

Edgar Filing: ESCALADE INC - Form 10-Q/A

ESCALADE INC
Form 10-Q/A
March 14, 2007

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q/A (Amendment No. 1)

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

For the quarter ended July 15, 2006

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)

812-467-1334
(Registrant's Telephone Number)

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

Common Stock, No Par Value
(Title of Class)

The NASDAQ Stock Market LLC
(Name of Exchange on Which Registered)

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

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

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

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of

Edgar Filing: ESCALADE INC - Form 10-Q/A

common stock, as of the latest practicable date.

CLASS	OUTSTANDING AT AUGUST 10, 2006
----- Common, no par value	----- 13,024,839

INDEX

Explanatory Note	Page No.
Part I. Financial Information:	
Item 1 - Financial Statements:	
Consolidated Condensed Balance Sheets as of July 15, 2006 (Unaudited), July 9, 2005 (Unaudited), and December 31, 2005	3
Consolidated Condensed Statements of Income (Unaudited) for the Three Months and Six Months Ended July 15, 2006 and July 9, 2005	4
Consolidated Condensed Statements of Comprehensive Income (Unaudited) for the Three Months and Six Months Ended July 15, 2006 and July 9, 2005	4
Consolidated Condensed Statements of Cash Flows (Unaudited) for the Six Months Ended July 15, 2006 and July 9, 2005	5
Notes to Consolidated Condensed Financial Statements (Unaudited)	6
Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations	14
Item 3 - Quantitative and Qualitative Disclosures about Market Risk	16
Item 4 - Controls and Procedures	16
Part II. Other Information	
Item 2 - Issuer Purchases of Equity Securities	17
Item 4 - Other Matters	18
Item 6 - Exhibits	18
Signatures	19

Explanatory Note

This Amendment No. 1 on Form 10-Q/A to the Annual Report on Form 10-Q for the quarter ended July 15, 2006, filed with the Securities and Exchange Commission (SEC) on August 8, 2006 is being filed to restate the consolidated financial statements and other financial information for the three months and six months

Edgar Filing: ESCALADE INC - Form 10-Q/A

ended July 15, 2006 and July 9, 2005 to give effect to adjustments resulting from the identification of errors related to the overstatement of the provision for income taxes and employee benefit costs. On February 13, 2007, the Audit Committee of the Board of Directors of Escalade, Incorporated ("Escalade"), upon the recommendation of Escalade's management and in conjunction with Escalade's independent registered public accounting firm, BKD, LLP, determined that the errors identified were material to the financial statements for the three months and six months ended July 15, 2006 and July 9, 2005 and that, as a result, the previously issued financial statements for those periods should no longer be relied on. A new footnote (Note M) has been added to the restated consolidated financial statements to discuss the restatement effects. This Form 10-Q/A (Amendment No.1) amends and restates Items 1 and 4 along with Notes F, G and J of the August 8, 2006 filing. Only the adjustments described herein and no other material information in our August 8, 2006 filing is amended hereby. Except for the foregoing amended information, this Form 10-Q/A does not reflect events occurring after August 8, 2006, nor does it modify or update those disclosures, except as discussed above or in Note M to the Consolidated Financial Statements. Escalade will also amend the first and third quarter 10-Q filings of 2006 for the same errors.

3

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	July 15, 2006 (Unaudited) (Restated)	July 9, 2005 (Unaudited) (Restated)	December 31, 2005 (Audited) (Restated)
	-----	-----	-----
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 1,000	\$ 3,045	\$ 3,017
Receivables, less allowance of \$2,311; \$2,146; and \$1,544; respectively	31,897	33,266	31,744
Inventories	44,630	37,075	33,049
Prepaid expenses	1,793	2,617	1,559
Deferred income tax benefit	1,344	1,698	1,382
Income Tax Receivable	2,592	638	--
	-----	-----	-----
TOTAL CURRENT ASSETS	83,256	78,339	70,751
Property, plant and equipment, net	20,808	14,660	20,307
Intangible assets	21,758	7,148	6,634
Goodwill	24,628	17,208	17,157
Investments	6,752	5,791	7,786

Edgar Filing: ESCALADE INC - Form 10-Q/A

Interest rate swap	322	(93)	181
Other assets	1,499	2,493	2,044
	-----	-----	-----
	\$ 159,023	\$ 125,546	\$ 124,860
	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Notes payable	\$ 19,033	\$ 1,658	\$ --
Current portion of long-term debt	--	946	1,066
Trade accounts payable	7,688	8,322	3,518
Accrued liabilities	20,577	17,158	23,728
Income tax payable	--	--	89
	-----	-----	-----
TOTAL CURRENT LIABILITIES	47,298	28,084	28,401
Other Liabilities:			
Long-term debt	32,530	27,030	18,487
Deferred compensation	1,003	1,294	1,349
	-----	-----	-----
	80,831	56,408	48,237
Stockholders' equity:			
Preferred stock:			
Authorized 1,000,000 shares; no par value, none issued			
Common stock:			
Authorized 30,000,000 shares; no par value, issued and outstanding - 13,024,839; 13,062,973; and 12,946,869; respectively			
	13,025	13,063	12,947
Retained earnings	63,201	54,844	62,726
Accumulated other comprehensive income	1,966	1,231	950
	-----	-----	-----
	78,192	69,138	76,623
	-----	-----	-----
	\$ 159,023	\$ 125,546	\$ 124,860
	=====	=====	=====

See notes to Consolidated Condensed Financial Statements.

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

Three Months Ended

Edgar Filing: ESCALADE INC - Form 10-Q/A

	July 15, 2006 (Restated)	July 9, (Restat
	-----	-----
Net sales	\$ 48,949	\$ 47
Costs, expenses and other income:		
Cost of products sold	33,613	32
Selling, general and administrative expenses	12,379	11
	-----	-----
Operating income	2,957	3
Interest expense, net	(810)	
Other income (expense)	(190)	
	-----	-----
Income before income taxes	1,957	3
Provision for income taxes	769	1
	-----	-----
Net income	\$ 1,188	\$ 2
	=====	=====
Per Share Data:		
Basic earnings per share	\$ 0.09	\$
Diluted earnings per share	\$ 0.09	\$
Cash dividend paid	--	

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

Net income	\$ 1,188	\$ 2
Unrealized gain (loss) on securities, net of tax of \$172, \$(17), \$75 and \$(2), respectively	(259)	
Foreign currency translation adjustment, net of tax of \$(653), \$1,924, \$(689) and \$2,335, respectively	984	(2
Unrealized gain on interest rate swap agreement, net of tax of \$(33), \$(90), \$(61) and \$(127), respectively	49	
	-----	-----
Comprehensive income (loss)	\$ 1,962	\$
	=====	=====

See notes to Consolidated Condensed Financial Statements.

Edgar Filing: ESCALADE INC - Form 10-Q/A

5

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

	Six Months Ended	
	July 15, 2006	July 9, 2005
	(Restated)	(Restated)
	-----	-----
Operating Activities:		
Net income	\$ 2,912	\$ 3,669
Depreciation and amortization	2,733	2,654
Adjustments necessary to reconcile net income to net cash provided by operating activities	(6,700)	(1,399)
	-----	-----
Net cash provided (used) by operating activities	(1,055)	4,924
Investing Activities:		
Purchase of property and equipment	(1,416)	(901)
Proceeds from asset disposition	--	68
Acquisition of assets	(28,710)	(3,213)
	-----	-----
Net cash used by investing activities	(30,126)	(4,046)
Financing Activities:		
Net increase in notes payable	31,914	1,541
Proceeds from exercise of stock options	1,244	294
Director fees paid by issuing stock	141	95
Purchase of common stock	(1,376)	(670)
Dividends paid	(2,604)	(1,961)
	-----	-----
Net cash provided (used) by financing activities	29,319	(701)
	-----	-----
Effect of exchange rate changes on cash	(155)	(182)
	-----	-----
Net decrease in cash and cash equivalents	(2,017)	(5)
Cash and cash equivalents, beginning of period	3,017	3,050
	-----	-----
Cash and cash equivalents, end of period	\$ 1,000	\$ 3,045
	=====	=====

See notes to Consolidated Condensed Financial Statements.

6

ESCALADE, INCORPORATED AND SUBSIDIARIES

Edgar Filing: ESCALADE INC - Form 10-Q/A

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

Note A - Basis of Presentation

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 condensed consolidated balance sheet of the Company as of December 31, 2005 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 condensed consolidated 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 2005 filed with the Securities and Exchange Commission.

Note B - Seasonal Aspects

The results of operations for the six-month periods ended July 15, 2006 and July 9, 2005 are not necessarily indicative of the results to be expected for the full year.

Note C - Inventories

(All amounts in thousands)

	July 15, 2006	July 9, 2005	December 31, 2005
Raw materials	\$ 10,642	\$ 8,550	\$ 7,128
Work in progress	8,456	7,019	5,358
Finished goods	25,532	21,506	20,563
	-----	-----	-----
	\$ 44,630	\$ 37,075	\$ 33,049
	=====	=====	=====

Note D - Notes Payable

On June 30, 2006, the Company executed a seventh amendment to the revolving term agreement that effectively increased the current available borrowing limit under the Euro Revolving Loan from Euro 2.5 million (\$3.2 million) to Euro 3.0 million (\$3.8 million) and extended the due date to May 19, 2008. All other terms of the agreement were unchanged. As of July 15, 2006 the outstanding balance on this line was Euro 1.6 million (\$2.0 million).

On June 30, 2006, the Company's wholly owned subsidiary, Indian-Martin, Inc., executed a second amendment to its revolving term agreement that extended the maturity due date to June 30, 2008. All other terms of the agreement were unchanged. As of July 15, 2006 the outstanding balance on this line was \$19.0 million.

Edgar Filing: ESCALADE INC - Form 10-Q/A

On June 1, 2006, the Company executed a sixth amendment to the revolving term agreement that effectively maintained the current available borrowing limit at \$31 million and delayed the annual reduction of \$7 million until May 19, 2007. All other terms of the agreement were unchanged. As of July 15, 2006 the outstanding balance on this line was \$27.8 million.

Note E - Income Taxes

The provision for income taxes was computed based on financial statement income.

7

Note F - Employee Stock Option Plan

The Company has two stock-based compensation plans. Prior to the start of the current fiscal year, the Company accounted for these plans under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock issued to Employees, and related interpretations. Beginning with the current fiscal year, the Company expenses the fair value of options to employee compensation expense in accordance with SFAS 123R Share-Based Payment (SFAS 123R). During the three months and six months ended July 15, 2006, the Company recorded compensation expense of \$297 thousand and \$428 thousand, respectively.

The following table illustrates the effect on net income and earnings per share had the Company applied the fair value provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation for the three months and six months ended July 9, 2005.

(In Thousands Except Per Share Amounts)	Three months July 9, 2005 (Restated)
Net income, as reported	\$ 2
Less: Total stock-based employee compensation cost determined under the fair value based method, net of income taxes	-----
Pro forma net income	\$ 2 =====
Earnings per share	
Basic--as reported	\$ =====
Basic--pro forma	\$ =====
Diluted--as reported	\$ =====
Diluted--pro forma	\$ =====

Edgar Filing: ESCALADE INC - Form 10-Q/A

Note G - Segment Information

In thousands	As of and for the Three Months Ended July 15, 2006		
	Sporting Goods	Office Products	Corporate (Restated)
Revenues from external customers	\$ 33,176	\$ 15,773	\$ 11,120
Operating income (loss)	2,397	2,120	(1,120)
Net income (loss)	731	987	(1,120)
Total assets	\$ 101,517	\$ 47,589	\$ 9,120

In thousands	As of and for the Six Months Ended July 15, 2006		
	Sporting Goods	Office Products	Corporate (Restated)
Revenues from external customers	\$ 53,060	\$ 28,689	\$ 11,120
Operating income (loss)	2,922	4,534	(2,120)
Net income (loss)	781	2,571	(2,120)
Total assets	\$ 101,517	\$ 47,589	\$ 9,120

8

In thousands	As of and for the Three Months Ended July 9, 2005		
	Sporting Goods	Office Products	Corporate (Restated)
Revenues from external customers	\$ 28,569	\$ 18,982	\$ 11,120
Operating income (loss)	2,960	1,960	(1,120)
Net income (loss)	1,608	1,198	(1,120)
Total assets	\$ 64,992	\$ 48,716	\$ 11,120

As of and for the Six Months Ended July 9, 2005

Edgar Filing: ESCALADE INC - Form 10-Q/A

Family Industries, Inc., which manufactures and sells premium quality residential playground systems from stained redwood. Combined with the acquisition of the ChildLife product line in the first quarter of fiscal 2005, this acquisition greatly enhances the breadth of the product offering and expands the Company's potential customer base. Playground systems will continue to be sold under both the Woodplay and ChildLife brand names, primarily through specialty dealers. The operating results from this acquisition have been

9

included in the Sporting Goods business segment results since the date of acquisition. The total price paid, which was paid in cash using the Company's revolving credit lines, exceeded the estimated fair market value of the net assets acquired resulting in \$4.4 million in Goodwill. The Goodwill recorded will be deductible for income tax purposes. The estimated fair market value of the assets acquired and liabilities assumed as the date of acquisition are as follows:

(All amounts in thousands)	Amount
Current assets	\$ 2,891
Property, plant & equipment	50
Other assets	112
Goodwill	4,726

Total assets acquired	7,779
Current liabilities	(524)

Net assets acquired	\$ 7,255
	=====

In April 2006, the Company acquired all of the outstanding stock of Desmar Seguridad Y Archivo, S.L. ("Desmar"), a distributor of office products located in Barcelona, Spain. The Company acquired Desmar to solidify its presence in Spain. The operating results from this acquisition have been included in the Office Products business segment results since the acquisition date. The Company intends to operate this acquisition as a wholly owned distributor from its current location. The total purchase price of EUR 1.9 million (\$2.4 million) was paid in cash and financed through the Company's current Euro debt facilities. The purchase price exceeded the estimated fair market value of the assets acquired resulting in Goodwill of \$2.2 million. The Goodwill recorded will not be deductible for income tax purposes. The estimated fair market value of the assets acquired and liabilities assumed as the date of acquisition are as follows:

(All amounts in thousands)	Amount
Current assets	\$ 1,412
Property, plant & equipment	177
Other assets	493
Goodwill	2,209

Total assets acquired	4,291
Current liabilities	(1,913)

Net assets acquired	\$ 2,378
	=====

In May 2006, the Company acquired substantially all of the assets of Carolina

Edgar Filing: ESCALADE INC - Form 10-Q/A

Archery Products which manufactures and distributes archery accessories. This acquisition expands the Company's product offerings in archery accessories and provides the Company with valuable technology rights that will be used to enhance its competitive position in the market place. The operating results from this acquisition have been included in the Sporting Goods business segment results since the date of acquisition. The total purchase price of \$18.9 million was paid in cash and financed through the Company's current debt facilities. The estimated fair market value of the assets acquired and liabilities assumed as the date of acquisition are as follows:

(All amounts in thousands)	Amount

Current assets	\$ 3,358
Property, plant & equipment	67
Patent & other intangibles	15,447

Net assets acquired	\$ 18,872
	=====

10

The following table presents unaudited pro forma financial information as if the Carolina Archery acquisition described above had occurred at the beginning of the respective periods:

(In Thousands Except Per Share Amounts)

	T

	July 15,
	(Restat

Net revenue:	
Net revenue excluding Carolina Archery Products acquisition	\$ 46
Net revenue of Carolina Archery Products	3
Consolidation adjustment	

Pro forma net revenues	\$ 49
	=====
Net income:	
Net income excluding Carolina Archery Products acquisition	\$ 1
Net income of Carolina Archery Products	1
Consolidation adjustment	

Pro forma net income	\$ 2
	=====
Basic earning per share:	
Excluding Carolina Archery Products acquisition	\$
Carolina Archery Products	
Consolidation adjustment	

Pro forma basic earnings per share	\$
	=====

Edgar Filing: ESCALADE INC - Form 10-Q/A

(In Thousands Except Per Share Amounts)

	July 15,
	(Restat

Net revenue:	
Net revenue excluding Carolina Archery Products acquisition	\$ 79
Net revenue of Carolina Archery Products	4
Consolidation adjustment	

Pro forma net revenues	\$ 84
	=====
Net income:	
Net income excluding Carolina Archery Products acquisition	\$ 2
Net income of Carolina Archery Products	1
Consolidation adjustment	

Pro forma net income	\$ 3
	=====
Basic earning per share:	
Excluding Carolina Archery Products acquisition	\$
Carolina Archery Products	
Consolidation adjustment	(

Pro forma basic earnings per share	\$
	=====

The consolidation adjustment in the above tables reflects the amortization of patents and other intangible assets over the expected economic lives.

Note K - Restructuring Costs

In 2004 the Company initiated a facility consolidation plan and involuntary employee terminations in the Office Products segment in order to reduce costs and increase the competitiveness of the Company. Under these plans no additional costs were incurred during the quarter ended July 15, 2006. Liabilities under these plans are as follows:

11

(All amounts in thousands)	Balance at March 25, 2006	Non-Cash Charges	Cash Payments	Balance at July 15, 2006
	-----	-----	-----	-----
Severance and benefit costs	\$ 148	\$ --	\$ --	\$ 148
Facility closure costs	--	--	--	--

Edgar Filing: ESCALADE INC - Form 10-Q/A

-----	-----	-----	-----
\$ 148	\$ --	\$ --	\$ 148
=====	=====	=====	=====

Note L - Reclassifications

Certain reclassifications have been made to the 2005 financial statements to conform to the 2006 financial statement presentation.

Note M - Restatement of Financial Statements

The consolidated financial statements for the three months and six months ended July 15, 2006 and July 9, 2005 and for the year ended December 31, 2005, have been restated. On February 13, 2007, the Audit Committee of the Company's Board of Directors, upon the recommendation of management and in consultation with the Company's registered public accounting firm, decided to restate these financial statements to correct the overstatements of the provision for income taxes and employee benefit costs.

The following tables set forth the effects of the restatement on the Company's previously reported statements of income for the three months and six months ended July 15, 2006 and July 9, 2005:

(Amounts in thousands, except per share amounts)

	Three Months ended July 15, 2006		
	As Previously Reported	Adjustments	As Restated
Provision for income taxes	925	(156)	769
Net income	1,032	156	1,188
Basic earnings per share	\$ 0.08	\$ 0.01	\$ 0.09
Diluted earnings per share	\$ 0.08	\$ 0.01	\$ 0.09

(Amounts in thousands, except per share amounts)

	Three Months ended July 9, 2005		
	As Previously Reported	Adjustments	As Restated
Provision for income taxes	1,312	(176)	1,136
Net income	2,255	176	2,431
Basic earnings per share	\$ 0.17	\$ 0.02	\$ 0.19
Diluted earnings per share	\$ 0.17	\$ 0.01	\$ 0.18

Edgar Filing: ESCALADE INC - Form 10-Q/A

(Amounts in thousands, except per share amounts)

Six Months ended July 15 2006

	As Previously Reported	Adjustments		As Restated
Provision for income taxes	1,589	(516)		1,073
Net income	2,396	516		2,912
Basic earnings per share	\$ 0.18	\$ 0.04	\$	0.22
Diluted earnings per share	\$ 0.18	\$ 0.04	\$	0.22

(Amounts in thousands, except per share amounts)

Six Months ended July 9, 2005

	As Previously Reported	Adjustments		As Restated
Provision for income taxes	1,865	(260)		1,605
Net income	3,409	260		3,669
Basic earnings per share	\$ 0.26	\$ 0.02	\$	0.28
Diluted earnings per share	\$ 0.26	\$ 0.02	\$	0.28

12

The following tables set forth the effect of the restatement on the consolidated balance sheet as of July 15, 2006 and July 9, 2005:

(Amounts in thousands)

As of July 15, 2006

	As Previously Reported	Adjustments		As Restated
Deferred income tax benefit	1,780	(436)		1,344
Income tax receivable	--	2,592		2,592
Total current assets	81,100	2,156		83,256
Total Assets	156,867	2,156		159,023
Accrued Liabilities	21,277	(700)		20,577
Income tax payable	(310)	310		--
Total current liabilities	47,688	(390)		47,298
Total liabilities	81,221	(390)		80,831
Retained earnings	60,655	2,546		63,201
Total stockholder's equity	75,646	2,546		78,192

(Amounts in thousands)

As of July 9, 2005

	As Previously Reported	Adjustments		As Restated
--	---------------------------	-------------	--	----------------

Edgar Filing: ESCALADE INC - Form 10-Q/A

Deferred income tax benefit	2,132	(434)	1,698
Income tax receivable	--	638	638
Total current assets	78,135	204	78,339
Total Assets	125,342	204	125,546
Accrued Liabilities	17,815	(657)	17,158
Income tax payable	454	(454)	--
Total current liabilities	29,195	(1,111)	28,084
Total liabilities	57,519	(1,111)	56,408
Retained earnings	53,529	1,315	54,844
Total stockholder's equity	67,823	1,315	69,138

The restatement had no effect on net cash provided by operating activities for the six months ended July 15, 2006 and July 9, 2005. The following tables set forth the effect on the individual line items within operating activities in the consolidated statement of cash flows for the six months ended July 15, 2006 and July 9, 2005:

(Amounts in thousands)

For the quarter ended July 15, 2006

	As Previously Reported	Adjustments	As Restated
Net Income	2,396	516	2,912
Adjustments necessary to reconcile net income to net cash provided by operating activities	(6,184)	(516)	(6,700)

(Amounts in thousands)

For the quarter ended July 9, 2005

	As Previously Reported	Adjustments	As Restated
Net Income	3,409	260	3,669
Adjustments necessary to reconcile net income to net cash provided by operating activities	(1,139)	(260)	(1,399)

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,

Edgar Filing: ESCALADE INC - Form 10-Q/A

product demand and market acceptance, 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 the securities market 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 Office Products. Within these industries the Company has successfully built a commanding market presence in niche markets. This strategy is heavily dependent on brand recognition and excellent customer service. Management believes the key indicators in measuring the success of this strategy are revenue and earnings growth. 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 very cost effective manner while maintaining a diversified product line and wide customer base. In addition to strategic customer relations, the Company has over 75 years of manufacturing experience that enable it to be a low cost supplier.

Results of Operations

Net revenues for the second quarter and first half of fiscal 2006 increased 2.9% and 5.7%, respectively, over the same periods last year. Revenue growth in the Sporting Goods business was partially offset by declining sales in the Office Products business. Operating profits in the second quarter and the first half of 2006 were lower than the same periods last year as a result of higher selling, administrative and general expenses.

The following schedule sets forth certain consolidated statement of income data as a percentage of net revenue for the periods indicated:

	Three Months ended	
	July 15, 2006	July 9, 2005
Net Revenue	100.0%	100.0%
Cost of products sold	68.7%	68.0%
Gross Margin	31.3%	32.0%
Selling, administrative and general expenses	25.3%	23.8%
Operating Income	6.0%	8.2%

Consolidated Revenue and Gross Margin

Sales in the Sporting Goods business increased in fiscal 2006 over the same periods last year; up 16.1% in the second quarter and 24.6% for the first half. Acquisitions completed during the first half of fiscal 2006 accounted for a significant portion of the revenue increase while existing products experienced an overall growth rate of 7.2%. These acquisitions, one in the residential wooden playground market and the other in the archery accessories market, are part of the overall strategy to increase the Company's presence in the specialty

Edgar Filing: ESCALADE INC - Form 10-Q/A

market, which includes dealers and specialty sports retailers. This strategy is designed to broaden the customer base and lessen the impact of large mass market retailers. Increased product placement for the 2006 holiday season indicates the Company continues to enjoy strong relationships with mass market retailers and sporting goods chain stores. However, Management believes that sales to

14

SEARS/K-Mart, the Company's largest single customer, will be down roughly \$5.0 million in 2006 compared to 2005. Despite this, Management is cautiously optimistic that sales to the mass market channel will be roughly equal with that achieved in 2005.

Office Products sales, compared to the prior year, were down 16.9% in the second quarter and 17.4% in the first half of fiscal 2006. Slightly more than half of the sales shortfall is attributed to the planned elimination of non-core, low margin products and the elimination of unprofitable customers. The balance of the sales decline is related to lower shredder sales due to lower overall demand for high security shredders and stiff price competition. Management believes that a new line of security shredders introduced in the first quarter of 2006 will eventually stem the sales decline resulting from price competition. However, Management does not expect to reverse the decline in sales until fiscal 2007. The sales decline experienced in the first half of fiscal 2006 is expected to be indicative of the sales results for all of fiscal 2006.

The overall gross margin for the first six months of fiscal 2006 was relatively unchanged from the same period last year. However, the Company anticipates the overall gross margin to decline as the Office Products business, which has a higher gross margin than the Sporting Goods business, becomes a smaller part of total company sales. The slight decline in the overall gross margin for the second quarter compared to the same period last year is the result of this shift in the relative sizes of the two business segments. In addition, rising oil prices will have a direct impact on raw material prices for steel and resin which constitute a significant portion of product costs in both business segments. To the extent that these cost increases cannot be passed on to customers, the gross margins in both business segments will be negatively impacted. At present it is not possible to quantify the extent or impact on future gross margins.

Consolidated Selling, General and Administrative Expenses

Consolidated selling, general and administrative expenses increased 9.5% in the second quarter and 12.5% in the first half of fiscal 2006, compared to the same periods last year. The bulk of the increase, approximately \$2.1 million for the first half of 2006, relates to the Sporting Goods business where additional selling and marketing expenses have been incurred to expand distribution into the specialty market. Cost reductions in the Office Products business, approximately \$0.5 million for the first six months of fiscal 2006, were substantially offset by employee stock option expense of \$0.4 million and roughly \$0.3 million in non-recurring expenses associated with the retirement of Mr. Reed, former President and CEO of the Company.

Provision for Income Taxes

The effective tax rate for the second quarter (39.3%) is significantly higher than the rate achieved in the same quarter last year (31.8%) due to lower foreign earnings. Management believes that the tax rate achieved for the first six months of 2006 is indicative of the overall rate that will be achieved in fiscal 2006.

Edgar Filing: ESCALADE INC - Form 10-Q/A

Financial Condition and Liquidity

The following schedule summarizes the Company's total debt:

In thousands	July 15, 2006 (Restated)	July 9, 2005 (Restated)	December 2005 (Restated)
Notes payable short-term	\$ 19,033	\$ 1,658	\$
Current portion long-term debt	--	946	1
Long term debt	32,530	27,030	18
Total debt	\$ 51,563	\$ 29,634	\$ 19
Total debt as a percentage of stockholder's equity	65.9%	42.9%	

15

Total debt at July 15, 2006 increased \$32.0 million from the balance at December 31, 2005 primarily as result of the three acquisitions completed during the first six months of fiscal 2006; the total cost of which was \$28.7 million. In addition the Company paid an annual dividend in March 2006 that totaled \$2.6 million.

During the first half of 2006, operations consumed \$1.1 million in cash compared to generating \$4.9 million for the same time period in 2005. The primary reason for the decline is increased inventories in the Sporting Goods business. Management believes the abnormally high inventory levels will be resolved by the end of fiscal 2006 and that no additional excess or obsolete reserves are necessary.

The acquisitions completed during the first half of 2006, were the primary reason why net cash used by investing activities increased substantially compared to the prior year. Spending for property plant and equipment for the first half of 2006 was higher than the same period in 2005 due to costs associated with completing the Reynosa, Mexico manufacturing plant.

The Company's working capital requirements are primarily funded from operating cash flows and revolving credit agreements with its banks. The Company's relationship with its primary lending bank remains strong and the Company expects to have access to the same level of revolving credit that was available in 2005. In addition, the Company believes it can quickly reach agreement to increase available credit should the need arise.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to financial market risks, including changes in currency exchange rates, interest rates and marketable equity security prices. To mitigate these risks, the Company utilizes derivative financial instruments, among other strategies. At the present time, the only derivative financial instrument used by the company is an interest rate swap. The Company does not use derivative financial instruments for speculative purposes.

Edgar Filing: ESCALADE INC - Form 10-Q/A

A substantial majority of revenue, expense and capital purchasing activities are transacted in U.S. dollars. However, the Company's foreign subsidiaries enter into transactions in other currencies, primarily the Euro. To protect against reductions in value and the volatility of future cash flows caused by changes in currency exchange rates, the Company carefully considers the use of transaction and balance sheet hedging programs. Such programs reduce, but do not entirely eliminate, the impact of currency exchange rate changes. Presently the Company does not employ currency exchange hedging financial instruments, but has adjusted transaction and cash flows to mitigate adverse currency fluctuations. Historical trends in currency exchanges indicate that it is reasonably possible that adverse changes in exchange rates of 20% for the Euro could be experienced in the near term. Such adverse changes would have resulted in a material impact on income before taxes for the six months ended July 15, 2006.

A substantial portion of the Company's debt is based on U.S. prime and LIBOR interest rates. In an effort to lock-in current low rates and mitigate the risk of unfavorable interest rate fluctuations the Company has entered an interest rate swap agreement. This agreement effectively converted a portion of its variable rate debt into fixed rate debt.

An adverse movement of equity market prices would have an impact on the Company's long-term marketable equity securities that are included in other assets on the consolidated balance sheet. At July 15, 2006 the aggregate fair value of long-term marketable equity securities was \$2.4 million. Due to the unpredictable nature of the equity market the Company has not employed any hedge programs relative to these investments.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Escalade maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods

16

specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based closely on the definition of "disclosure controls and procedures" in Rule 13a-14(c). In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Also, the Company has investments in certain unconsolidated entities. As the Company does not control or manage these entities, its disclosure controls and procedures with respect to such entities are necessarily substantially more limited than those it maintains with respect to its consolidated subsidiaries.

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report. In connection with the restatement discussed above in the explanatory note to this Form 10-Q/A

Edgar Filing: ESCALADE INC - Form 10-Q/A

and in Note K to our financial statements, the Company's Chief Executive Officer and Chief Financial Officer reevaluated the Company's disclosure controls and procedures and concluded that such controls and procedures were not effective as of July 15, 2006 because of a material weakness in internal control over financial reporting relating to errors in calculating the provision for income taxes.

Changes in Internal Control Over Financial Reporting

Management of the Company has evaluated, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, changes in the Company's internal controls over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act) during the second quarter of 2006.

There have been no changes to the Company's internal control over financial reporting that occurred since the beginning of the Company's second quarter of 2006 through July 15, 2006 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Not Required.

Item 2. (c) ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased a Part of Publicly Announced Plans or Programs
Shares purchases prior to 03/25/2006 under the current repurchase program.	449,964	\$9.38	449,964
Second quarter purchases:			
03/26/2006 - 04/22/2006	None	None	None
04/23/2006 - 05/20/2006	26,688	\$10.59	26,688
05/21/2006 - 06/17/2006	5,786	\$10.81	5,786
06/18/2006 - 07/15/2006	None	None	None

Edgar Filing: ESCALADE INC - Form 10-Q/A

Total share purchases
under the current
program

482,418

\$9.46

482,4

17

The Company has one stock repurchase program which was established in February 2003 by the Board of Directors and which authorized management to expend up to \$3,000,000 to repurchase shares on the open market as well as in private negotiated transactions. The repurchase plan has no termination date. There have been no share repurchases that were not part of a publicly announced program. In February 2006, the Board of Directors increased the remaining amount on this plan to its original level of \$3,000,000.

Item 3. Not Required.

Item 4. Submission of Matters to a Vote of Security Holders

The annual meeting of the registrant was held on April 22, 2006 at the Sheraton Indianapolis Hotel & Suites in Indianapolis, Indiana. Proxy materials were circulated on March 18, 2006 and then amended on April 20, 2006 proposing the election of six members to the Board of Directors for a one year term and approve the adoption of a special stock option grant to non-employee directors.

Shareholders elected the proposed directors by the following vote totals:

	For	Withheld
Robert E. Griffin	11,480,153	401,643
Blaine E. Matthews, Jr	11,764,011	105,785
Edward E. (Ned) Williams	11,789,986	79,810
Richard D. White	11,856,092	13,704
George Savitsky	11,804,586	65,210
Richard F. Baalman, Jr	11,856,092	13,704

The shareholders approved the proposal to make a special grant of 2,000 stock options to each of the five independent directors. There were 8,737,646 shares voted in favor of the proposal and 146,471 shares voted against the proposal. There were 2,995,211 Broker Non-votes.

Item 5. Not Required.

Item 6. Exhibits

(a) Exhibits

Number	Description
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.
10.1	Agreement dated April 19, 2006 by and between Charles William Reed and Escalade, Incorporated (Management Contract) (a) Sixth Amendment to Amended and Restated Credit Agreement effective October 24, 2001 by and between Escalade,

Edgar Filing: ESCALADE INC - Form 10-Q/A

10.2 Incorporated and JPMorgan Chase Bank, NA. The effective date of the Amendment was May 19, 2006. (b) Seventh Amendment to Amended and Restated Credit Agreement effective October 24, 2001 by and between Escalade,

18

10.3 Incorporated and JPMorgan Chase Bank, NA. The effective date of the Amendment was July 1, 2006. (c)
10.4 Promissory Note between Escalade, Incorporated and JPMorgan Chase Bank, NA. Dated July 1, 2006. (c) Second Amendment to Credit Agreement dated September 5, 2003 by and between Indian-Martin, Inc. and JPMorgan Chase
10.5 Bank, NA. The effective date of the Amendment was July 1, 2006. (c)
10.6 Promissory Note between Indian-Martin, Inc. and JPMorgan Chase Bank, NA. Dated July 1, 2006. (c)

- (a) Incorporated by reference from the Company's Form 8-K filed with the Securities and Exchange Commission on April 19, 2006.
- (b) Incorporated by reference from the Company's Form 8-K filed with the Securities and Exchange Commission on June 2, 2006.
- (c) Incorporated by reference from the Company's Form 8-K filed with the Securities and Exchange Commission on July 5, 2006.

SIGNATURE

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

ESCALADE, INCORPORATED

Date: March 9, 2007

/s/ DANIEL A. MESSMER

Daniel A. Messmer
President and Chief Executive Officer

Date: March 9, 2007

/s/ TERRY D. FRANSEN

Terry D. Frandsen
Vice President and Chief Financial Officer

19