

ESCALADE INC
Form 10-Q
August 09, 2011

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

Quarterly report pursuant to Section 13 OR 15 (d) of the Securities Exchange Act of 1934
For the quarter ended July 09, 2011 or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission File Number 0-6966

ESCALADE, INCORPORATED
(Exact name of registrant as specified in its charter)

Indiana
(State of incorporation)

13-2739290
(I.R.S. EIN)

817 Maxwell Ave, Evansville, Indiana
(Address of principal executive office)

47711
(Zip Code)

812-467-4449
(Registrant's Telephone Number)

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

Yes No

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

Yes No

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

Large accelerated filer
Non-accelerated filer (do not check if a smaller reporting
company)

Accelerated filer
Smaller reporting company

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

Yes No

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

| Class | Outstanding at July 25, 2011 |
|----------------------|------------------------------|
| Common, no par value | 12,862,056 |

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

ESCALADE, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS
(All amounts in thousands, except share information)

| | July 09, 2011 (Unaudited) | July 10, 2010 (Unaudited) | December 25, 2010 (Audited) |
|---|---------------------------------|---------------------------------|-----------------------------------|
| ASSETS | | | |
| Current Assets: | | | |
| Cash and cash equivalents | \$ 2,224 | \$ 2,463 | \$ 1,536 |
| Time deposits | 1,000 | 1,250 | 1,250 |
| Receivables, less allowance of \$940; \$1,479; and \$1,204; respectively | 22,610 | 21,519 | 25,458 |
| Inventories | 32,727 | 26,232 | 22,888 |
| Prepaid expenses | 1,863 | 1,416 | 1,160 |
| Deferred income tax benefit | 1,309 | 428 | 1,502 |
| Income tax receivable | — | — | 1,216 |
| TOTAL CURRENT ASSETS | 61,733 | 53,308 | 55,010 |
| Property, plant and equipment, net | 19,593 | 20,042 | 19,844 |
| Intangible assets | 15,054 | 16,215 | 15,678 |
| Goodwill | 26,163 | 25,098 | 25,397 |
| Investments | 12,732 | 9,122 | 11,624 |
| Deferred income tax benefit | — | 215 | — |
| | \$ 135,275 | \$ 124,000 | \$ 127,553 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| Current Liabilities: | | | |
| Notes payable | \$ 13,825 | \$ 15,104 | \$ 11,053 |
| Current portion of long-term debt | 2,000 | 2,000 | 2,000 |
| Trade accounts payable | 4,773 | 3,443 | 3,751 |
| Accrued liabilities | 13,179 | 11,950 | 14,074 |
| Income tax payable | 955 | 62 | — |
| TOTAL CURRENT LIABILITIES | 34,732 | 32,559 | 30,878 |
| Other Liabilities: | | | |
| Long-term debt | 6,000 | 8,000 | 7,500 |
| Deferred income tax liability | 2,155 | — | 2,145 |
| TOTAL LIABILITIES | 42,887 | 40,559 | 40,523 |
| Stockholders' Equity: | | | |
| Preferred stock: | | | |
| Authorized 1,000,000 shares; no par value, none issued | | | |

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Common stock:

Authorized 30,000,000 shares; no par value,
issued and outstanding – 12,855,936;

12,724,832; and 12,780,372; shares

respectively

Retained earnings

Accumulated other comprehensive income

| | | |
|------------|------------|------------|
| 12,856 | 12,725 | 12,780 |
| 73,385 | 68,161 | 70,329 |
| 6,147 | 2,555 | 3,921 |
| 92,388 | 83,441 | 87,030 |
| \$ 135,275 | \$ 124,000 | \$ 127,553 |

See notes to Consolidated Condensed Financial Statements.

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

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|---------------|------------------|---------------|
| | July 09, 2011 | July 10, 2010 | July 09, 2011 | July 10, 2010 |
| Net sales | \$ 40,850 | \$ 35,737 | \$ 68,848 | \$ 60,906 |
| Costs, expenses and other income: | | | | |
| Cost of products sold | 28,043 | 23,828 | 45,916 | 40,444 |
| Selling, general and administrative expenses | 9,598 | 8,068 | 17,339 | 14,929 |
| Amortization | 492 | 391 | 809 | 674 |
| Operating income | 2,717 | 3,450 | 4,784 | 4,859 |
| Interest expense, net | (228) | (422) | (412) | (782) |
| Other income | 513 | 53 | 635 | 311 |
| Income before income taxes | 3,002 | 3,081 | 5,007 | 4,388 |
| Provision for income tax | 1,517 | 1,219 | 2,319 | 1,724 |
| Net income | \$ 1,485 | \$ 1,862 | \$ 2,688 | \$ 2,664 |
| Per share data: | | | | |
| Basic earnings per share | \$ 0.12 | \$ 0.15 | \$ 0.21 | \$ 0.21 |
| Diluted earnings per share | \$ 0.11 | \$ 0.14 | \$ 0.20 | \$ 0.20 |

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|---------------|------------------|---------------|
| | July 09, 2011 | July 10, 2010 | July 09, 2011 | July 10, 2010 |
| Net income | \$ 1,485 | \$ 1,862 | \$ 2,688 | \$ 2,664 |
| Foreign currency translation adjustment | 333 | (1,388) | 2,226 | (2,211) |
| Comprehensive income | \$ 1,818 | \$ 474 | \$ 4,914 | \$ 453 |

See notes to Consolidated Condensed Financial Statements.

ESCALADE, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)
(All amounts in thousands)

| | Six Months Ended | |
|--|------------------|------------------|
| | July 09, 2011 | July 10, 2010 |
| Operating Activities: | | |
| Net income | \$ 2,688 | \$ 2,664 |
| Depreciation and amortization | 2,344 | 2,326 |
| Loss on disposal of property and equipment | 39 | 11 |
| Stock-based compensation | 218 | 153 |
| Adjustments necessary to reconcile net income to net cash provided by operating activities | (5,114) | (1,556) |
| Net cash provided by operating activities | 175 | 3,598 |
| Investing Activities: | | |
| Purchase of property and equipment | (984) | (733) |
| Purchase of short-term time deposits | — | (500) |
| Proceeds from sale of short-term time deposits | 250 | — |
| Proceeds from sale of property and equipment | — | 4 |
| Net cash used by investing activities | (734) | (1,229) |
| Financing Activities: | | |
| Net increase (decrease) in notes payable | 2,772 | (3,328) |
| Principal payments on long-term debt | (1,500) | — |
| Proceeds from exercise of stock options | 87 | 29 |
| Stock option forfeiture | — | (22) |
| Director stock compensation | 138 | 64 |
| Net cash provided (used) by financing activities | 1,497 | (3,257) |
| Effect of exchange rate changes on cash | (250) | 312 |
| Net increase (decrease) in cash and cash equivalents | 688 | (576) |
| Cash and cash equivalents, beginning of period | 1,536 | 3,039 |
| Cash and cash equivalents, end of period | \$ 2,224 | \$ 2,463 |

See notes to Consolidated Condensed Financial Statements.

ESCALADE, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

Note A – Summary of Significant Accounting Policies

Presentation of Consolidated Condensed Financial Statements – The significant accounting policies followed by the Company and its wholly owned subsidiaries for interim financial reporting are consistent with the accounting policies followed for annual financial reporting. All adjustments that are of a normal recurring nature and are in the opinion of management necessary for a fair statement of the results for the periods reported have been included in the accompanying consolidated condensed financial statements. The consolidated condensed balance sheet of the Company as of December 25, 2010 has been derived from the audited consolidated balance sheet of the Company as of that date. Certain information and note disclosures normally included in the Company's annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Form 10-K annual report for 2010 filed with the Securities and Exchange Commission.

Note B - Reclassifications

Certain reclassifications have been made to prior year financial statements to conform to the current year financial statement presentation. These reclassifications had no effect on net earnings.

Note C - Seasonal Aspects

The results of operations for the three and six month periods ended July 09, 2011 and July 10, 2010 are not necessarily indicative of the results to be expected for the full year.

Note D - Inventories

| In thousands | July 09, 2011 | July 10, 2010 | December 25, 2010 |
|------------------|---------------|---------------|----------------------|
| Raw materials | \$ 9,465 | \$ 6,913 | \$ 5,973 |
| Work in progress | 3,940 | 3,103 | 2,497 |
| Finished goods | 19,322 | 16,216 | 14,418 |
| | \$ 32,727 | \$ 26,232 | \$ 22,888 |

Note E – Equity Interest Investments

The Company has a 50% interest in a joint venture, Stiga Sports AB (Stiga). The joint venture is accounted for under the equity method of accounting. Stiga, located in Sweden, is a global sporting goods company producing table tennis equipment and game products. Financial information for Stiga reflected in the table below has been translated from

local currency to U.S. dollars using exchange rates in effect at the respective period-end for balance sheet amounts, and using average exchange rates for statement of operations amounts. Certain differences exist between U.S. GAAP and local GAAP in Sweden, and the impact of these differences is not reflected in the summarized information reflected in the table below. The most significant difference relates to the accounting for goodwill for Stiga which is amortized over eight years in Sweden but is not amortized for U.S. GAAP reporting purposes. The effect on Stiga's net assets resulting from the amortization of goodwill for the periods ended July 09, 2011 and July 10, 2010 are addbacks to Stiga's consolidated financial information of \$9.1 million and \$6.2 million, respectively. These net differences are comprised of cumulative goodwill adjustments of \$12.7 million offset by the related cumulative tax effect of \$3.6 million as of July 09, 2011 and cumulative goodwill adjustments of \$8.7 million offset by the related cumulative tax effect of \$2.5 million as of July 10, 2010. The statement of operations impact of these goodwill and tax adjustments and other individually insignificant U.S. GAAP adjustments for the periods ended July 09, 2011, and July 10, 2010 are to increase Stiga's net income by approximately \$1.1 million and \$0.9 million, respectively. The Company's 50% portion of net income for Stiga for the periods ended July 09, 2011 and July 10, 2010 was \$0.5 million and \$0.2 million, respectively, and is included in other income on the Company's statement of operations.

In addition, Escalade has a 50% interest in two joint ventures, Escalade International, Ltd. in the United Kingdom, and Neoteric Industries Inc. in Taiwan. Escalade International Ltd. is a sporting goods wholesaler, specializing in fitness equipment. The Company's 50% portion of net income for Escalade International for the periods ended July 09, 2011 and July 10, 2010 was \$67,306 and \$51,501, respectively, and is included in other income on the Company's statement of operations. The income and assets of Neoteric have no impact on the Company's financial reporting. Additional information regarding these entities is considered immaterial and has not been included in the combined totals listed below.

Summarized financial information for Stiga Sports AB balance sheets as of July 09, 2011, July 10, 2010, and December 25, 2010 and statements of operations for the periods ended July 09, 2011 and July 10, 2010 is as follows:

| In thousands | July 09, 2011 | July 10, 2010 | December 25, 2010 |
|-------------------------|---------------|---------------|----------------------|
| Current assets | \$ 15,728 | \$ 10,828 | \$ 19,384 |
| Non-current assets | 11,393 | 10,797 | 11,338 |
| Total assets | 27,121 | 21,625 | 30,722 |
| Current liabilities | 5,965 | 6,023 | 9,599 |
| Non-current liabilities | 8,613 | 6,979 | 8,918 |
| Total liabilities | 14,578 | 13,002 | 18,517 |
| Net assets | \$ 12,543 | \$ 8,623 | \$ 12,205 |

| | Three Months Ended | | Six Months Ended | |
|------------------|--------------------|---------------|------------------|---------------|
| | July 09, 2011 | July 10, 2010 | July 09, 2011 | July 10, 2010 |
| Net sales | \$ 9,147 | \$ 6,014 | \$ 13,618 | \$ 9,373 |
| Gross profit | 5,314 | 2,864 | 7,574 | 4,555 |
| Net income(loss) | 239 | (563) | 45 | (648) |

Note F – Notes Payable

On April 14, 2011, the Company entered into the Seventh Amendment to its Credit Agreement with its issuing bank, JP Morgan Chase Bank, N.A. (Chase). The Seventh Amendment amends the Credit Agreement originally dated as of April 30, 2009, and as amended had a maturity date of May 31, 2012. The Seventh Amendment now makes available to the Company a senior revolving credit facility in the maximum principal amount of up to \$22 million with a maturity date of July 31, 2013 and a term loan in the principal amount of \$8.5 million with a maturity date of May 31, 2015. The term loan agreement requires the Company to make repayment of the principal balance in equal installments of \$0.5 million per quarter beginning in September 2010. A portion of the credit facility not in excess of \$5 million is available for the issuance of commercial or standby letters of credit to be issued by Chase. The Credit Agreement Amendment also provides a two (2) million euro overdraft facility.

Note G – Income Taxes

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

| In thousands | Six Months Ended | |
|--|------------------|---------------|
| | July 09, 2011 | July 10, 2010 |
| Beginning balance | \$ 220 | \$ 536 |
| Additions for current year tax positions | — | — |
| Additions for prior year tax positions | — | — |
| Settlements | — | (262) |
| Reductions or settlements | — | — |
| Reductions for prior year tax positions | — | (25) |
| Ending balance | \$ 220 | \$ 249 |

Note H – Fair Values of Financial Instruments

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

Cash and Cash Equivalents and Time Deposits

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

Notes Payable and Long-term Debt

The Company believes the carrying value of both short-term 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 820 at July 09, 2011, July 10, 2010, and December 25, 2010.

| I n thousands | July 09, 2011 | | July 10, 2010 | | December 25, 2010 | |
|--------------------------------------|--------------------|------------|--------------------|------------|--------------------|------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial assets | | | | | | |
| Cash and cash equivalents | \$ 2,224 | \$ 2,224 | \$ 2,463 | \$ 2,463 | \$ 1,536 | \$ 1,536 |
| Time deposits | 1,000 | 1,000 | 1,250 | 1,250 | 1,250 | 1,250 |
| Financial liabilities | | | | | | |
| Note payable and Short-term debt | 13,825 | 13,825 | 15,104 | 15,104 | 11,053 | 11,053 |
| Current portion of Long-term debt | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 |

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| | | | | | | |
|----------------|-------|-------|-------|-------|-------|-------|
| Long-term debt | 6,000 | 6,000 | 8,000 | 8,000 | 7,500 | 7,500 |
|----------------|-------|-------|-------|-------|-------|-------|

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The outstanding balance of the euro overdraft facility is included in Notes payable and Short-term debt. For the periods ended July 09, 2011, July 10, 2010, and December 25, 2010, the balance of the euro overdraft facility was \$2.1 million, \$1.4 million, and \$1.6 million, respectively.

Note I – Stock Compensation

The fair value of stock-based compensation is recognized in accordance with the provisions of FASB ASC 718, Stock Compensation.

During the six months ended July 09, 2011 and pursuant to the 2007 Incentive Plan, in lieu of director fees payable in cash, the Company awarded to certain directors 13,703 shares of common stock. In addition, the Company awarded 37,500 stock options to directors and 200,000 stock options to employees. The stock options awarded to directors vest at the end of one year and have an exercise price equal to the market price on the date of grant. Director stock options are subject to forfeiture, except for termination of services as a result of retirement, death or disability, if on the vesting date the director no longer holds a position with the Company. The 2011 stock options awarded to employees have a graded vesting of 25% per year over four years and are subject to forfeiture if on the vesting date the employee is no longer employed. The Company utilizes the Black-Scholes option pricing model to determine the fair value of stock options granted.

For the three months and six months ended July 09, 2011, the Company recognized stock based compensation expense of \$137 thousand and \$356 thousand, respectively, compared to stock based compensation expense of \$55 thousand and \$217 thousand for the same periods last year. At July 9, 2011 and July 10, 2010, respectively, there was \$1.2 million and \$0.6 million in unrecognized stock-based compensation expense related to non-vested stock awards.

Note J - Segment Information

| In thousands | Sporting Goods | As of and for the Three Months Ended July 09, 2011 | | | Total |
|----------------------------------|-------------------|---|--------|--|-----------|
| | | Information Security and Print Finishing | Corp. | | |
| Revenues from external customers | \$ 29,743 | \$ 11,107 | \$ — | | \$ 40,850 |
| Operating income (loss) | 3,987 | (312) | (958) | | 2,717 |
| Net income (loss) | 2,278 | (610) | (183) | | 1,485 |
| | | As of and for the Six Months Ended July 09, 2011 | | | |
| In thousands | Sporting Goods | Information Security and Print Finishing | Corp. | | Total |
| Revenues from external customers | \$ 48,930 | \$ 19,918 | \$ — | | \$ 68,848 |

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| | | | | |
|-------------------------|-----------|-----------|-----------|------------|
| Operating income (loss) | 6,323 | 268 | (1,807) | 4,784 |
| Net income (loss) | 3,602 | (373) | (541) | 2,688 |
| Total assets | \$ 73,116 | \$ 42,261 | \$ 19,898 | \$ 135,275 |

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| In thousands | As of and for the Three Months Ended July 10, 2010 | | | |
|----------------------------------|---|---|----------|-----------|
| | Sporting Goods | Information Security and Print Finishing | Corp. | Total |
| Revenues from external customers | \$ 25,577 | \$ 10,160 | \$ — | \$ 35,737 |
| Operating income (loss) | 4,445 | 363 | (1,358) | 3,450 |
| Net income (loss) | 2,315 | 8 | (461) | 1,862 |

| In thousands | As of and for the Six Months Ended July 10, 2010 | | | |
|----------------------------------|---|---|-----------|------------|
| | Sporting Goods | Information Security and Print Finishing | Corp. | Total |
| Revenues from external customers | \$ 42,528 | \$ 18,378 | \$ — | \$ 60,906 |
| Operating income (loss) | 6,522 | 655 | (2,318) | 4,859 |
| Net income (loss) | 3,232 | 181 | (749) | 2,664 |
| Total assets | \$ 69,908 | \$ 36,953 | \$ 17,139 | \$ 124,000 |

Note K – Dividend Payment

The Company has not declared a dividend to be paid in 2011.

Note L - Earnings Per Share

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

| All amounts in thousands | Three Months Ended | | Six Months Ended | |
|---|--------------------|---------------|------------------|---------------|
| | July 09, 2011 | July 10, 2010 | July 09, 2011 | July 10, 2010 |
| Weighted average common shares outstanding | 12,839 | 12,711 | 12,824 | 12,700 |
| Dilutive effect of stock options and restricted stock units | 429 | 517 | 438 | 488 |
| Weighted average common shares outstanding, assuming dilution | 13,268 | 13,228 | 13,262 | 13,188 |

Stock options that are anti-dilutive as to earnings per share and unvested restricted stock units which have a market condition for vesting that has not been achieved are ignored in the computation of dilutive earnings per share. The number of stock options and restricted stock units that were excluded in 2011 and 2010 were 252,024 and 529,149, respectively.

Note M – New Accounting Standards

There have been no recent accounting pronouncements or changes in accounting pronouncements during the six months ended July 09, 2011, as compared to the recent accounting pronouncements described in the Company's Annual Report on Form 10-K for the fiscal year ended December 25, 2010, that are of significance, or potential significance to the Company.

Note N – Commitments and Contingencies

In the second quarter of 2010, the Company was made aware of a potential financial obligation relating to an 8,600 square foot facility the Company is sub-leasing in Spain. On July 1, 2011, the Company received a release of any financial obligation related to this matter, other than lease payments under the existing lease agreement which expires in April 2012.

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

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

Forward-Looking Statements

This report contains forward-looking statements relating to present or future trends or factors that are subject to risks and uncertainties. These risks include, but are not limited to, the impact of competitive products and pricing, product demand and market acceptance, Escalade's ability to successfully integrate the operations of acquired assets and businesses, new product development, the continuation and development of key customer and supplier relationships, Escalade's ability to control costs, general economic conditions, fluctuation in operating results, changes in foreign currency exchange rates, changes in the securities market, Escalade's ability to obtain financing and to maintain compliance with the terms of such financing, and other risks detailed from time to time in Escalade's filings with the Securities and Exchange Commission. Escalade's future financial performance could differ materially from the expectations of Management contained herein. Escalade undertakes no obligation to release revisions to these forward-looking statements after the date of this report.

Overview

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

A majority of the Company's products are in markets that are experiencing low growth rates. Where the Company enjoys a commanding market position, such as table tennis tables in the Sporting Goods segment and paper folding machines in the Information Security and Print Finishing segment, revenue growth is expected to be roughly equal to

general growth/decline in the economy. However, in markets that are fragmented and where the Company is not the dominant leader, such as archery in the Sporting Goods segment and data security shredders in the Information Security and Print Finishing segment, the Company anticipates growth. To enhance growth, the Company has a strategy of promoting new product innovation and development and brand marketing. In the Information Security and Print Finishing segment, the Company's strategic focus is increasingly upon expanding its product and service offerings to assist businesses and governments with their document and information high security needs to secure sensitive customer, employee and business information and to comply with new information privacy laws, rules and regulations. The Company continues to extend the capabilities of its line of shredders to include not only the secure destruction of paper but also the secure destruction and/or de-commissioning of medical patient information, drug prescriptions and adhesive labels, pill and syrup vials, CDs, DVDs, and other forms of magnetic, optical and solid state media. The Company is further exploring opportunities to provide secure on-site and off-site document and data destruction and disposal services to meet the specific needs of its customers.

In addition, the Company will continue to investigate acquisition opportunities of companies or product lines that complement or expand the Company's existing product lines. A key objective is the acquisition of product lines with barriers to entry that the Company can take to market through its established distribution channels or through new market channels. Significant synergies are achieved through assimilation of acquired product lines into the existing company structure. Management believes that key indicators in measuring the success of this strategy are revenue growth, earnings growth and the expansion of channels of distribution.

Results of Operations

Consolidated net revenues for the second quarter of 2011, compared to the same period in 2010 were up 14%. Year to date revenues were up 13% over the same period last year. The Company's operating income for the second quarter and first half of fiscal 2011 was \$2.7 million and \$4.8 million, respectively, compared to operating income of \$3.5 million and \$4.9 million for the same periods last year. As expected, much of the increase in sales for the quarter was driven by product lines with lower margins which affected gross margin percentages. The Company is also experiencing pricing pressures from suppliers on certain products. In addition, the Company has invested in marketing and product development for which the benefit is expected in future periods.

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

| | Three Months Ended | | | | Six Months Ended | | | |
|---|--------------------|---|------------------|---|------------------|---|------------------|---|
| | July 09, 2011 | | July 10, 2010 | | July 09, 2011 | | July 10, 2010 | |
| Net revenue | 100.0 | % | 100.0 | % | 100.0 | % | 100.0 | % |
| Cost of products sold | 68.6 | % | 66.7 | % | 66.7 | % | 66.4 | % |
| Gross margin | 31.4 | % | 33.3 | % | 33.3 | % | 33.6 | % |
| Selling, administrative and general expenses | 23.5 | % | 22.6 | % | 25.2 | % | 24.5 | % |
| Amortization | 1.2 | % | 1.1 | % | 1.2 | % | 1.1 | % |
| Operating income | 6.7 | % | 9.6 | % | 6.9 | % | 8.0 | % |

Consolidated Revenue and Gross Margin

Revenues from the Sporting Goods business were up 16.3% for the quarter and 15.1% for the first half of 2011, compared with the same periods prior year. Sales increases are largely a result of new product distribution and increases in customer demand for the Company's products. Management believes improved sales in the Sporting Goods segment will continue throughout the remainder of the year; although the percent of increase may be less than what was experienced in the first half of 2011.

Compared to last year, revenues from the Information Security and Print Finishing business were up 9.3% and 8.4% for the second quarter and first half of 2011, respectively. Excluding the effects of changes in the currency exchange rates, revenues were up 3.5% and 5.4%, for the second quarter and first half of 2011, respectively. The Company will continue to market its new product launches to achieve future growth; however, economic pressures in parts of Europe and a slowing in the office channel in North America will provide challenges for the remainder of the year. A portion of the increase in the first quarter is the result of one time shipments in North America which were not repeated in the second quarter.

The overall gross margin ratios for the second quarter and first half of 2011 were 31.4% and 33.3%, respectively, compared to 33.3% and 33.6%, respectively, for same periods last year. As mentioned, a portion of the sales growth was in product categories with lower gross margin percentages. The Information Security and Print Finishing segment also experienced some start-up inefficiencies on new products which had a slight negative impact on gross margins.

Consolidated Selling, General and Administrative Expenses

Compared to the same periods last year, consolidated selling, general and administrative (“SG&A”) costs increased as a percent of net sales to 23.5% and 25.2% for the three and six months periods in 2011; up from 22.6% and 24.5% for the three and six months periods in 2010. Increases were expected as the Company continues to focus on product development and marketing efforts to strengthen brand recognition and expand distribution.

Provision for Income Taxes

The effective tax rate in the second quarter of 2011 was 50.5% compared to 39.6% in the same period last year. The effective tax rate year to date is 46.3% and 39.3% for 2011 and 2010, respectively. The increase in the current period tax rate is due mainly to a valuation allowance adjustment for a net operating loss carryforward in Spain where a tax benefit is not expected to be fully realized and current year tax losses in several international locations where a tax benefit is not expected to be realized. The inability to offset domestic tax gains with foreign tax losses is expected to negatively impact the Company’s effective tax rate for the remainder of the year.

Financial Condition and Liquidity

Total bank debt at the end of the first half of 2011 was down 13.1% or \$3.3 million from the same period last year. Debt was up 6.2% or \$1.3 million from the latest year end. The Company believes its debt leverage is appropriate based on current sales levels and working capital requirements. The following schedule summarizes the Company’s total bank debt:

| In thousands | July 09, 2011 | July 10, 2010 | December 25, 2010 |
|--------------------------------|------------------|------------------|----------------------|
| Notes payable short-term | \$ 13,825 | \$ 15,104 | \$ 11,053 |
| Current portion long-term debt | 2,000 | 2,000 | 2,000 |
| Long term debt | 6,000 | 8,000 | 7,500 |
| Total bank debt | \$ 21,825 | \$ 25,104 | \$ 20,553 |

As a percentage of stockholders’ equity, total bank debt was 23%, 30% and 24% at July 09, 2011, July 10, 2010 and December 25, 2010, respectively.

During the first half of 2011, operations provided \$0.2 million in cash. Planned increases in inventory levels in order to adequately respond to customer demand for new product offerings and increased sales activity offset most of the cash generated from operating profits.

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

Since 2009, the Company has been assessing the performance of its Oracle ERP system which was implemented at two Company locations during 2008. At the beginning of 2011, the Company replaced the Oracle system at its Wabash, Indiana facility. On June 27, 2011, the Company signed an agreement to purchase a new ERP system for certain of its Sporting Goods businesses. The Company is currently evaluating the feasibility of replacing the Oracle system at its one remaining Sporting Goods site. This evaluation is expected to be completed by mid-August, 2011, at which time a plan of replacement could be established. Should the replacement of Oracle prove feasible, the Company expects to reduce the remaining depreciable life of the Oracle asset which will accelerate the recognition, through increased depreciation expense, of the remaining book value of the Oracle system equally over the remaining two quarters of the current fiscal year. As of the end of the second quarter, the remaining book value of the Oracle system is approximately \$4.8 million (\$3.1 million, net of tax). In April 2011, the Company began implementation of a new ERP system at its Martin Yale European locations. The approximate cost of the ERP implementations is expected to be \$0.5 million for Martin Yale Europe and \$1.6 million for the Sporting Goods sites.

The Company is continuing to market its Reynosa facility through a national broker and is aggressively pursuing all viable offers for purchase or lease. The Company discontinued operations in Reynosa in February 2009.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rates

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