose customers and sales may decline.

Success depends in part on the ability to anticipate and respond in a timely manner to changing consumer demand and preferences regarding sporting goods. Products must appeal to a broad range of consumers whose preferences cannot be predicted with certainty and are subject to change. The Company often makes commitments to manufacture products months in advance of the proposed delivery to customers. If Escalade misjudges the market for products, sales may decline significantly. The Company may have to take significant inventory markdowns on unpopular products that are overproduced and/or miss opportunities for other products that may rise in popularity, both of which could have a negative impact on profitability. A major shift in consumer demand away from sporting goods products could also have a material adverse effect on the Company's business, results of operations and financial condition.

The Company derives a substantial portion of its revenue from a few significant customers and loss of any of these customers could materially affect our results of operations and financial condition.

The Company has two major customers, each of which accounted for more than ten percent of consolidated gross sales and more than ten percent of total accounts receivable. The Company also has several other large customers, none of which represent more than ten percent of consolidated gross sales, and historically has derived substantial revenues from these customers. Our customers continue to experience industry consolidation, which increases our risk that we may be unable to find sufficient alternative customers. The Company needs to continue to expand its customer base to minimize the effects of the loss of any single customer in the future. If sales to one or more of the large customers would be lost or materially reduced, there can be no assurance that the Company will be able to replace such revenues, which could have a material adverse effect on the Company's business, results of operations and financial condition.

The Company's customers may experience financial difficulties that could result in losses to the Company.

From time to time, one or more of the Company's customers have experienced, are experiencing, or may in the future experience financial difficulties that impair their ability to pay all amounts owed to the Company. In such instances, the customer may file bankruptcy or take other actions to restructure the amounts owed to secured and unsecured creditors, including unsecured trade creditors such as the Company. When this occurs, the Company may not be able to collect the full amount owed to it by the customer, and in severe situations may have to write off all or a substantial portion of those customer receivables. Any significant resulting losses incurred by the Company relating to these or other customers could have a material adverse effect on the Company's business, results of operation, and financial condition.

Quarterly operating results are subject to fluctuation.

Operating results have fluctuated from quarter to quarter in the past, and the Company expects that they will continue to do so in the future. Factors that could cause these quarterly fluctuations include the following: international, national and local general economic and market conditions; the size and growth of the overall sporting goods markets; intense competition among manufacturers, marketers, distributors and sellers of products; demographic changes; changes in consumer preferences; popularity of particular designs, categories of products and sports; seasonal demand for products; adverse weather conditions that may create fluctuations in demand for certain of our products; the size, timing and mix of purchases of products; fluctuations and difficulty in forecasting operating results; ability to sustain, manage or forecast growth and inventories; new product development and introduction; ability to secure and protect trademarks, patents and other intellectual property; performance and reliability of products; customer service; the loss of significant customers or suppliers; dependence on distributors; business disruptions; increased costs of freight and transportation to meet delivery deadlines; changes in business strategy or development plans; general risks associated with doing business outside the United States, including, without limitation: exchange rates, import duties, tariffs, quotas and political and economic instability; changes in government regulations; any liability and other claims asserted against the Company; ability to attract and retain qualified personnel; and other factors referenced or incorporated by reference in this Form 10-K and any other filings with the Securities and Exchange Commission.

The Company may pursue strategic acquisitions, divestitures, or investments and the failure of a strategic transaction to produce anticipated results or the inability to fully integrate an acquired company could have an adverse impact on the Company's business.

The Company has made acquisitions of complementary companies or businesses, which have been part of the strategic plan, and may continue to pursue acquisitions in the future from time to time. Acquisitions may result in difficulties in assimilating acquired companies, and may result in the diversion of capital and management's attention from other business issues and opportunities. The Company may not be able to successfully integrate operations that it acquires, including personnel, financial systems, distribution, and operating procedures. If the Company fails to successfully integrate acquisitions, the Company's business could suffer. In addition, acquisitions may result in the incurrence of debt, contingent liabilities, amortization expense or write-offs of goodwill or other intangibles, any of which could affect the Company's financial position. The Company also has sometimes divested or discontinued certain operations, assets, and products that did not perform to the Company's expectations or no longer fit with the Company's strategic objectives. Divestitures may result in gains, losses, contingent liabilities, write-offs, tax consequences, or other related costs and expenses that could affect the Company's financial position. Escalade will consider acquisitions, divestitures, and investments in the future, one or more of which, individually or in the aggregate, could be material to the Company's overall business, operations or financial position.

Growth may strain resources, which could adversely affect the Company's business and financial performance.

The Company has grown in the past through strategic acquisitions, and continues to make acquisitions in its Sporting Goods business. Our growth strategy also depends on our ability to grow our e-commerce business. Growth places additional demands on management and operational systems. If the Company is not successful in continuing to support operational and financial systems, expanding the management team and increasing and effectively managing customers and suppliers, growth may result in operational inefficiencies and ineffective management of the Company's business, which could adversely affect its business and financial performance.

The Company's ability to operate and expand business and to respond to changing business and economic conditions will be dependent upon the availability of adequate capital.

The rate of expansion will also depend on the availability of adequate capital, which in turn will depend in large part on cash flow generated by the business and the availability of equity and debt capital. The Company can make no assurances that it will be able to obtain equity or debt capital on acceptable terms or at all. Our current senior secured revolving credit facility contains provisions that limit our ability to incur additional indebtedness or make substantial asset sales, which might otherwise be used to finance our operations. In the event of our insolvency, liquidation, dissolution or reorganization, the lenders under our senior secured revolving credit facility would be entitled to payment in full from our assets before distributions, if any, to our stockholders.

The Company could suffer if it fails to attract and retain skilled management and key personnel.

The Company's success depends in large part on its ability to attract and retain highly qualified management executives and key personnel. Significant competition for qualified candidates exists in the Company's business lines and geographic locations. If the Company is not able to hire and retain its executives and key personnel, or if the compensation costs required to attract and retain such individuals becomes more expensive, the Company may suffer adverse consequences to its business, operations, and financial condition.

The Company's business may be adversely affected by the actions of and risks associated with third-party suppliers.

The raw materials that the Company purchases for manufacturing operations and many of the products that it sells are sourced from a wide variety of third-party suppliers. The Company cannot control the supply, design, function or cost of many of the products that are offered for sale and are dependent on the availability and pricing of key materials and products. Disruptions in the availability of raw materials used in production of these products may adversely affect sales and result in customer dissatisfaction. In addition, global sourcing of many of the products sold is an important factor in the Company's financial performance. The ability to find qualified suppliers and to access products in a timely and efficient manner is a significant challenge, especially with respect to goods sourced outside the United States. Political instability, financial instability of suppliers, merchandise quality issues, trade restrictions, tariffs, currency exchange rates, transport capacity and costs, inflation and other factors relating to foreign trade are beyond the Company's control.

Historically, instability in the political and economic environments of the countries in which the Company or its suppliers obtain products and raw materials has not had a material adverse effect on operations. However, the Company cannot predict the effect that future changes in economic or political conditions in the United States and in such foreign countries may have on operations. In the event of disruptions or delays in supply due to economic or political conditions, such disruptions or delays could adversely affect results of operations unless and until alternative supply arrangements could be made. In addition, products and materials purchased from alternative sources may be of lesser quality or more expensive than the products and materials currently purchased abroad.

Deterioration in relationships with suppliers or in the financial condition of suppliers could adversely affect liquidity, results of operations and financial position.

Access to materials, parts and supplies is dependent upon close relationships with suppliers and the ability to purchase products from the principal suppliers on competitive terms. The Company does not enter into long-term supply contracts with these suppliers, and has no current plans to do so in the future. These suppliers are not required to sell to the Company and are free to change the prices and other terms. Any deterioration or change in the relationships with or in the financial condition of the Company's significant suppliers could have an adverse impact on its ability to procure materials and parts necessary to produce products for sale and distribution. If any of the significant suppliers terminated or significantly curtailed its relationship with the Company or ceased operations, the Company would be forced to expand relationships with other suppliers, seek out new relationships with new suppliers or risk a loss in market share due to diminished product offerings and availability. Any change in one or more of these suppliers' willingness or ability to continue to supply the Company with their products could have an adverse impact on the Company's liquidity, results of operations and financial position.

Disruptions to our supply chain could have an adverse impact on our operations.

Many of the Company's products are manufactured outside the United States. Those products must be transported by third parties over large geographic distances. Delays in the shipment or delivery of our products could occur due to work stoppages, port strikes, lack of availability of transportation, and other factors beyond the Company's control. Such delays could impair our ability to timely and efficiently deliver our products, and could adversely impact our operating results.

The Company may be subject to product warranty claims that require the replacement or repair of the product sold. Such warranty claims could adversely affect the Company's financial position and relationships with its customers.

The Company manufactures and/or distributes a variety of products. From time to time, such products may contain manufacturing defects or design flaws that are not detected prior to sale, particularly as to new product introductions or upon design changes to existing products. The failure to identify and correct manufacturing defects and product design issues prior to the sale of those products could result in product warranty claims that result in costs to replace or repair any such defective products. Because many of the Company's products are sold to retailers for broad consumer distribution and/or to customers who buy in large quantities, the costs associated with product warranty claims could have a material adverse effect on the Company's results of operations and financial position. Product warranty claims also could cause customer dissatisfaction that may have a material adverse effect on the Company's reputation and on the Company's relationships with its customers, which may result in lost or reduced sales.

The Company may be subject to various types of litigation and the Company's insurance may not be sufficient to cover damages related to those claims.

From time to time the Company or its subsidiaries may be involved in lawsuits or other claims arising in the course of business, including those related to product liability, consumer protection, employment, intellectual property, torts and other matters. In addition, it may be subject to lawsuits relating to the design, manufacture or distribution of its products. The Company may be subject to lawsuits resulting from injuries associated with the use of sporting goods equipment that it sells and information security and print finishing products that it sold prior to divesting that business. The Company may incur losses relating to these claims or the defense of these claims. There is a risk that claims or liabilities will exceed the Company's insurance coverage. In addition, the Company may be unable to retain adequate liability insurance in the future. Further, the Company is subject to regulation by the Consumer Product Safety Commission and similar state regulatory agencies. If the Company fails to comply with government and industry safety standards, it may be subject to claims, lawsuits, fines, product recalls and adverse publicity that could have a material adverse effect on the Company's business, results of operations and financial condition.

Intellectual property rights are valuable, and any inability to protect them could reduce the value of products.

The Company obtains patents, trademarks and copyrights for intellectual property, which represent important assets to the Company. If the Company fails to adequately protect intellectual property through patents, trademarks and copyrights, its intellectual property rights may be misappropriated by others, invalidated or challenged, and our competitors could duplicate the Company's products or may otherwise limit any competitive design or manufacturing advantages. The Company believes that success is likely to depend upon continued innovation, technical expertise, marketing skills and customer support and services rather than on legal protection of intellectual property rights. However, the Company intends to aggressively assert its intellectual property rights when necessary.

The expiration or termination of our material trademarks, brand names and licensing agreements could have a material adverse effect on the Company's business.

The Company has invested substantial resources in developing and marketing the Company's brands and products over many years. The expiration or termination of one or more of the Company's material trademarks, patents or licensing agreements could result in the loss of such intellectual property. In such event, the Company may not be able to recoup its investments in, and continue to benefit from the affected brand names or products. The loss of such intellectual property and related rights could have a material adverse effect on the Company.

The Company is subject to risks associated with laws and regulations related to health, safety and environmental protection.

Products, and the production and distribution of products, are subject to a variety of laws and regulations relating to health, safety and environmental protection. Laws and regulations relating to health, safety and environmental protection have been passed in several jurisdictions in which the Company operates in the United States and abroad. Although the Company does not anticipate any material adverse effects based on the nature of operations and the thrust of such laws, there is no assurance such existing laws or future laws will not have a material adverse effect on the Company's business, results of operations and financial condition.

International operations expose the Company to the unique risks inherent in foreign operations.

The Company has operations in Mexico. Foreign operations encounter risks similar to those faced by U.S. operations, as well as risks inherent in foreign operations, such as local customs and regulatory constraints, control over product quality and content, foreign trade policies, competitive conditions, foreign currency fluctuations and unstable political and economic conditions. The Company's business relationships in Asia further increase its exposure to these foreign operating risks, which could have an adverse impact on the Company's income and profitability.

The Company could be adversely affected by changes in currency exchange rates and/or the value of the United States dollar.

The Company is exposed to risks related to the effects of changes in foreign currency exchange rates and the value of the United States dollar. Changes in currency exchange rates and the value of the United States dollar can have a significant impact on earnings. While the Company carefully watches fluctuations in currency exchange rates, these types of changes can have material adverse effects on the Company's business, results of operations and financial condition.

Failure to improve and maintain the quality of internal controls over financial reporting could materially and adversely affect the ability to provide timely and accurate financial information, which could harm the Company's reputation and share price.

Management is responsible for establishing and maintaining adequate internal controls over financial reporting for the Company to provide reasonable assurance regarding the reliability of financial reporting and the preparation of

financial statements in accordance with generally accepted accounting principles. Management cannot be certain that weaknesses and deficiencies in internal controls will not arise or be identified or that the Company will be able to correct and maintain adequate controls over financial processes and reporting in the future. Any failure to maintain adequate controls or to adequately implement required new or improved controls could harm operating results or cause failure to meet reporting obligations in a timely and accurate manner. Ineffective internal controls over financial reporting could also cause investors to lose confidence in reported financial information, which could adversely affect the trading price of the Company's common stock.

Disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives. However, management, including the Chief Executive Officer and Chief Financial Officer, does not expect that disclosure controls and procedures will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

Problems with the Company's information system software or hardware could disrupt operations and negatively impact financial results and materially adversely affect the Company's business operations.

The Company relies on a suite of applications and third party software to receive and process customer orders and for the core of its manufacturing, distribution, and accounting systems. These systems, if not functioning properly, could disrupt its operations, including the Company's ability to receive and ship orders and to process financial information or engage in similar normal business activities. Any material disruption, malfunction, cyber-attack or other similar problems in or with these systems could negatively impact our financial results and materially adversely affect our business operations.

Breaches of data or technology security could damage the Company's reputation, cause the Company to incur additional expense, expose the Company to litigation, and adversely affect the Company's business.

A breach of our data or technology security could result in an unauthorized transfer or release of Company proprietary, employee, customer and other Company related information, or the loss of valuable business data or technology, that could cause a disruption in our business. Hackers are increasingly sophisticated and operate large scale and complex cyber security attacks. In the event of such an attack, we may expend significant capital and other resources to protect against, respond to, and/or alleviate problems caused by a breach. Such an event could also result in unwanted negative media attention, damage to the Company's reputation, damage to our customers, and result in lost sales and lawsuits. The Company also must comply with increasingly complex regulatory cyber security and privacy standards, which can be costly and negatively impact the Company's profitability.

The preparation of the Company's financial statements requires the use of estimates that may vary from actual results.

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make significant estimates that may affect financial statements. Due to the inherent nature of making estimates, actual results may vary substantially from such estimates, which could materially adversely affect the Company's business, results of operations and financial condition. For more information on the Company's critical accounting estimates, please see the Critical Accounting Estimates section of this Form 10-K.

Changes in accounting standards could impact reported earnings and financial condition.

The accounting standard setters, including the Financial Accounting Standards Board and the Securities and Exchange Commission, periodically change the financial accounting and reporting standards that govern the preparation of the Company's consolidated financial statements. These changes can be hard to predict and apply and can materially affect how the Company records and reports its financial condition and results of operations. In some cases, the Company could be required to apply a new or revised standard retrospectively, which may result in the restatement of prior period financial statements.

The Company's effective tax rate may fluctuate.

The Company is a multi-channel provider of sporting goods. As a result, the Company's effective tax rate is derived from a combination of applicable tax rates in the various countries, states and other jurisdictions in which the Company operates. In addition to the effects of the 2017 U.S. Tax Reforms, the effective tax rate may be lower or higher than its tax rates have been in the past due to numerous factors, including the sources of income, any agreement with taxing authorities in various jurisdictions, the tax filing positions taken in various jurisdictions and changes in the political environment in the jurisdictions in which the Company operates. The Company bases estimates of an effective tax rate at any given point in time upon a calculated mix of the tax rates applicable to the Company and to estimates of the amount of business likely to be done in any given jurisdiction. The loss of one or more agreements with taxing jurisdictions, a change in the mix of business from year to year and from country to country, changes in rules related to accounting for income taxes, changes in tax laws and any of the multiple jurisdictions in which the Company operates, or adverse outcomes from tax audits that the Company may be subject to in any of the jurisdictions in which the Company operates, could result in an unfavorable change in the effective tax rate which could have an adverse effect on the Company's business and results of operations.

The market price of the Company's common stock is likely to be highly volatile as the stock market in general can be highly volatile.

The public trading of the Company's common stock is based on many factors which could cause fluctuation in the Company's stock price. These factors may include, among other things:

- General economic and market conditions;
- Actual or anticipated variations in quarterly operating results;
- Limited research coverage by securities analysts;
- Relatively low market capitalization resulting in low trading volume in the Company's stock;
- If securities analysts provide coverage, our inability to meet or exceed securities analysts' estimates or expectations;
- Conditions or trends in the Company's industries;
- Changes in the market valuations of other companies in the Company's industries;
- Announcements by the Company or the Company's competitors of significant acquisitions, strategic partnerships, divestitures, joint ventures or other strategic initiatives;
- Capital commitments;
- Additions or departures of key personnel;
- Sales and repurchases of the Company's common stock; and
- The ability to maintain listing of the Company's common stock on the NASDAQ Global Market.

Many of these factors are beyond the Company's control. These factors may cause the market price of the Company's common stock to decline, regardless of operating performance.

If we are unable to pay quarterly dividends at intended levels, our reputation and stock price may be harmed.

Our quarterly cash dividend is currently \$0.125 per common share. The dividend program requires the use of a portion of our cash flow. Our ability to pay dividends will depend on our ability to generate sufficient cash flows from operations in the future. This ability may be subject to certain economic, financial, competitive and other factors that are beyond our control. Our Board of Directors (Board) may, at its discretion, increase or decrease the intended level of dividends or entirely discontinue the payment of dividends at any time. Any failure to pay dividends after we have announced our intention to do so may negatively impact our reputation, investor confidence in us and negatively impact our stock price.

Unauthorized disclosure of sensitive or confidential customer information could harm the Company's business and its standing with its customers.

Through sales and marketing activities, the Company collects and stores certain information that customers provide to purchase products or services or otherwise communicate and interact with the Company. Despite instituted safeguards for the protection of such information, the Company cannot be certain that all of its systems are entirely free from vulnerability to attack. Computer hackers may attempt to penetrate the Company's network security and, if successful, misappropriate confidential customer or business information. In addition, an employee, a contractor or other third party with whom the Company does business may attempt to circumvent the Company's security measures in order to obtain such information or inadvertently cause a breach involving such information. Loss of customer or business information could disrupt operations, damage the Company's reputation, and expose the Company to claims from customers, financial institutions, payment card associations and other persons, any of which could have an adverse effect on the Company's business, results of operations and financial condition. In addition, compliance with tougher privacy and information security laws and standards may result in significant expense due to increased investment in technology and the development of new operational processes.

Terrorist attacks, acts of war or natural disaster may seriously harm the Company's business.

Among the chief uncertainties facing the nation and the world and, as a result, our business, is the instability and conflict in the Middle East and uncertainties regarding North Korea, Russia, China and other Asian and European countries. Obviously, no one can predict with certainty what the overall economic impact will be as a result of these circumstances. Terrorist attacks may cause damage or disruption to the Company, employees, facilities and customers, which could significantly impact net sales, costs and expenses and financial condition. The potential for future terrorist attacks, the national and international responses to terrorist attacks, and other acts of war and hostility may cause greater uncertainty and cause business to suffer in ways the Company currently cannot predict.

In addition, any natural disaster or other serious disruption to one of the Company's manufacturing or distribution sights due to fire, tornado, earthquake or any other causes could damage a material portion of inventory or impair our ability to provide product to our customers and could negatively affect our sales and profitability.

New laws, policies, regulations, rulemaking and oversight, as well as changes to those currently in effect, could adversely impact our earnings, cash flows and operations.

Our assets and operations are subject to regulation and oversight by federal, state, and local regulatory authorities. Legislative changes, as well as regulatory actions taken by these agencies, have the potential to adversely affect our

profitability. In addition, a certain degree of regulatory uncertainty is created by the U.S. political climate. It remains unclear specifically what the current presidential administration and Congress may do with respect to future policies and regulations that may affect us. Regulation affects many aspects of our business and extends to such matters as (i) federal, state, and local taxation; (ii) rates (which include tax, commodity, surcharges and fuel); (iii) the integrity, safety and security of facilities and operations; (iv) the acquisition of other businesses; (v) the acquisition, extension, disposition or abandonment of services or facilities; (vi) reporting and information requirements; and (vii) the maintenance of accounts and records.

Failure to sustain a continuing economic recovery in the United States and elsewhere could have a substantial adverse effect on our business.

Our business is tied to general economic and industry conditions as demand for sporting goods depends largely on the strength of the economy, employment levels, consumer confidence levels and the availability and cost of credit. These factors have had and could continue to have a substantial impact on our business.

Certain political developments in recent years have provided increased economic uncertainty. The United Kingdom's decision to exit the European Union and political conflicts in the U.S. both could result in economic and trade policy actions that would impact economic conditions in various countries, the cost of importing into the U.S. and the competitive landscape of our customers, suppliers and competitors.

Adverse global economic conditions could also cause our customers and suppliers to experience severe economic constraints in the future, including bankruptcy, which could have a material adverse impact on our financial position and results of operations.

Our business is subject to risks associated with sourcing and manufacturing overseas.

We import both raw materials and finished goods into our operating facilities. Our ability to import products in a timely and cost-effective manner may be affected by conditions at ports or issues that otherwise affect transportation and warehousing providers, such as port and shipping capacity, labor disputes and work stoppages, political unrest, severe weather, or security requirements in the United States and other countries. These issues could delay importation of products or require us to locate alternative ports or warehousing providers to avoid disruption to our customers. These alternatives may not be available on short notice or could result in higher transportation costs, which could have an adverse impact on our business and financial condition, specifically our gross margin and overall profitability.

Substantially all of our import operations are subject to customs and tax requirements as well as trade regulations, such as tariffs and quotas set by governments through mutual agreements or bilateral actions. In addition, the countries in which our products are manufactured or imported may from time to time impose additional quotas, duties, tariffs or other restrictions on our imports or adversely modify existing restrictions. Adverse changes in these import costs and restrictions, or our suppliers' failure to comply with customs regulations or similar laws, could harm our business. In this regard, possible changes in U.S. policies and the potential effects of Brexit have introduced greater uncertainty with respect to future tax and trade regulations. Changes in tax policy or trade regulations, such as the disallowance of tax deductions on imported merchandise or the imposition of new tariffs on imported products, could have a material adverse effect on our business and results of operations.

Our operations are also subject to the effects of international trade agreements and regulations that impose requirements that could adversely affect our business, such as setting quotas on products that may be imported from a particular country.

These risks are not exhaustive.

Other sections of this Form 10-K may include additional factors which could adversely impact the Company's business and financial performance. Moreover, the Company operates in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all risk factors, nor can the Company assess the impact of all factors on business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

ITEM 1B—UNRESOLVED STAFF COMMENTS

None.

ITEM 2—PROPERTIES

At December 29, 2018, the Company owned or operated from the following locations:

Location	Square Footage	Owned or Leased	Use
Evansville, Indiana, USA	523,000	Owned	Distribution; sales and marketing; engineering; administration
Rosarito, Mexico	174,700	Owned	Manufacturing and distribution
Gainesville, Florida, USA	154,200	Owned	Manufacturing and distribution
Olney, Illinois, USA	108,500	Leased	Manufacturing and distribution
Jacksonville, Florida, USA	31,800	Leased	Distribution; sales and marketing
Orlando, Florida, USA	50,018	Leased	Marketing; manufacturing and distribution
Orlando, Florida, USA	10,587	Leased	Manufacturing and distribution
Chicago, IL, USA	1,300	Leased	Sales and marketing; product management
Shanghai, China	3,225	Leased	Sales and sourcing

The Company believes that its facilities are in satisfactory and suitable condition for their respective operations. The Company also believes that it is in material compliance with all applicable environmental regulations and is not subject to any proceeding by any federal, state or local authorities regarding such matters. The Company provides regular maintenance and service on its plants and machinery as required. During 2016, the Company sold its Wabash, IN land and building for a purchase price of approximately \$2.1 million. The sale resulted in a gain of approximately \$1.9 million, recognized within operating income.

ITEM 3—LEGAL PROCEEDINGS

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

The Company is not aware of any probable or levied penalties against the Company relating to the American Jobs Creation Act.

ITEM 4—MINE SAFETY DISCLOSURES

Not applicable.

Part II**ITEM 5—MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

The Company's common stock is traded under the symbol “ESCA” on the NASDAQ Global Market.

As of February 20, 2019, there were approximately 123 stockholders of record of our common stock, although there is a significantly larger number of beneficial owners of our common stock.

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
Share purchases prior to 10/6/2018 under the current repurchase program.	982,916	\$ 8.84	982,916	\$ 2,273,939
Fourth quarter purchases:				
10/7/2018 – 11/3/2018	None	None	None	No Change
11/4/2018 – 12/1/2018	None	None	None	No Change
12/2/2018 – 12/29/2018	900	\$ 10.71	983,916	\$ 2,264,304
Total share purchases under the current program	983,816	\$ 8.85	983,816	\$ 2,264,304

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 each of February 2005 and 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 6—SELECTED FINANCIAL DATA [Not Required]

ITEM 7—MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following section should be read in conjunction with Item 1: Business; Item 1A: Risk Factors; and Item 8: Financial Statements and Supplementary Data.

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 segment through organic growth of existing categories, strategic acquisitions, and new product development. The Sporting Goods segment competes in a variety of categories including basketball goals, archery, indoor and outdoor game recreation and fitness products. Strong brands and on-going investment in product development provide a solid foundation for building customer loyalty and continued growth.

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.

In 2016, the Company acquired Triumph Sports USA, Inc., strengthening the Company's leadership in the indoor games category and providing new opportunities for the Company's outdoor games category. In 2017, the Company acquired Lifeline Products, LLC, a fitness leader of over 40 years, providing products used for bodyweight, progressive variable resistance and functional training.

In 2018, the Company acquired Victory Tailgate, LLC, a brand known for its premium licensed and customer tailgating games. The acquisition will significantly strengthen the Company's leadership in the tailgating and lawn games' categories, while providing exciting new opportunities within the sports licensing and customization space. The Company also sometimes divests or discontinues certain operations, assets, and products that do not perform to the Company's expectations or no longer fit with the Company's strategic objectives.

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. The following table sets forth the annual percentage change in revenues and net income over the past three years:

	2018	2017	2016
Net revenue			
Sporting Goods	(0.9)%	3.3 %	7.7 %
Total	(0.9)%	3.3 %	7.7 %
Net income			
Sporting Goods	14.4%	(1.7)%	(4.1)%
Total	45.4%	22.3%	(1.0)%

Results of Operations

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

	2018	2017	2016
Net revenue	100.0 %	100.0 %	100.0 %
Cost of products sold	74.4 %	74.8 %	74.2 %
Gross margin	25.6 %	25.2 %	25.8 %
Selling, administrative and general expenses	16.9 %	16.1 %	15.9 %
Amortization	0.8 %	0.9 %	1.4 %
Operating income	7.9 %	8.2 %	8.5 %

Revenue and Gross Margin

Net revenue was down 0.9% in 2018 compared to 2017.

The overall gross margin percentage increased to 25.6% in 2018 compared with 25.2% in 2017 due primarily to favorable product mix and increased sales and margins in archery.

Selling, General and Administrative Expenses

Selling, general and administrative expenses (SG&A) were \$29.8 million in 2018 compared to \$28.5 million in 2017, an increase of \$1.3 million or 4.4%. SG&A increased as a result of acquisition related activity and customer specific advertising. SG&A as a percent of sales is 16.9% in 2018 compared with 16.1% in 2017.

Other Income

Other income, including equity in earnings of affiliates, increased in 2018 to \$13.1 million compared with \$1.7 million in 2017. During 2018, the Company recognized a \$13.0 million gain in other income on the sale of our 50% owned equity method investment, Stiga, a Swedish entity. Equity in earnings of affiliates was \$0.1 million in 2018 compared with \$1.6 million in 2017.

Provision for Income Taxes

The effective tax rate for 2018 and 2017 was 22.7% and 9.4%, respectively. The 2018 effective tax rate is higher than the statutory rate primarily due to the impact of state income taxes and additional provisional expenses booked relative to the 2017 U.S. Tax Reform one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings. The 2017 effective tax rate was lower than the statutory rate primarily due to the 2017 U.S. Tax Reforms signed into law on December 22, 2017 making significant changes to the Internal Revenue Code. Changes included, but were not limited to, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, the transition of U.S international taxation from a worldwide tax system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017.

Sporting Goods

Net revenues, operating income, and net income for the Sporting Goods segment for the three years ended December 29, 2018 were as follows:

In Thousands	2018	2017	2016
Net revenue	\$175,780	\$177,333	\$171,662
Operating income	13,999	15,600	15,731
Net income	9,869	8,626	8,774

Net revenue decreased 0.9% in 2018 compared to 2017. The Company continues to aggressively pursue opportunities to increase revenue through introduction of new products, expansion of product distribution, acquisitions, and increased investment in consumer marketing. Sales channels are predominately mass market retail customers, specialty retailers, dealers, and e-commerce.

Gross margin improved in 2018 compared with 2017. The gross margin ratio in 2018 was 25.6% compared to 25.2% in 2017 due primarily to favorable product mix and increased sales and margins in archery. Operating income as a percentage of net revenue decreased to 8.0% in 2018 compared to 8.8% in 2017.

Financial Condition and Liquidity

The current ratio, a basic measure of liquidity (current assets divided by current liabilities), for 2018 was 5.3, compared to 4.1 in 2017. Receivable levels increased to \$40.7 million in 2018 compared with \$39.4 million in 2017 and net inventory increased \$3.9 million to \$39.1 million in 2018 from \$35.2 million in 2017. With proceeds from the sale of our 50% ownership in Stiga, total notes payable and long-term debt were extinguished during 2018 compared to \$23.1 million in 2017. Total notes payable and long-term debt as a percentage of stockholders equity was 20.7% in 2017.

The Company's working capital requirements are primarily funded through cash flows from operations and revolving credit agreements with its bank. During 2018, the Company's maximum borrowings under its primary revolving credit lines and overdraft facility totaled \$24.2 million compared to \$29.0 million in 2017. The overall effective interest rate in 2018 was 4.9% compared to the effective rate of 3.1% in 2017. Proceeds from the sale of the Company's 50% interest in Stiga were used to pay off outstanding debt, including the repayment of the Company's outstanding term loan facility. Total debt at the end of the Company's 2018 fiscal year was zero.

On January 21, 2019, the Company entered into an Amended and Restated Credit Agreement (“2019 Restated Credit Agreement”) with the its issuing bank, JPMorgan Chase Bank, N.A. (“Chase”), and the other lenders identified in the 2019 Restated Credit Agreement (collectively, the “Lender”). Under the terms of the 2019 Restated Credit Agreement, the Lender has made available to the Company a senior revolving credit facility with increased maximum availability of \$50.0 million. The maturity date was extended to January 31, 2022. In addition to the increased borrowing amount and extended maturity date, other significant changes reflected in the 2019 Restated Credit Agreement include: more favorable interest rate provisions; increases in borrowing base availability; releases of existing mortgages on the Company’s real property; and increasing to \$25.0 million the total consideration that the Company may use for acquisitions without obtaining the Lender’s consent, as long as no event of default exists.

Operating cash flows were used to fund acquisitions and to pay shareholder dividends.

In 2019, the Company estimates capital expenditures to be approximately \$3.0 million.

The Company believes that cash generated from its projected 2019 operations and the commitment of borrowings from its primary lender will provide it with sufficient cash flows for its operations.

It is possible that if economic conditions deteriorate, this could have adverse effects on the Company’s ability to operate profitably during fiscal year 2019. To the extent that occurs, management will pursue cost reduction initiatives and consider realignment of its infrastructure in an effort to match the Company’s overhead and cost structure with the sales level dictated by current market conditions.

New Accounting Pronouncements

Refer to Note 1 to the consolidated financial statements under the sub-heading “New Accounting Pronouncements”.

Off Balance Sheet Financing Arrangements

The Company has no financing arrangements that are not recorded on the Company’s balance sheet.

Contractual Obligations

The following schedule summarizes the Company's material contractual obligations as of December 29, 2018:

Amounts in thousands	Total	2019	2020 – 2021	2022 – 2023	Thereafter
Debt	\$-	\$-	\$ -	\$ -	\$ —
Future interest payments	-	-	-	-	—
Operating leases	812	594	218	—	—
Minimum payments under purchase, royalty and license agreements	3,977	1,159	1,616	1,202	—
Total	\$4,789	\$1,753	\$ 1,834	\$ 1,202	\$ —

Critical Accounting Estimates

The methods, estimates and judgments used in applying the Company's accounting policies have a significant impact on the results reported in its financial statements. Some of these accounting policies require difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. The most critical accounting estimates are described below and in the Notes to the Consolidated Financial Statements.

Product Warranty

The Company provides limited warranties on certain of its products for varying periods. Generally, the warranty periods range from 90 days to one year. However, some products carry extended warranties of three-year, five-year, seven-year, ten-year, fifteen-year, and lifetime warranties. The Company records 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. To the extent there are product defects in current products that are unknown to management and do not fall within historical defect rates, the product warranty reserve could be understated and the Company could be required to accrue additional product warranty costs thus negatively affecting gross margin.

Inventory Valuation Reserves

The Company evaluates inventory for obsolescence and excess quantities based on demand forecasts over specified time frames, usually one year. The demand forecast is based on historical usage, sales forecasts and current as well as anticipated market conditions. All amounts in excess of the demand forecast are deemed to be potentially excess or obsolete and a reserve is established based on the anticipated net realizable value. To the extent that demand forecasts are greater than actual demand and the Company fails to reduce manufacturing output accordingly, the Company could be required to record additional inventory reserves which would have a negative impact on gross margin.

Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. Accounts receivable are ordinarily due between 30 and 60 days after the issuance of the invoice. Accounts are considered delinquent when more than 90 days past due. Delinquent receivables are reserved or written off based on individual credit evaluation and specific circumstances of the customer. To the extent that actual bad debt losses exceed the allowance recorded by the Company, additional reserves would be required which would increase selling, general and administrative costs.

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.

Impairment of Goodwill

The Company reviews goodwill for impairment annually and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable, in accordance with guidance in Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) 350, *Intangibles – Goodwill and Other*. A qualitative assessment is first performed to determine if the fair value of the reporting unit is "more likely than not" less than the carrying value. If so, we proceed to step one of the two-step goodwill impairment test, in which the fair value of the reporting unit is compared to its carrying value. If not, then performance of the second step of the goodwill impairment test is not necessary. If the carrying value of goodwill exceeds the implied estimated fair value calculated in the second step, an impairment charge to current operations is recorded to reduce the carrying value to the implied estimated fair value.

If the second step of the goodwill impairment testing is required, the Company establishes fair value by using an income approach or a combination of a market approach and an income approach. The market approach uses the guideline-companies method to estimate the fair value of a reporting unit based on reported sales of publicly-held entities engaged in the same or a similar business as the reporting unit. The income approach uses the discounted cash flow method to estimate the fair value of a reporting unit by calculating the present value of the expected future cash flows of the reporting unit. The discount rate is based on a weighted average cost of capital determined using publicly-available interest rate information on the valuation date and data regarding equity, size and country-specific risk premiums/decrements compiled and published by a commercial source. The Company uses assumptions about expected future operating performance in determining estimates of those cash flows, which may differ from actual cash flows.

The Company has one reporting unit that is identical to our operating segment, Sporting Goods. Of the total recorded goodwill of \$26.4 million at December 29, 2018, the entire amount was allocated to the Escalade Sports reporting unit. The results of the qualitative impairment assessment of the Escalade Sports reporting unit indicated that the fair value of the invested capital exceeded the carrying value of the invested capital as of December 29, 2018.

Long Lived Assets

The Company evaluates the recoverability of certain long-lived assets whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Estimates of future cash flows used to test recoverability of long-lived assets include separately identifiable undiscounted cash flows expected to arise from the use and eventual disposition of the assets. Where estimated future cash flows are less than the carrying value of the assets, impairment losses are recognized based on the amount by which the carrying value exceeds the fair value of the assets.

Non-Marketable Equity Method Investment

The Company had a minority equity position in a company strategically related to the Company's business, but did not have control over this company. The accounting method employed was dependent on the level of ownership and degree of influence the Company can exert on operations. Where the equity interest was less than 20% and the degree of influence was not significant, the cost method of accounting is employed. Where the equity interest was greater than 20% but not more than 50%, the equity method of accounting is utilized. Under the equity method, the Company's proportionate share of net income was recorded in equity in earnings of affiliates on the consolidated statements of operations. The proportionate share of net income was \$0.1 million and \$1.6 million and \$1.7 million in 2018, 2017 and 2016, respectively. Total cash dividends received from this equity investment amounted to \$2,323 thousand, \$2,168 thousand, and \$1,060 thousand in 2018, 2017 and 2016, respectively. 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 expired December 31, 2018. The new license agreement went into effect on January 1, 2019.

Effect of Inflation

The Company cannot accurately determine the precise effects of inflation. The Company attempts to pass on increased costs and expenses through price increases when necessary. The Company is working on reducing expenses; improving manufacturing technologies; and redesigning products to keep these costs under control.

Capital Expenditures

As of December 29, 2018, the Company had no material commitments for capital expenditures. In 2019, the Company estimates capital expenditures to be approximately \$3.0 million.

ITEM 7A — QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK [Not Required]

ITEM 8 — FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary data required by Item 8 are set forth in Part IV, Item 15.

ITEM 9 — CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A — CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

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

Management's Report on Internal Control over Financial Reporting

Escalade's management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Escalade's internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting of the Company includes those policies and procedures that:

(1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions of the Company;

(2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

(3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Company's financial statements.

All internal control systems, no matter how well designed, have inherent limitations, including the possibility of human error or circumvention through collusion or improper overriding of controls. Therefore, even those internal control systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal control may vary over time.

The management of Escalade assessed the effectiveness of the Company's internal control over financial reporting as of December 29, 2018. In making its assessment of internal control over financial reporting, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control – Integrated Framework* (published in 2013) and implemented a process to monitor and assess both the design and operating effectiveness of the Company's internal controls. Based on this assessment, management believes that, as of December 29, 2018, the Company's internal control over financial reporting was effective.

This annual report on Form 10-K includes an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report regarding internal control over financial reporting is subject to attestation by the Company's registered public accounting firm pursuant to rules of the Securities and Exchange Commission. In addition, this report by management regarding internal control over financial reporting is specifically not incorporated by reference into any other filing by the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

/s/ David L. Fetherman, Chief Executive Officer /s/ Stephen R. Wawrin, Chief Financial Officer

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 Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the fourth quarter of 2018. In connection with such evaluation, there have been no changes to the Company's internal control over financial reporting that occurred since the beginning of the Company's fourth quarter of 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B — OTHER INFORMATION

None.

Part III

ITEM 10 — DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information required under this item with respect to Directors and Executive Officers is contained in the registrant's Proxy Statement relating to its annual meeting of stockholders scheduled to be held on May 15, 2019 under the captions "Certain Beneficial Owners," "Election of Directors," "Executive Officers of the Registrant," "Board of Directors, Its Committees, Meetings and Functions," and "Beneficial Ownership Reporting Compliance" and is incorporated herein by reference.

ITEM 11— EXECUTIVE COMPENSATION

Information required under this item is contained in the registrant's Proxy Statement relating to its annual meeting of stockholders scheduled to be held on May 15, 2019 under the captions "Compensation Discussion and Analysis," "Compensation Committee Interlocks and Insider Participation," "Report of the Compensation Committee" and "Executive Compensation" and is incorporated herein by reference, except that the information required by Item 407(e)(5) of Regulation S-K which appears under the caption "Report of the Compensation Committee" is specifically not incorporated by reference into this Form 10-K or into any other filing by the registrant under the Securities Act of 1933 or the Securities Exchange Act of 1934.

ITEM 12—SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Except for the information required by Item 201(d) of Regulation S-K, which is included below, information required by this item is contained in the registrant's proxy statement relating to its annual meeting of stockholders scheduled to be held on May 15, 2019 under the captions "Certain Beneficial Owners" and "Election of Directors" and is incorporated herein by reference.

Equity Compensation Plan Information

Plan Category

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	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (2)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity compensation plans approved by security holders (1)	35,000	\$ 13.31	1,412,402
Equity compensation plans not approved by security holders	—	—	—
Total	35,000		1,412,402

(1) These plans include the Escalade, Incorporated 2007 Incentive Plan, including an additional 1,500,000 shares added under a 2012 amendment to the Escalade 2007 Incentive Plan, and the Escalade, Incorporated 2017 Incentive Plan. All plans were approved by stockholders at Escalade's Annual Meetings of Stockholders in 2007, 2012, and 2017, respectively.

(2) Does not include 125,987 shares subject to outstanding, unvested restricted stock awards.

ITEM 13—CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by Item 407(a) of Regulation S-K is contained in the registrant's proxy statement relating to its annual meeting of stockholders to be held on May 15, 2019 under the captions "Election of Directors" and "Board of Directors, Its Committees, Meetings and Functions" and is incorporated herein by reference. The information required by Item 404 of Regulation S-K is contained in the registrant's proxy statement relating to its annual meeting of stockholders scheduled to be held on May 15, 2019 under the caption "Certain Relationships and Related Person Transactions" and is incorporated herein by reference.

ITEM 14 — PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is contained in the registrant's proxy statement relating to its annual meeting of stockholders scheduled to be held on May 15, 2019 under the caption "Principal Accounting Firm Fees" and is incorporated herein by reference.

Part IV

ITEM 15—EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(A) Documents filed as a part of this report:

(1) Financial Statements

Reports of Independent Registered Public Accounting Firm

Consolidated financial statements of Escalade, Incorporated and subsidiaries:

Consolidated balance sheets—December 29, 2018 and December 30, 2017

Consolidated statements of operations—fiscal years ended December 29, 2018, December 30, 2017, and December 31, 2016

Consolidated statements of comprehensive income—fiscal years ended December 29, 2018, December 30, 2017, and December 31, 2016

Consolidated statements of stockholders' equity—fiscal years ended December 29, 2018, December 30, 2017, and December 31, 2016

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Consolidated statements of cash flows—fiscal years ended December 29, 2018, December 30, 2017, and December 31, 2016

Notes to consolidated financial statements

All other schedules are omitted because of the absence of conditions under which they are required or because the required information is given in the consolidated financial statements or notes thereto.

(3) **Exhibits**

3.1 Articles of Incorporation of Escalade, Incorporated (a)

3.2 Amended By-Laws of Escalade, Incorporated (f)

Amended and Restated Credit Agreement dated as of January 21, 2019 among Escalade, Incorporated, Indian Industries, Inc., each of their domestic subsidiaries, and JPMorgan Chase Bank, N.A., as Administrative Agent (without exhibits and schedules, which Escalade has determined are not material) (b)

Pledge and Security Agreement dated as of January 21, 2019 among Escalade, Incorporated, Indian Industries, Inc., each of their domestic subsidiaries, and JPMorgan Chase Bank, N.A., as Administrative Agent (without exhibits and schedules, which Escalade has determined are not material) (c)

(4) **Executive Compensation Plans and Arrangements**

- 10.3 Escalade, Incorporated 2007 Incentive Plan, as amended, incorporated by reference herein from Annex 1 and 2 to the Registrant's 2012 Definitive Proxy Statement (e)
- 10.4 Escalade, Incorporated 2017 Incentive Plan, incorporated by reference herein from Annex 1 to the Registrant's 2017 Definitive Proxy Statement (i)
- 10.5 Form of Stock Option Award Agreement utilized in Stock Option grants to employees pursuant to the Escalade, Incorporated 2017 Incentive Plan (d)
- 10.6 Form of Stock Option Award Agreement utilized in Stock Option grants to Directors pursuant to the Escalade, Incorporated 2017 Incentive Plan (d)
- 10.7 Form of Restricted Stock Unit Agreement utilized in Restricted Stock Unit grants to employees pursuant to the Escalade Incorporated 2017 Incentive Plan (d)
- 10.8 Form of Restricted Stock Unit Agreement utilized in Restricted Stock Unit grants to Directors pursuant to the Escalade, Incorporated 2017 Incentive Plan (d)
- 10.9 Executive Severance agreement, dated June 9, 2016 between David L. Fetherman and Escalade, Inc. (h)
- 21 Subsidiaries of the Registrant
- 23.1 Consent of BKD, LLP
- 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

- (a) Incorporated by reference from the Company's 2007 First Quarter Report on Form 10-Q
Incorporated by reference from the Company's Form 8-K/A filed on February 1, 2019. The 2019 Amended and Restated Credit Agreement supersedes the 2016 Credit Agreement with JPMorgan Chase Bank, N.A. previously
- (b) entered into by the Company and Indian Industries, Inc. The domestic subsidiaries of the Company and Indian Industries are parties to the 2019 Amended and Restated Credit Agreement as subsidiary guarantors, which supersedes the Unlimited Continuing Guarantees previously entered into by those subsidiaries.
Incorporated by reference from the Company's Form 8-K filed on January 25, 2019. The 2019 Pledge and Security
- (c) Agreement supersedes the pledge agreements previously entered into by the Company, Indian Industries, Inc. and their domestic subsidiaries
- (d) Incorporated by reference from the Company's Form 10-K for the fiscal year ended December 30, 2017 and filed on February 27, 2018
- (e) Incorporated by reference from the Company's 2012 Proxy Statement
- (f) Incorporated by reference from the Company's 2014 First Quarter Report on Form 10-Q filed on April 22, 2014
- (g) Incorporated by reference from the Company's 2016 First Quarter Form 10-Q filed on April 15, 2016
- (h) Incorporated by reference from the Company's Form 8-K filed on June 13, 2016
- (i) Incorporated by reference from the Company's 2017 Proxy Statement

ITEM 16—FORM 10-K SUMMARY

None.

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Escalade, Incorporated and Subsidiaries

Index to Financial Statements

The following consolidated financial statements of the Registrant and its subsidiaries and Independent Accountants' Reports are submitted herewith:

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<u>Reports of Independent Registered Public Accounting Firm</u>	<u>29</u>
<u>Consolidated financial statements of Escalade, Incorporated and subsidiaries:</u>	
<u>Consolidated balance sheets—December 29, 2018 and December 30, 2017</u>	<u>31</u>
<u>Consolidated statements of operations—fiscal years ended December 29, 2018, December 30, 2017 and December 31, 2016</u>	<u>32</u>
<u>Consolidated statements of comprehensive income—fiscal years ended December 29, 2018, December 30, 2017 and December 31, 2016</u>	<u>33</u>
<u>Consolidated statements of stockholders' equity—fiscal years ended December 29, 2018, December 30, 2017 and December 31, 2016</u>	<u>33</u>
<u>Consolidated statements of cash flows—fiscal years ended December 29, 2018, December 30, 2017 and December 31, 2016</u>	<u>34</u>
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Reports of Independent Registered Public Accounting Firms

Audit Committee, Board of Directors and Stockholders

Escalade, Incorporated

Evansville, Indiana

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Escalade, Incorporated as of December 29, 2018, and December 30, 2017, and the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for each of the years in the three-year period ended December 29, 2018 and the related notes (collectively referred to as the "financial statements"). In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Escalade, Incorporated as of December 29, 2018, and December 30, 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 29, 2018, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Escalade, Incorporated's internal control over financial reporting as of December 29, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 22, 2019, expressed an unqualified opinion on the effectiveness of Escalade, Incorporated's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of Escalade, Incorporated's management. Our responsibility is to express an opinion on Escalade, Incorporated's consolidated financial statements based on our audits.

We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) and are required to be independent with respect to Escalade, Incorporated in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the Public Company Accounting Oversight Board (United States).

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BKD, LLP

We have served as the Company's auditor since 1977.

Evansville, Indiana

February 22, 2019

Report of Independent Registered Public Accounting Firm

Audit Committee, Board of Directors and Stockholders

Escalade, Incorporated

Evansville, Indiana

Opinion on the Internal Control Over Financial Reporting

We have audited Escalade, Incorporated's internal control over financial reporting as of December 29, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, Escalade, Incorporated maintained, in all material respects, effective internal control over financial reporting as of December 29, 2018, based on criteria established in *Internal Control – Integrated Framework: (2013)* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of Escalade, Incorporated and our report dated February 22, 2019, expressed an unqualified opinion thereon.

Basis for Opinion

Escalade, Incorporated's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on Escalade, Incorporated's internal control over financial reporting based on our audit.

We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) and are required to be independent with respect to Escalade, Incorporated in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the Public Company Accounting Oversight Board (United States).

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definitions and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

As permitted, the Company excluded the operations of Victory Tailgate, LLC, a business acquired on November 8, 2018, from the scope of management's report on internal control over financial reporting. As such, this entity has also been excluded from the scope of our audit of internal control over financial reporting.

Evansville, Indiana

February 22, 2019

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Escalade, Incorporated and Subsidiaries

Consolidated Balance Sheets

All Amounts in Thousands Except Share Information	December 29, 2018	December 30, 2017
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 2,824	\$ 1,572
Receivables, less allowances of \$532 and \$623	40,682	39,350
Inventories	39,122	35,160
Prepaid expenses	4,151	3,414
Prepaid income tax	1,082	764
Other current assets	2	-
TOTAL CURRENT ASSETS	87,863	80,260
Property, plant and equipment, net	15,498	14,286
Intangible assets	19,785	19,691
Goodwill	26,381	21,548
Investments	-	20,278
Other assets	-	42
TOTAL ASSETS	\$ 149,527	\$ 156,105
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ -	\$ 1,250
Trade accounts payable	5,631	4,295
Accrued liabilities	11,072	13,997
TOTAL CURRENT LIABILITIES	16,703	19,542
Long-term debt	-	21,871
Deferred income tax liability	3,409	2,469
Other liabilities	1,094	553
TOTAL LIABILITIES	21,206	44,435
Commitments and contingencies	—	—
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: 2018 —14,438,824 shares, 2017 —14,371,586 shares	14,439	14,372
Retained earnings	113,882	99,908
Accumulated other comprehensive loss	-	(2,610)

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TOTAL STOCKHOLDERS' EQUITY	128,321	111,670
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 149,527	\$ 156,105

See notes to consolidated financial statements.

Escalade, Incorporated and Subsidiaries

Consolidated Statements of Operations

All Amounts in Thousands Except Per Share Data	Years Ended		
	December 29, 2018	December 30, 2017	December 31, 2016
Net Sales	\$ 175,780	\$ 177,333	\$ 171,662
Costs and Expenses			
Cost of products sold	130,750	132,606	127,395
Selling, administrative and general expenses	29,807	28,548	27,357
Amortization	1,406	1,579	2,327
Operating Income	13,817	14,600	14,583
Other Income (Expense)			
Interest expense	(427)	(804)	(834)
Equity in earnings of affiliates	121	1,634	1,672
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)	(89)	(169)	121
Income Before Income Taxes	26,442	15,517	15,542
Provision for Income Taxes	6,000	1,456	4,049
Net Income	\$ 20,442	\$ 14,061	\$ 11,493
Earnings Per Share Data:			
Basic earnings per share	\$ 1.42	\$ 0.98	\$ 0.81
Diluted earnings per share	\$ 1.41	\$ 0.98	\$ 0.80

See notes to consolidated financial statements.

Escalade, Incorporated and Subsidiaries**Consolidated Statements of Comprehensive Income**

All Amounts in Thousands	Years Ended		
	December 29, 2018	December 30, 2017	December 31, 2016
Net Income	\$20,442	\$ 14,061	\$ 11,493
Foreign currency translation adjustment before reclassifications	(1,119)	1,670	(1,102)
Amounts reclassified from comprehensive income due to divestiture of equity investment	3,729	-	-
Comprehensive Income	\$23,052	\$ 15,731	\$ 10,391

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

All Amounts in Thousands	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances at December 26, 2015	14,180	\$ 14,180	\$85,478	\$ (3,178)	\$96,480
Other comprehensive loss				(1,102)	(1,102)
Net income			11,493		11,493
Expense of stock options and restricted stock units			398		398
Exercise of stock options	96	96	451		547
Settlement of restricted stock units	16	16	(16)		—
Tax benefit from settlement of stock compensation			35		35
Dividends declared			(6,282)		(6,282)
Stock issued to directors as compensation	13	13	131		144

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Balances at December 31, 2016	14,305	\$ 14,305	\$ 91,688	\$ (4,280	) \$ 101,713
Other comprehensive income				1,670	1,670
Net income			14,061		14,061
Expense of stock options and restricted stock units			522		522
Exercise of stock options	28	28	131		159
Settlement of restricted stock units	26	26	(26	)	—
Dividends declared			(6,607	)	(6,607)
Stock issued to directors as compensation	13	13	139		152
Balances at December 30, 2017	14,372	\$ 14,372	\$ 99,908	\$ (2,610	) \$ 111,670
Other comprehensive income				2,610	2,610
Net income			20,442		20,442
Expense of stock options and restricted stock units			604		604
Exercise of stock options	9	9	45		54
Settlement of restricted stock units	47	47	(47	)	—
Dividends declared			(7,215	)	(7,215)
Stock issued to directors as compensation	12	12	154		166
Purchase of stock	(1	) (1	) (9	)	(10)
Balances at December 29, 2018	14,439	\$ 14,439	\$ 113,882	\$ -	\$ 128,321

See notes to consolidated financial statements.

Escalade, Incorporated and Subsidiaries

Consolidated Statements of Cash Flows

All Amounts in Thousands	Years Ended		
	December 29, 2018	December 30, 2017	December 31, 2016
Operating Activities:			
Net Income	\$20,442	\$ 14,061	\$ 11,493
Reconciling adjustments:			
Depreciation and amortization	3,857	3,910	5,244
Provision for doubtful accounts	155	775	1,758
Stock option and restricted stock unit expense	604	522	398
Equity in net income of joint venture investments	(121)	(1,634)	(1,672)
Deferred income taxes	940	(2,947)	(375)
Gain on sale of equity method investment	(13,020)	—	—
Gain on insurance proceeds received for damage to property	(377)	—	—
Gain on bargain purchase	—	(256)	—
Gain on disposals of assets	—	(5)	(2,158)
Dividends received from equity method investments	2,323	2,168	1,060
Changes in			
Accounts receivable	(1,140)	(3,366)	2,709
Inventories	(3,359)	(468)	(6,548)
Prepays and other assets	194	(507)	950
Accounts payable and accrued expenses	(3,992)	1,110	(690)
Net cash provided by operating activities	6,506	13,363	12,169
Investing Activities:			
Purchase of property and equipment	(2,818)	(2,745)	(2,653)
Acquisitions	(7,169)	(1,450)	(9,659)
Proceeds from sale of equity investment	33,705	—	—
Net purchase of marketable securities	—	—	(57)
Insurance proceeds received for damage to property	1,154	—	—
Proceeds from sale of property and equipment	—	5	2,568
Net cash provided by (used in) investing activities	24,872	(4,190)	(9,801)
Financing Activities:			
Dividends paid	(7,215)	(6,607)	(6,282)
Proceeds from issuance of long-term debt	28,024	56,713	65,887
Payments on long-term debt	(51,145)	(59,031)	(63,585)
Proceeds from exercise of stock options	54	159	547
Deferred financing fees	—	—	(83)
Tax benefit from settlement of stock compensation	—	—	35
Purchase of stock	(10)	—	—
Director stock compensation	166	152	144
Net cash used in financing activities	(30,126)	(8,614)	(3,337)

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Increase (Decrease) in Cash and Cash Equivalents	1,252	559	(969	)
Cash and Cash Equivalents, beginning of year	1,572	1,013	1,982	
Cash and Cash Equivalents, end of year	\$2,824	\$ 1,572	\$ 1,013	
Supplemental Cash Flows Information				
Interest paid	\$423	\$ 792	\$ 866	
Income taxes paid	\$4,844	\$ 3,816	\$ 3,333	
Information regarding the Company's acquisitions in 2018, 2017 and 2016 are as follows:				
Fair value of assets acquired	\$9,285	\$ 2,018	\$ 10,597	
Cash paid for assets	(7,169)	(1,450)	(9,464)	
Consideration of holdback provision	286	—	—	
Liabilities assumed	\$2,402	\$ 568	\$ 1,133	

See notes to consolidated financial statements.

Note 1 —Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Escalade, Incorporated and its wholly-owned subsidiaries (Escalade, the Company, we, us or our) are engaged in the manufacture and sale of sporting goods products. The Company is headquartered in Evansville, Indiana and has manufacturing facilities in the United States of America and Mexico. The Company sells products to customers primarily in North America with minimal sales throughout the remainder of the world.

Principles of Consolidation

The consolidated financial statements include the accounts of Escalade, Incorporated and its wholly-owned subsidiaries. All material inter-company accounts and transactions have been eliminated.

Basis of Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The books and records of subsidiaries located in foreign countries are maintained according to generally accepted accounting principles in those countries. Upon consolidation, the Company evaluates the differences in accounting principles and determines whether adjustments are necessary to convert the foreign financial statements to the accounting principles upon which the consolidated financial statements are based. As a result of this evaluation no material adjustments were identified.

Fiscal Year End

The Company's fiscal year is a 52 or 53 week period ending on the last Saturday in December. Fiscal year 2018 was 52 weeks long, ending December 29, 2018. Fiscal year 2017 was 52 weeks long, ending on December 30, 2017. Fiscal year 2016 was 53 weeks long, ending December 31, 2016.

Cash and Cash Equivalents

Highly liquid financial instruments with insignificant interest rate risk and with original maturities of three months or less are classified as cash and cash equivalents.

Accounts Receivable

Revenue from the sale of the Company's products 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. Accounts receivable are stated at the amount billed to customers. Interest and late charges billed to customers are not material and, because collection is uncertain, are not recognized until collected and are therefore not included in accounts receivable. The Company provides an allowance for doubtful accounts which is described in Note 2 – Certain Significant Estimates.

Inventories

Inventory cost is computed on a currently adjusted standard cost basis (which approximates actual cost on a current average or first-in, first-out basis). Work in process and finished goods inventory are determined to be saleable based on a demand forecast within a specific time horizon, generally one year or less. Inventory in excess of saleable amounts is reserved, and the remaining inventory is valued at the lower of cost or net realizable value for 2018 and 2017. This inventory valuation reserve totaled \$456 thousand and \$504 thousand at fiscal year-end 2018 and 2017, respectively. Inventories, net of the valuation reserve, at fiscal year-ends were as follows:

In Thousands	2018	2017
Raw materials	\$3,622	\$3,462
Work in process	2,892	2,927
Finished goods	32,608	28,771
	\$39,122	\$35,160

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Depreciation and amortization are computed for financial reporting purposes principally using the straight-line method over the following estimated useful lives: buildings, 20-30 years; leasehold improvements, term of the lease; machinery and equipment, 5-15 years; and tooling, dies and molds, 2-5 years. Property, plant and equipment consist of the following:

In Thousands	2018	2017
Land	\$1,943	\$1,943
Buildings and leasehold improvements	16,768	16,392
Machinery and equipment	27,458	24,453
Total cost	46,169	42,788
Accumulated depreciation and amortization	(30,671)	(28,502)
	\$15,498	\$14,286

The Company evaluates the recoverability of certain long-lived assets whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Estimates of future cash flows used to test recoverability of long-lived assets include separately identifiable undiscounted cash flows expected to arise from the use and eventual disposition of the assets. Where estimated future cash flows are less than the carrying value of the assets, impairment losses are recognized based on the amount by which the carrying value exceeds the fair value of the assets. No asset impairment was recognized during the years ended 2018, 2017, or 2016.

During the year ended December 31, 2016, the Company sold its Wabash, Indiana land and building for a purchase price of approximately \$2.1 million. The sale resulted in a gain of approximately \$1.9 million, recognized within operating income for the year ended December 31, 2016.

Investments

Investments are composed of the following:

In Thousands	2018	2017
Non-marketable equity investments (equity method)	\$ —	\$20,278

Non-Marketable Equity Investment: The Company had an equity position in a company that strategically related to the Company's business, but the Company did not have control over that entity. The accounting method employed was dependent on the level of ownership and degree of influence the Company could exert on operations. Where the equity interest was less than 20% and the degree of influence was not significant, the cost method of accounting was employed. Where the equity interest was greater than 20% but not more than 50%, the equity method of accounting was utilized. Under the equity method, the Company's proportionate share of net income (loss) was recorded in equity in earnings of affiliates on the consolidated statement of operations. The proportionate share of net income was \$0.1 million, \$1.6 million and \$1.7 million in 2018, 2017 and 2016, respectively. Total cash dividends received from this equity investment amounted to \$2,323 thousand, \$2,168 thousand, and \$1,060 thousand in 2018, 2017 and 2016, respectively. The Company considered whether the fair value of its equity investment declined below its carrying value whenever adverse events or changes in circumstances indicated that recorded values may not be recoverable. If the Company considered any such decline to be other than temporary (based on various factors, including historical financial results, product development activities and overall health of the investments' industry), a write-down was recorded to estimated fair value.

Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price over fair value of net tangible and identifiable intangible assets of acquired businesses. Intangible assets consist of patents, consulting agreements, non-compete agreements, customer lists, developed technology, license agreements, and trademarks. Goodwill is deemed to have an indefinite life and is not amortized, but is subject to impairment testing annually in accordance with guidance included in FASB ASC 350, *Intangibles – Goodwill and Other*. Other intangible assets are amortized using the straight-line method over the following lives: license agreements, 17 years; developed technology, 5 years; trademarks, 20 years to indefinite life; consulting agreements, the life of the agreement; customer lists, 3 to 14 years; non-compete agreements, the lesser of the term or 5 years; and patents, the lesser of the remaining life or 5 to 15 years.

The Company reviews goodwill for impairment annually and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable, in accordance with guidance in FASB ASC 350, *Intangibles – Goodwill and Other*. A qualitative assessment is first performed to determine if the fair value of the reporting unit is "more likely than not" less than the carrying value. If so, we proceed to step one of the two-step goodwill impairment test, in which the fair value of the reporting unit is compared to its carrying value. If not, then performance of the second step of the goodwill impairment test is not necessary. If the carrying value of goodwill exceeds the implied estimated fair value calculated in the second step, an impairment charge to current operations is recorded to reduce the carrying value to the implied estimated fair value.

Employee Incentive Plan

During 2017, the Company approved an incentive plan explained in Note 10. The Company accounts for this plan under the recognition and measurement principles of FASB ASC 718, *Equity Based Payments*.

Foreign Currency Translation

The functional currency for the foreign operations of Escalade is the U.S. dollar. Gains or losses resulting from foreign currency transactions are included in selling, general and administrative expense in the Consolidated Statements of Operations and were insignificant in fiscal years 2018, 2017, and 2016.

Cost of Products Sold

Cost of products sold is comprised of those costs directly associated with or allocated to the products sold and include materials, labor and factory overhead.

Other Income (Loss)

The components of Other Income (Loss) are as follows:

In Thousands	2018	2017	2016
Rent income from real estate	\$—	\$—	\$158
Other loss	(89)	(169)	(37)
	\$ (89)	\$ (169)	\$ 121

Provision for Income Taxes

Income tax in the consolidated statement of operations includes deferred income tax provisions or benefits for all significant temporary differences in recognizing income and expenses for financial reporting and income tax purposes. A valuation allowance is established if it is more likely than not that a deferred tax asset will not be realized.

Research and Development

Research and development costs are charged to expense as incurred. Research and development costs incurred during 2018, 2017 and 2016 were approximately \$1.5 million, \$1.6 million, and \$1.5 million, respectively.

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.

New Accounting Pronouncements and Changes in Accounting Principles

Standards Adopted:

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 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 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 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 18 for disclosure requirements related to the adoption of this standard.

New Accounting Standards to be Adopted

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes ASC 840, *Leases*. The amendments in this update will increase the transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Under ASU 2016-02, a lessee will recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-to-use asset representing its right to use the underlying asset for the lease term. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from current GAAP. ASU 2016-02 retains a distinction between finance leases (i.e. capital leases under current GAAP) and operating leases. The classification criteria for distinguishing between finance leases and operating leases will be substantially similar to the classification criteria for distinguishing between capital leases and operating leases under current GAAP. We have completed our analysis of the impact this guidance will have on our consolidated financial statements and related disclosures, and other than an increase in the level of disclosures, we do not expect the impact to be material.

In July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842, Leases* and ASU 2018-11 *Leases: Targeted Improvements*. Both ASUs amend ASC 842, *Leases*. The provisions impacting the Company in these ASUs are an option that will not require prior periods to be restated at the adoption date. These amendments are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is evaluating the effect on its financial statements and plans to adopt the ASU using the modified-retrospective approach that will not require prior periods to be restated. We do not expect the standard to have a material impact on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. These amendments eliminate Step 2 from the goodwill impairment test. The amendments also eliminate the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The amendments are effective for annual impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The provisions of the amendment should be adopted on a prospective basis. We do not expect the standard to have a material impact on our consolidated financial statements.

In March 2018, the FASB issued ASU 2018-05, *Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118*, which amends ASC 740, *Income Taxes*. The ASU provides guidance on when to record and disclose provisional amounts related to tax reform. The ASU allows for a measurement period up to one year after the enactment date of tax reform to complete the related accounting requirements and was effective when issued. The Company completed the adjustments related to tax reform within the allowed period. The effects of tax reform to the Company's Consolidated Statement of Operations are presented in Note 12.

Note 2 — Certain Significant Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities; the disclosure of contingent assets and liabilities at the date of the consolidated financial statements; and the reported amounts of revenues and expenses during the reporting period. These estimates and judgments are evaluated on an ongoing basis and are based on experience; current and expected future conditions; third party evaluations; and various other assumptions believed reasonable under the circumstances. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities as well as identifying and assessing the accounting treatment with respect to commitments and liabilities. Actual results may differ from the estimates and assumptions used in the financial statements and related notes.

Listed below are certain significant estimates and assumptions related to the preparation of the consolidated financial statements:

Goodwill and Intangible Assets

The Company reviews goodwill for impairment annually and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable, in accordance with guidance in FASB ASC 350, Intangibles – Goodwill and Other. A qualitative assessment is first performed to determine if the fair value of the reporting unit is "more likely than not" less than the carrying value. If so, we proceed to step one of the two-step goodwill impairment test, in which the fair value of the reporting unit is compared to its carrying value. If not, then performance of the second step of the goodwill impairment test is not necessary. If the carrying value of goodwill exceeds the implied estimated fair value calculated in the second step, an impairment charge to current operations is recorded to reduce the carrying value to the implied estimated fair value.

Other intangible assets are amortized using the straight-line method over the following lives: license agreements, 17 years; developed technology, 5 years; trademarks, 20 years to indefinite life; consulting agreements, the life of the agreement; customer lists, 3 to 14 years; non-compete agreements, the lesser of the term or 5 years; and patents, the lesser of the remaining life or 5 to 15 years.

Indefinite-lived intangible assets are reviewed for impairment annually, or whenever events or changes in circumstances indicate the carrying amount of an intangible asset may not be recoverable.

There are inherent assumptions and judgments required in the analysis of goodwill and intangible impairment.

Product Warranty

The Company provides limited warranties on certain of its products, for varying periods. Generally, the warranty periods range from 90 days to one year. However, some products carry extended warranties of three-year, five-year, seven-year, ten-year, fifteen-year, and lifetime warranties. The Company records 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. Changes in product warranty were as follows:

In Thousands	2018	2017	2016
Beginning balance	\$691	\$876	\$847
Additions	1,448	1,036	1,501
Deductions	(1,437)	(1,221)	(1,472)
Ending balance	\$702	\$691	\$876

Inventory Valuation Reserves

The Company evaluates inventory for obsolescence and excess quantities based on demand forecasts based on specified time frames; usually one year. The demand forecast is based on historical usage, sales forecasts and current as well as anticipated market conditions. All amounts in excess of the demand forecast are deemed to be excess or obsolete and a reserve is established based on the anticipated net realizable value. Changes in inventory valuation reserves were as follows:

In Thousands	2018	2017	2016
Beginning balance	\$504	\$415	\$471
Additions	383	288	327
Deductions	(431)	(199)	(383)
Ending balance	\$456	\$504	\$415

Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. Accounts receivable are ordinarily due between 30 and 60 days after the issuance of the invoice. Accounts are considered delinquent when more than 90 days past due.

Delinquent receivables are reserved or written off based on individual credit evaluation and specific circumstances of the customer. Changes in allowance for doubtful accounts were as follows:

In Thousands	2018	2017	2016
Beginning balance	\$623	\$910	\$1,086
Additions	155	775	1,758
Deductions	(246)	(1,062)	(1,934)
Ending balance	\$532	\$623	\$910

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. Changes in customer allowances for advertising subsidies, volume rebates and catalog allowances were as follows:

In Thousands	2018	2017	2016
Beginning balance	\$3,357	\$2,777	\$2,151
Additions	6,575	6,608	5,778
Deductions	(8,382)	(6,028)	(5,152)
Ending balance	\$1,550	\$3,357	\$2,777

Note 3 — Accrued Liabilities

Accrued liabilities consist of the following:

In Thousands	2018	2017
Employee compensation	\$2,858	\$2,813
Customer related allowances and accruals	4,627	6,324
Other accrued items	3,587	4,860
	\$11,072	\$13,997

Note 4 — Operating Leases

The Company leases warehouse and office space under non-cancelable operating leases that expire at various dates through 2021. Terms of the leases, including renewals, taxes, utilities, and maintenance, vary by lease. Total rental expense included in the results of operations relating to all leases was \$0.9 million in 2018, \$1.0 million in 2017, and \$0.9 million in 2016.

At December 29, 2018, minimum rental payments for warehouse and office space under non-cancelable leases with terms of more than one year were as follows:

In Thousands	Amount
2019	\$ 594
2020	178
2021	40
2022	—
Thereafter	—
	\$ 812

Note 5 — Acquired Intangible Assets and Goodwill

The carrying basis and accumulated amortization of recognized intangible assets are summarized in the following table:

In Thousands	2018 Gross Carrying Amount	Accumulated Amortization	2017 Gross Carrying Amount	Accumulated Amortization
Patents	24,515	23,506	\$24,515	\$ 23,322
Non-compete agreements	2,749	2,625	2,749	2,545
Customer list	13,963	4,520	13,913	3,403
Trademarks	8,181	124	7,905	121
Developed technology	475	16	—	—
License agreements	700	7	—	—
	50,583	30,798	\$49,082	\$ 29,391

Amortization expense was \$1.4 million, \$1.6 million and \$2.3 million for 2018, 2017 and 2016, respectively.

Estimated future amortization expense is summarized in the following table:

In Thousands	2019	2020	2021	2022	2023	Thereafter
Sporting Goods	1,446	1,401	1,351	1,332	1,254	5,217

All goodwill is allocated to the operating segment of the business. The changes in the carrying amount of goodwill were:

In Thousands	Sporting Goods
Balance at December 31, 2016	\$ 21,456
Acquisition	92
Balance at December 30, 2017	\$ 21,548
Acquisition	4,833

Balance at December 29, 2018 \$ 26,381

The Company reviews goodwill for impairment annually and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable, in accordance with guidance in FASB ASC 350, *Intangibles – Goodwill and Other*. A qualitative assessment is first performed to determine if the fair value of the reporting unit is "more likely than not" less than the carrying value. If so, we proceed to step one of the two-step goodwill impairment test, in which the fair value of the reporting unit is compared to its carrying value. If not, then performance of the second step of the goodwill impairment test is not necessary. If the carrying value of goodwill exceeds the implied estimated fair value calculated in the second step, an impairment charge to current operations is recorded to reduce the carrying value to the implied estimated fair value.

Note 6 — 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 expired December 31, 2018. The new license agreement went 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 year-end for balance sheet amounts and using average exchange rates for income statement amounts. The Company's 50% portion of net income for Stiga for the period from December 31, 2017 through May 17, 2018 is \$121 thousand. The Company's 50% portion of net income for Stiga for the years ended December 30, 2017 and December 31, 2016 are \$1.6 million and \$1.7 million, respectively. Additionally, for each of the years ended December 29, 2018, December 30, 2017 and December 31, 2016, the Company paid royalties to Stiga in the amount of \$0.4 million.

In accordance with Rule 4-08(g) of Regulation S-X, summarized financial information for Stiga Sports AB balance sheets as of December 31, 2017, and statements of operations for the period from December 31, 2017 through May 17, 2018 and for the years ended December 31, 2017 and 2016 is as follows:

In Thousands	2017
Current assets	\$30,623
Non-current assets	10,854
Total assets	41,477
Current liabilities	6,897
Non-current liabilities	5,462
Total liabilities	12,359
Net assets	\$29,118

2017 2016

**Period from
December 31, 2017
through May 17, 2018**

Net sales	\$ 12,978	\$46,296	\$42,887
Gross profit	6,019	21,427	19,642
Net income	241	3,268	3,344

Note 7 — Borrowings

On January 21, 2019, the Company amended and restated its existing credit agreement. See “Note 19” and “Management’s Discussion and Analysis of Financial Condition and Results of Operation – Financial Condition and Liquidity.”

Previously, on January 21, 2016, the Company entered into a Second Amended and Restated Credit Agreement (“Restated Credit Agreement”) with its issuing bank, JP Morgan Chase Bank, N.A. (“Chase”), and the other lenders identified in the Restated Credit Agreement (collectively, the “Lender”). Under the terms of the Restated Credit Agreement, the Lender made available to the Company a senior revolving credit facility in a maximum amount of up to \$35.0 million and a term loan in the principal amount of \$7.5 million. The maturity date of the revolving credit facility was January 21, 2019. The credit facility and term debt are secured by substantially all assets of the Company.

In the second quarter of 2018, the Company repaid in full the outstanding revolving borrowings and term loan amounts. Principal amounts repaid in respect of the term loan were not eligible to be re-borrowed.

The Restated Credit Agreement allowed Escalade to request the issuance of letters of credit of up to \$5,000,000. Each loan, other than a Eurodollar Borrowing, bore interest at the Alternate Base Rate plus the Applicable Base Rate. Loans comprising each Eurodollar Borrowing bore interest at the Adjusted LIBO Rate for the interest period in effect plus the Applicable Rate. Applicable Rate means the applicable rate per annum set forth below, based upon Escalade’s Funded Debt to Adjusted Ratio as of the most recent determination date:

Funded Debt to Adjusted EBITDA Ratio	Revolving Term											
	Eurodollar Borrowing				Eurodollar Borrowing				Letter of Credit Fee		Commitment Fee	
<u>Category 1</u>												
Greater than or equal to 2.50 to 1.0	2.50	%	2.75	%	0.50	%	0.75	%	2.50	%	0.45	%
<u>Category 2</u>												
Greater than or equal to 2.25 to 1.0 but less than 2.50 to 1.0	2.25	%	2.50	%	0.25	%	0.50	%	2.25	%	0.40	%
<u>Category 3</u>												
Greater than or equal to 2.00 to 1.0 but less than 2.50 to 1.0	2.00	%	2.25	%	0.00	%	0.25	%	2.00	%	0.35	%
<u>Category 4</u>												
Greater than or equal to 1.75 to 1.0 but less than 2.00 to 1.0	1.75	%	2.00	%	(0.25	%)	0.00	%	1.75	%	0.30	%
<u>Category 5</u>												
Less than 1.75 to 1.0	1.50	%	1.75	%	(0.50	%)	(0.25	%)	1.50	%	0.30	%

The Applicable Rate was determined as of the end of each quarter based upon the Company’s annual or quarterly consolidated financial statements and was effective during the period commencing the date of delivery to the agent.

Indebtedness under the Restated Credit Agreement was collateralized by liens on all of the present and future equity of each of the Company's domestic subsidiaries and substantially all of the assets of the Company. In addition, each direct and indirect domestic subsidiary of Escalade unconditionally guaranteed all of the indebtedness of Escalade arising under the Restated Credit Agreement and secured its guaranty with a first priority security interest and lien on all of its assets. The Pledge and Security Agreement dated April 30, 2009 by and between Escalade and Chase, and each Pledge and Security Agreement dated April 30, 2009 by and between each such Escalade subsidiary and Chase continued in full force and effect, as amended by the Master Amendment to Pledge and Security Agreements dated May 31, 2010 entered into by Chase, Escalade and each such subsidiary. The Unlimited Continuing Guaranty dated April 30, 2009 applicable to each of Escalade's domestic subsidiaries continued in full force and effect without change.

Short-Term Debt

Short-term debt at fiscal year-ends was as follows:

In Thousands	2018	2017
Short-term debt reclassified from long-term debt	\$ —	\$ 1,250
	\$ —	\$ 1,250

The weighted average interest rate on short-term debt outstanding at December 30, 2017 was 3.19%, respectively.

Long-Term Debt

Long-term debt at fiscal year-ends was as follows:

In Thousands	2018	2017
Senior secured revolving credit facility of \$35.0 million with a maturity of January 21, 2019. The interest rate at December 30, 2017 was 3.227%.	\$ —	\$ 18,121
Term loan of \$7.5 million with a maturity date of January 21, 2021. The interest rate at December 30, 2017, was 3.188%.	—	5,000
	—	23,121
Portion classified as short-term debt	—	(1,250)
	\$ —	\$ 21,871

Note 8 — Earnings Per Share

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

In Thousands	2018	2017	2016
Weighted average common shares outstanding	14,422	14,352	14,264
Dilutive effect of stock options and restricted stock units	55	39	53
Weighted average common shares outstanding, assuming dilution	14,477	14,391	14,317
Number of anti-dilutive stock options and unvested restricted stock units	70	58	49

Weighted average common shares outstanding, assuming dilution, includes the incremental shares that would be issued upon the assumed exercise of stock options outstanding.

Note 9 — Employee Benefit Plans

The Company has an employee profit-sharing salary reduction plan, pursuant to the provisions of Section 401(k) of the Internal Revenue Code, for all employees. The Company's contribution is a matching percentage of the employee contribution as determined by the Board of Directors annually. The Company's expense for the plan was \$715 thousand, \$695 thousand and \$626 thousand for 2018, 2017 and 2016, respectively.

Note 10 — Stock Compensation Plans

In May 2017, Shareholders approved the Escalade, Incorporated 2017 Incentive Plan (2017 Incentive Plan), which is an incentive plan for key employees, directors and consultants with various equity-based incentives as described in the plan document. The 2017 Incentive Plan is a replacement for the 2007 Incentive Plan, which expired at the end of April 2017. All options issued and outstanding under the expired plans will remain in effect until exercised, expired or forfeited.

The 2017 Incentive Plan is administered by the Board of Directors or a committee thereof, which is authorized to determine, among other things, the key employees, directors or consultants who will receive awards under the plan, the amount and type of award, exercise prices or performance criteria, if applicable, and vesting schedules. Under the original terms of the plan and subject to various restrictions contained in the plan document, the total number of shares of common stock which may be issued pursuant to awards under the Plan may not exceed 1,661,598.

Restricted Stock Units

In 2018, the Company awarded 14,250 restricted stock units to directors and 60,278 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 in March 2018 vest over four years (one-third two years from grant date, one-third three years from grant date and one-third four years from grant date) provided that the employee is still employed by the Company and that the performance criteria related to the market price of the Company's stock is satisfied. The 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.

A summary of restricted stock unit activity is as follows:

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	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested stock units as of December 31, 2016	82,347	\$ 11.91
Granted	55,032	12.26
Vested	(25,819)	12.81
Forfeited	(8,484)	11.40
Non-vested stock units as of December 30, 2017	103,076	\$ 11.92
Granted	74,528	12.39
Vested	(47,358)	12.34
Forfeited	(4,259)	11.65
Non-vested stock units as of December 29, 2018	125,987	\$ 12.05

When vesting is dependent on certain market criteria, the fair value of restricted stock units is determined by the use of Monte Carlo techniques. The market price of the Company's stock on the grant date is used to value restricted stock units where vesting is not contingent on market criteria. In 2018, 2017, and 2016 the Company recognized \$591 thousand, \$504, and \$342 thousand respectively in compensation expense related to restricted stock units and as of December 29, 2018 and December 30, 2017, there was \$754 thousand and \$471 respectively, of unrecognized compensation expense related to restricted stock units.

Stock Options

Total compensation expense recorded in the statements of operations for 2018, 2017 and 2016 relating to stock options was \$13 thousand, \$18 thousand and \$56 thousand, respectively. As of December 29, 2018 and December 30, 2017, there was \$13 thousand and \$26 thousand respectively, of total unrecognized compensation costs related to stock options. These costs are expected to be recognized over a weighted average period of 1.6 years.

During 2016, the Company awarded 20,000 stock options to an employee. The stock options awarded will vest over five years (one-third three years from the grant date, one-third four years from the grant date and one-third five years from the grant date). The stock options have an exercise price 15% higher than the closing price of a share of Escalade common stock on the grant date and are subject to forfeiture if on the vesting date the employee is no longer employed. No stock options were awarded during 2018 or 2017.

The following table summarizes option activity for each of the three years ended 2018:

	Incentive Stock Options		Director Stock Options	
	Granted	Outstanding	Granted	Outstanding
2018	—	20,000	—	15,000
2017	—	29,250	—	15,000
2016	20,000	57,375	—	15,000

The fair value of each option grant award is estimated on the grant date using the Black-Scholes-Merton option valuation model using the following assumptions:

	2018	2017	2016	
Risk-free interest rates	—	—	1.06	%
Dividend yields	—	—	2.73	%
Volatility factors of expected market price of common stock	—	—	35.60	%
Weighted average expected life of the options	—	—	1-5 years	

The following table summarizes stock option transactions for the three years ended 2018:

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	2018		2017		2016	
	Shares	Option Price	Shares	Option Price	Shares	Option Price
Outstanding at beginning of year	44,250	\$5.85 to \$14.39	72,375	\$5.28 to \$14.39	187,625	\$5.28 to \$11.86
Issued during year	—	—	—	—	20,000	\$14.39
Canceled or expired	—		—		(39,250)	
Exercised during year	(9,250)	\$5.85	(28,125)	\$5.28 to \$5.85	(96,000)	\$5.28 to \$6.07
Outstanding at end of year	35,000	\$11.86 to \$14.39	44,250	\$5.85 to \$14.39	72,375	\$5.28 to \$14.39
Exercisable at end of year	15,000		24,250		41,125	
Weighted-average fair value of options granted during the year	—		—		\$2.52	

The total intrinsic value of options exercised was \$0.1 million, \$0.2 million and \$0.7 million for 2018, 2017 and 2016, respectively.

The following table summarizes information about stock options outstanding at December 29, 2018:

Range of Exercise Prices	Options Outstanding		Weighted-Average Exercise Price	Options Exercisable	
	Number of Shares	Weighted-Average Remaining Contractual Life		Number of Shares	Weighted-Average Exercise Price
\$ 11.86	15,000	0.2 years	\$ 11.86	15,000	\$ 11.86
\$ 14.39	20,000	3.2 years	\$ 14.39	—	—
	35,000			15,000	

During the year ended December 29, 2018, the following activity occurred under the Company's stock option plan:

	Number of Options	Weighted Average Grant Date Fair Value
Nonvested balance, beginning of year	20,000	\$ 2.52
Granted	—	—
Vested	—	—
Forfeited	—	—
Nonvested balance, end of year	20,000	\$ 2.52

Note 11 — Other Comprehensive Loss

The components of other comprehensive loss were as follows:

In Thousands	2018	2017	2016
Change in foreign currency translation adjustment before reclassifications	\$(1,119)	\$1,670	\$(1,102)
Amounts reclassified from comprehensive income due to a divestiture of equity investment	3,729	—	—

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The components of accumulated other comprehensive loss, net of tax, were as follows:

In Thousands	2018	2017	2016
Foreign currency translation adjustment	\$ —	\$(2,610)	\$(4,280)

Note 12 — Provision for Taxes

Income before taxes and the provision for taxes consisted of the following:

In Thousands	2018	2017	2016
Income before taxes:	\$26,442	\$15,517	\$15,542
Provision for taxes:			
Current			
Federal	\$4,574	\$4,191	\$4,060
State	486	212	363
	5,060	4,403	4,423
Deferred			
Federal	591	(2,441)	1,453
State	349	(506)	(1,827)
	940	(2,947)	(374)
	\$6,000	\$1,456	\$4,049

The provision for income taxes was computed based on financial statement income. A reconciliation of the provision for income taxes to the amount computed using the statutory rate follows:

In Thousands	2018	2017	2016
Income tax at statutory rate	\$5,553	\$5,431	\$5,439
Increase (decrease) in income tax resulting from			
State tax expense, net of federal effect	660	(191)	194
Federal true-ups	(23)	193	8
Federal tax credits	(115)	(242)	(189)
Effect of foreign tax rates	(304)	(399)	(443)
Valuation allowances (state and foreign)	(150)	(148)	19
Captive insurance earnings	(263)	(128)	311
Incentive stock options	(9)	(22)	20
Deferred state rate adjustments	—	—	(1,194)
Tax Cuts & Jobs Act of 2017	588	(2,986)	—
Other	63	(52)	(116)
Recorded provision for income taxes	\$6,000	\$1,456	\$4,049

The provision for income taxes was computed based on financial statement income. In accordance with FASB ASC 740, the Company does not have any uncertain tax positions as of and for the years ended December 29, 2018 and December 30, 2017. Interest costs and penalties related to income taxes are classified as interest expense and selling, general and administrative costs, respectively in the Company's financial statements. The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, and multiple state and foreign jurisdictions. The Company is subject to future examinations by federal, state and other tax authorities for all years after 2014.

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 year ended December 29, 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. We do not expect any further changes or adjustments to be made for the accumulated foreign earnings and corresponding foreign tax credit.

The components of the net deferred tax liabilities are as follows:

In Thousands	2018	2017
Assets		
Employee benefits	\$30	\$24

Valuation reserves	615	869
Stock based compensation	179	178
Federal and state credits	297	382
Net operating loss carry forward	1	1
Total assets	1,122	1,454

Liabilities

Property and equipment	(532)	(175)
Goodwill and intangible assets	(3,812)	(3,465)
Prepaid insurance	(187)	(123)
Total liabilities	(4,531)	(3,763)

Valuation Allowance

Beginning balance	(160)	(411)
Decrease during period	160	251
Ending balance	—	(160)
	\$(3,409)	\$(2,469)

Deferred tax assets (liabilities) are included in the consolidated balance sheets as follows:

In Thousands	2018	2017
Deferred income tax asset - current	\$—	\$—
Deferred income tax asset (liability) – long-term	(3,409)	(2,469)
	\$(3,409)	\$(2,469)

The Company has utilized all state net operating losses during the year ended December 29, 2018.

Note 13 — Operating Segment and Geographic Information

The following table presents certain operating segment information.

In Thousands	2018	2017	2016
Sporting Goods			
Net revenue	\$175,780	\$177,333	\$171,662
Operating income	13,999	15,600	15,731
Interest expense	427	975	802
Provision for taxes	3,739	6,134	6,173
Net income	9,869	8,626	8,774
Identifiable assets	142,490	130,388	125,780
Depreciation & amortization	3,857	3,910	5,244
Capital expenditures	2,818	2,745	2,653
All Other			
Net revenue	—	—	—
Operating loss	(182)	(1,000)	(1,148)
Interest expense (income)	—	(171)	32
Provision (benefit) for taxes	2,261	(4,678)	(2,124)
Net income	10,573	5,435	2,719
Identifiable assets	7,037	25,717	24,981
Non-marketable equity investments (equity method)	—	20,278	19,030
Depreciation & amortization	—	—	—
Capital expenditures	—	—	—
Total			
Net revenue	175,780	177,333	171,662

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Operating income	13,817	14,600	14,583
Interest expense	427	804	834
Provision for taxes	6,000	1,456	4,049
Net income	20,442	14,061	11,493
Identifiable assets	149,527	156,105	150,761
Non-marketable equity investments (equity method)	—	20,278	19,030
Depreciation & amortization	3,857	3,910	5,244
Capital expenditures	2,818	2,745	2,653

Each operating segment is individually managed and has separate financial results that are reviewed by the Company's management. There were no changes to the composition of segments in 2018. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies.

The Sporting Goods segment consists of home entertainment products such as table tennis tables and accessories; basketball goals; pool tables and accessories; outdoor playsets; soccer and hockey tables; archery equipment and accessories; and fitness, arcade and darting products. Customers include retailers, dealers and wholesalers located throughout North America, Europe and the rest of the world.

All Other consist of general and administrative expenses not specifically related to the operating business segments and included investment income from equity investments.

Interest expense is allocated to operating segments based on working capital usage and the provision for taxes is allocated based on a combined federal and state statutory rate of 27.5% adjusted for actual taxes on foreign income. Permanent tax adjustments and timing differences are included in the all other segment.

Identifiable assets are principally those assets used in each segment. The assets in the all other segment are principally cash and cash equivalents; deferred tax assets; and investments.

During 2018, 2017 and 2016, the Company had one customer, Amazon.com, Inc., that accounted for approximately 19%, 18% and 13%, respectively of the Company's revenues. During 2018, 2017 and 2016 the Company had another customer, Dick's Sporting Goods, which accounted for approximately 13%, 17% and 18%, respectively, of the Company's revenues.

As of December 29, 2018, the Company had approximately 14% and 24% of its total accounts receivable with Dick's Sporting Goods and Amazon.com, Inc., respectively. As of December 30, 2017, the Company had approximately 22% and 25% of its total accounts receivable with Dick's Sporting Goods and Amazon.com, Inc., respectively.

As of December 29, 2018, approximately 27 employees of the Company's labor force were covered by a collective bargaining agreement that expires May 1, 2021.

Raw materials for Escalade's various product lines consist of wood, tempered glass, particle board, standard grades of steel and steel tubing, aluminum, engineering plastics, fiberglass and packaging materials. Escalade relies upon domestic, Mexico, and Asian suppliers for these materials and upon various Asian manufacturers for many of its products.

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Net sales are attributed to country based on location of customer and are for continuing operations. Net sales by geographic region/country were as follows:

In Thousands	2018	2017	2016
North America	\$172,656	\$175,065	\$168,998
Europe	965	974	1,302
Other	2,159	1,294	1,362
	\$175,780	\$177,333	\$171,662

Identified assets by geographic region/country were as follows:

In Thousands	2018	2017	2016
North America	\$149,527	\$156,105	\$150,761
Europe	—	—	—
	\$149,527	\$156,105	\$150,761

Note 14 — Summary of Quarterly Results

In thousands, except per share data (unaudited) March 24 July 14 October 6 December 29

2018

Net Sales	\$ 32,149	\$48,684	\$ 43,955	\$ 50,992
Operating Income	1,715	1,951	5,134	5,017
Net income	1,216	12,071	3,575	3,580

Basic Earnings Per Share Data:	\$ 0.08	\$0.84	\$ 0.25	\$ 0.25
Diluted Earnings Per Share Data:	\$ 0.08	\$0.84	\$ 0.25	\$ 0.25

In thousands, except per share data (unaudited) March 25 July 15 October 7 December 30

2017

Net Sales	\$ 31,866	\$53,921	\$ 42,861	\$ 48,685
Operating Income	1,996	3,332	4,128	5,144
Net income	1,388	2,096	3,118	7,459

Basic Earnings Per Share Data:	\$ 0.10	\$0.15	\$ 0.22	\$ 0.52
Diluted Earnings Per Share Data:	\$ 0.10	\$0.15	\$ 0.22	\$ 0.52

Net income for the quarter ended December 30, 2017, was favorably impacted by approximately \$3.0 million of income tax benefit resulting from the 2017 U.S. Tax Reforms more fully described in Note 12.

Note 15 — Acquisitions

All of the Company's acquisitions have been accounted for using the purchase method of accounting.

2018

During 2018, the Company acquired Victory Tailgate, LLC, a brand known for its premium licensed and custom tailgating games for total consideration of cash of approximately \$7.2 million, subject to adjustments for working capital and consideration of holdback provision.

The consideration paid by the Company for this acquisition was allocated to the assets acquired, net of the liabilities assumed, based upon their estimated fair values as of the date of the acquisition. The excess of the purchase price over the estimated fair value of the assets acquired, net of the estimated fair value of the liabilities assumed, was recorded as goodwill. The allocation of the purchase price, including values assigned to assets, liabilities and the amount of goodwill and intangible assets are represented in the table below.

In thousands

Assets acquired and liabilities assumed:

Cash	\$94
Accounts receivable	252
Inventories	603
Other assets	2,003
Goodwill	4,833
Intangible assets	1,500
Accounts payable	(2,088)
Other liabilities	(314)
	\$6,883
Consideration of holdback provision	286
	\$7,169

2017

During 2017, the Company acquired certain assets and liabilities through two acquisitions. Total consideration paid for the acquisitions was \$1.5 million. The consideration paid by the company for these acquisitions was allocated to the assets acquired, net of the liabilities assumed, based upon their estimated fair values as of the date of the acquisition.

ASC 805 requires that when fair value of the net assets acquired exceeds the purchase price, resulting in a bargain purchase, the acquirer must reassess the reasonableness of the values assigned to all of the net assets acquired, liabilities assumed and consideration transferred. The Company has performed such assessment and has concluded that the values assigned appear to be reasonable. The following table summarizes the allocation of the purchase price for the acquisition that resulted in a bargain purchase:

In thousands	
Accounts receivable, net	\$852
Inventories, net	737
Other assets	64
Intangible assets	413
Total fair value of assets acquired	2,066
Total liabilities assumed	(563)
Net assets acquired	1,503
Total consideration paid	(1,101)
Gain before deferred income tax liability	402
Income tax liability – deferred	(146)
Gain on bargain purchase	\$256

2016

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

These acquisitions were not and would not have been material to the Company's net sales, results of operations or total assets during the years ended December 29, 2018, December 30, 2017 and December 31, 2016, respectively.

Accordingly, our consolidated results from operations do not differ materially from historical performance as a result of these acquisitions, and therefore, pro-forma results are not presented.

Note 16 — Commitments and Contingencies

The Company is involved in litigation arising in the normal course of its 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.

The Company has entered into various agreements whereby it is required to make royalty and license payments. At December 29, 2018, the Company had future estimated minimum non-cancelable royalty and license payments as follows:

In Thousands	Amount
2019	\$ 1,159
2020	895
2021	721
2022	662
2023	540
Thereafter	—
	\$ 3,977

Note 17 — 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 approximate cost due to the short period of time to maturity.

Notes Payable and Long-term Debt

The Company believes the carrying value of short-term debt, including current portion of long-term debt, and long-term debt adequately reflects the fair value of these instruments.

The following table presents estimated fair values of the Company's financial instruments in accordance with FASB ASC 825 at December 29, 2018 and December 30, 2017.

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2018	Fair Value Measurements Using			
	Fair Value	Quoted Prices in		Significant Other Observable Inputs (Level 2)
		Active Markets for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)	
In Thousands				
Financial assets				
Cash and cash equivalents	\$ 2,824	\$ 2,824	\$ —	\$ —
2017	Fair Value Measurements Using			
	Fair Value	Quoted Prices in		Significant Other Observable Inputs (Level 2)
		Active Markets for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)	
In Thousands				
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	\$ —

Note 18 — 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	Years Ended		
	December 29, 2018	December 30, 2017	December 31, 2016
Gross Sales by Channel:			
Mass Merchants	\$68,196	\$ 80,539	\$ 84,434
Specialty Dealers	59,211	56,862	58,622
E-commerce	58,026	50,431	38,776
International	8,533	7,545	7,414
Other	1,828	402	712
Total Gross Sales	195,794	195,779	189,958
Less: Gross-to-Net Sales Adjustments			
Returns	5,085	4,729	4,666
Warranties	1,448	1,036	1,501
Customer Allowances	13,481	12,681	12,129
Total Gross-to-Net Sales Adjustments	20,014	18,446	18,296
Total Net Sales	\$ 175,780	\$ 177,333	\$ 171,662

Contract Balances – The following table provides information on changes in our contract liability balances during the twelve month periods ending December 29, 2018, December 30, 2017 and December 31, 2016. The contract liability recorded during the twelve month periods ending December 29, 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 December 29, 2018, the contract liability balance was \$413 and was reported within Accrued liabilities in our Consolidated Condensed Balance Sheet.

All Amounts in Thousands	Years Ended December		
	29, 2018	30, 2017	31, 2016
Increase due to cash received, excluding amounts recognized as revenue during the period	\$413	\$ -	\$ -
Revenue recognized that was included in the contract liability balance at the beginning of the period	-	-	-
Increase in contract liability during the period	\$413	\$ -	\$ -

Note 19 — Subsequent Events

On January 21, 2019, the Company entered into an Amended and Restated Credit Agreement (“2019 Restated Credit Agreement”) with the Lender. Under the terms of the 2019 Restated Credit Agreement, the Lender has made available to the Company a senior revolving credit facility with increased maximum availability of \$50.0 million. The maturity date was extended to January 31, 2022. In addition to the increased borrowing amount and extended maturity date, other significant changes reflected in the 2019 Restated Credit Agreement include: more favorable interest rate provisions; increases in borrowing base availability; releases of existing mortgages on the Company’s real property; and increasing to \$25.0 million the total consideration that the Company may use for acquisitions without obtaining the Lender’s consent, as long as no event of default exists.

The 2019 Restated Credit Agreement allows Escalade to request the issuance of letters of credit of up to \$5.0 million. Each loan will bear interest at the Adjusted LIBO Rate for the interest period in effect plus the Applicable Rate. Applicable Rate means the applicable rate per annum set forth below, based upon Escalade’s Funded Debt to Adjusted Ratio as of the most recent determination date:

Funded Debt to	Revolving	ABR	Letter of	Commitment
EBITDA Ratio	Eurodollar	Revolving		Fee
	Borrowing			

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	Borrowing				Credit Fee			
<u>Category 1</u>								
Greater than or equal to 2.50 to 1.0	2.00	%	-0-		2.00	%	0.30	%
<u>Category 2</u>								
Greater than or equal to 1.50 to 1.0 but less than 2.50 to 1.0	1.75	%	(.25	%)	1.75	%	0.30	%
<u>Category 3</u>								
Less than 1.50 to 1.0	1.50	%	(.50	%)	1.50	%	0.30	%

The Applicable Rate shall be determined as of the end of each quarter based upon the Company's annual or quarterly consolidated financial statements and shall be effective during the period commencing the date of delivery to the agent.

Indebtedness under the 2019 Restated Credit Agreement continues to be collateralized by liens on all of the present and future equity of each of the Company's and Indian Industries' domestic subsidiaries and substantially all of the assets of their respective assets pursuant to the Pledge and Security Agreement dated January 25, 2019 by and among the Company, Indian Industries, their domestic subsidiaries, and Chase. The 2019 Pledge and Security Agreement supersedes the pledge and security agreements previously entered into by the Company, Indian Industries, and their domestic subsidiaries. In addition, each direct and indirect domestic subsidiary of the Company and Indian Industries, Inc. continues to unconditionally guarantee all of the indebtedness of Escalade arising under the 2019 Restated Credit Agreement pursuant to the terms thereof. The subsidiary guarantees arising under the 2019 Restated Credit Agreement supersede the unlimited continuing guaranty agreements previously entered into by such domestic subsidiaries.

Signatures

Pursuant to the requirements of Section 13 or 15(d) 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

By: February 22, 2019

/s/ David L. Fetherman
David L. Fetherman
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ Walter P. Glazer, Jr. Walter P. Glazer, Jr.	Chairman and Director	February 22, 2019
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/s/ Richard D. White Richard D. White	Director	February 22, 2019
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/s/ Edward E. Williams Edward E. Williams	Director	February 22, 2019
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/s/ Richard Baalman, Jr. Richard Baalman, Jr.	Director	February 22, 2019
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/s/ Patrick Griffin Patrick Griffin	Director	February 22, 2019
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/s/ David L. Fetherman David L. Fetherman	Director and President and Chief Executive Officer (Principal Executive Officer)	February 22, 2019
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/s/ Stephen R. Wawrin Stephen R. Wawrin	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	February 22, 2019
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