

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 March 25, 2006  
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)

812-467-1334  
(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 whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant 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 [X] 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 [X]

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

Class	Outstanding at April 12, 2006
-----	-----
Common, no par value	13,028,940

INDEX

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

	Page No.
Explanatory Note	
Part I. Financial Information:	
Item 1 - Financial Statements:	
Consolidated Condensed Balance Sheets as of March 25, 2006, March 19, 2005, and December 31, 2005	4
Consolidated Condensed Statements of Income for the Three Months Ended March 25, 2006 and March 19, 2005	5
Consolidated Condensed Statements of Comprehensive Income for the Three Months Ended March 25, 2006 and March 19, 2005	5
Consolidated Condensed Statements of Cash Flows for the Three Months Ended March 25, 2006 and March 19, 2005	6
Notes to Consolidated Condensed Financial Statements	7
Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations	11
Item 3 - Quantitative and Qualitative Disclosures about Market Risk	13
Item 4 - Controls and Procedures	14
Part II. Other Information	
Item 2 - Issuer Purchases of Equity Securities	15
Item 6 - Exhibits	16
Signatures	16

## Explanatory Note

This Amendment No. 1 on Form 10-Q/A to the Annual Report on Form 10-Q for the quarter ended March 25, 2006, filed with the Securities and Exchange Commission (SEC) on April 12, 2006 is being filed to restate the consolidated financial statements and other financial information for the quarters ended March 25, 2006 and March 19, 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 quarters

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

ended March 25, 2006 and March 19, 2005 and that, as a result, the previously issued financial statements for those periods should no longer be relied on. A new footnote (Note K) 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 H and J of the April 12, 2006 filing. Only the adjustments described herein and no other material information in our April 12, 2006 filing is amended hereby. Except for the foregoing amended information, this Form 10-Q/A does not reflect events occurring after April 12, 2006, nor does it modify or update those disclosures, except as discussed above or in Note K to the Consolidated Financial Statements. Escalade will also amend the second 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)

	March 25, 2006 (Unaudited)  (Restated)	March 19, 2005 (Unaudited)  (Restated)	Decemb 31, 20 (Audit (Restat
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and cash equivalents	\$ 2,094	\$ 4,872	\$ 3
Receivables, less allowance of \$2,229; \$2,220; and \$1,544; respectively	26,394	31,873	31
Inventories	36,584	36,051	33
Prepaid expenses	1,524	2,960	1
Deferred income tax benefit	1,283	1,720	1
Income tax receivable	1,132	123	
<b>TOTAL CURRENT ASSETS</b>	69,011	77,599	70
Property, plant and equipment, net	21,080	15,773	20
Intangible assets	6,541	7,789	6
Goodwill	21,759	17,793	17
Investments	7,767	6,364	7
Interest rate swap	247	(302)	
Other assets	1,606	2,987	2
	\$ 128,011	\$ 128,003	\$ 124

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

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Notes payable	\$	5	\$	--	\$	
Current portion of long-term debt		906		354		1
Trade accounts payable		5,109		5,513		3
Accrued liabilities		18,270		20,548		23
Income tax payable		--		--		
TOTAL CURRENT LIABILITIES		24,290		26,415		28

Other Liabilities:

Long-term debt		26,016		30,589		18
Deferred compensation		1,378		1,260		1
TOTAL LIABILITIES		51,684		58,264		48

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 - 13,028,940; 13,072,982; and 12,946,869; shares respectively

Retained Earnings		62,106		52,699		62
Accumulated other comprehensive income		1,192		3,967		
		76,327		69,739		76
	\$	128,011	\$	128,003	\$	124

See notes to Consolidated Condensed Financial Statements.

4

ESCALADE, INCORPORATED AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(All amounts in thousands, except per share amounts) (Unaudited)

	Three Months Ended	
	March 25, 2006	March 19, 2005
	(Restated)	(Restated)
Net Sales	\$ 32,800	\$ 29,782

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

Costs, expenses and other income:		
Cost of products sold	22,048	20,859
Selling, general and administrative expenses	8,405	7,175
	-----	-----
Operating income	2,347	1,748
Interest expense, net	(254)	(286)
Other income (expense)	(65)	245
	-----	-----
Income before income taxes	2,028	1,707
Provision for income taxes	304	469
	-----	-----
Net income	\$ 1,724	\$ 1,238
	=====	=====
Per Share Data:		
Basic earnings per share	\$ 0.13	\$ 0.09
Diluted earnings per share	\$ 0.13	\$ 0.09
Cash dividend paid	\$ 0.20	\$ 0.15

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

Net income	\$ 1,724	\$ 1,238
Unrealized gain (loss) on securities, net of tax of \$(97) and \$15, respectively	146	(22)
Foreign currency translation adjustment, net of tax of \$(35) and \$412, respectively	53	(618)
Unrealized gain on interest rate swap agreement net of tax of \$(29) and \$(36), respectively	43	54
	-----	-----
Comprehensive income	\$ 1,966	\$ 652
	=====	=====

See notes to Consolidated Condensed Financial Statements.

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

Three Months Ended

-----  
March 25, 2006      March 19, 2005

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

	(Restated)	(Restated)
Operating Activities:		
Net income	\$ 1,724	\$ 1,238
Depreciation and amortization	933	1,184
Employee stock-based compensation	130	--
Adjustments necessary to reconcile net income to net cash provided by operating activities	(485)	1,718
	-----	-----
Net cash provided by operating activities	2,302	4,140
	-----	-----
Investing Activities:		
Purchase of property and equipment	(1,263)	(266)
Acquisition of assets	(7,436)	(3,272)
Investment in affiliate	--	(237)
	-----	-----
Net cash used by investing activities	(8,699)	(3,775)
	-----	-----
Financing Activities:		
Net increase in notes payable	7,928	3,608
Proceeds from exercise of stock options	440	123
Purchase of common stock	(227)	(109)
Dividends paid	(2,606)	(1,961)
	-----	-----
Net cash provided by financing activities	5,535	1,661
	-----	-----
Effect of exchange rate changes on cash	(61)	(204)
	-----	-----
Net (decrease) increase in cash and cash equivalents	(923)	1,822
Cash and cash equivalents, beginning of period	3,017	3,050
	-----	-----
Cash and cash equivalents, end of period	\$ 2,094	\$ 4,872
	=====	=====

See notes to Consolidated Condensed Financial Statements.

6

ESCALADE, INCORPORATED AND SUBSIDIARIES  
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

## Edgar Filing: ESCALADE INC - Form 10-Q/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 three-month periods ended March 25, 2006 and March 19, 2005 are not necessarily indicative of the results to be expected for the full year.

### Note C - Inventories

---

(All amounts in thousands)	March 25, 2006	March 19, 2005	December 31, 2005
Raw materials	\$ 8,754	\$ 8,570	\$ 7,128
Work in progress	6,452	6,128	5,358
Finished goods	21,378	21,353	20,563
	-----	-----	-----
	\$ 36,584	\$ 36,051	\$ 33,049
	=====	=====	=====

### Note D - Income Taxes

---

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

### Note E - 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 March 25, 2006. Liabilities under these plans are as follows:

(All amounts in thousands)	Balance at December 31, 2005	Non-Cash Charges	Cash Payments	Balance at March 25, 2006
Severance and benefit costs	\$ 199	\$ --	\$ 51	\$ 148
Facility closure costs	--	--	--	--
	-----	-----	-----	-----
	\$ 199	\$ --	\$ 51	\$ 148
	=====	=====	=====	=====

Note F - Dividend Payment

On March 24, 2006, the Company paid a dividend of \$0.20 per common share to all shareholders of record on March 17, 2006. The total amount of the dividend was approximately \$2.6 million and was charged against retained earnings.

Note G - 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	3 Months Ended	
	March 25, 2006	March 19, 2005
Weighted average common shares outstanding	12,979	13,058
Dilutive effect of stock options	59	174
Weighted average common shares outstanding, assuming dilution	13,038	13,232
Number of anti-dilutive stock options	621	178

Note H - 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 ended March 25, 2006, the Company recorded compensation expense of \$130 thousand.

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 ended March 19, 2005.

(In Thousands Except Per Share Amounts)	March 19, 2005 (Restated)
Net income, as reported	\$ 1,238
Less: Total stock-based employee compensation cost determined under the fair value based method, net of income taxes	(279)



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

Pro forma net income	\$	959
		=====
Earnings per share		
Basic--as reported	\$	0.09
		=====
Basic--pro forma	\$	0.07
		=====
Diluted--as reported	\$	0.09
		=====
Diluted--pro forma	\$	0.07
		=====

8

Note I - Acquisition

-----

On February 27, 2006, the Company purchased substantially all of the assets of Family Industries, Inc., which manufactures and sells premium quality residential play sets made from stained redwood. These play sets are sold under the Woodplay brand name, primarily through specialty dealers. The total purchase price of \$7.1 million included accounts receivable and inventory valued at \$2.9 million, the assumption of certain liabilities, and goodwill totaling \$4.4 million. The Company financed the acquisition using its revolving credit lines. Combined with the acquisition of the ChildLife product line in the first quarter of fiscal 2005, this acquisition enhances the Company's product offerings in the residential play set market.

Note J - Segment Information

-----

In thousands	As of and for the Three Months Ended March 25, 2006 (Restated)			
	Sporting Goods	Office Products	Corp.	Total
Revenues from external customers	\$ 19,884	\$ 12,916	\$ --	\$ 32,800
Operating income(loss)	525	2,414	(592)	2,347
Net income	50	1,584	90	1,724
Total assets	\$ 74,150	\$ 42,305	\$ 11,556	\$ 128,011

In thousands	As of and for the Three Months Ended March 19, 2005 (Restated)			
	Sporting Goods	Office Products	Corp.	Total
Revenues from external customers	\$ 14,021	\$ 15,761	\$ --	\$ 29,782
Operating income(loss)	43	2,129	(424)	1,748

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

Net income (loss)		(111)		1,341		8		1,2
Total assets	\$	58,979	\$	54,817	\$	14,207	\$	128,0

Note K - Restatement of Financial Statements

The consolidated financial statements for the three months ended March 25, 2006 and March 19, 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 ended March 25, 2006 and March 19, 2005:

9

(Amounts in thousands, except per share amounts) Three months ended March

	As Previously Reported	Adjustments
Provision for income taxes	664	(360)
Net income	1,364	360
Basic earnings per share	\$0.11	\$0.02
Diluted earnings per share	\$0.10	\$0.03

(Amounts in thousands, except per share amounts) Three months ended March

	As Previously Reported	Adjustments
Provision for income taxes	553	(84)
Net income	1,154	84
Basic earnings per share	\$0.09	\$0.00
Diluted earnings per share	\$0.09	\$0.00

The following tables set forth the effect of the restatement on the consolidated balance sheet as of March 25, 2006 and March 19, 2005:

(Amounts in thousands) As of March 25, 20

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

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

Deferred income tax benefit	1,719	(436)
Income tax receivable	--	1,132
Total current assets	68,315	696
Total Assets	127,315	696
Accrued Liabilities	18,969	(699)
Income tax payable	994	(994)
Total current liabilities	25,983	(1,693)
Total liabilities	53,377	(1,693)
Retained earnings	59,717	(2,389)
Total stockholder's equity	73,938	(2,389)

(Amounts in thousands)

As of March 19, 200

	As Previously Reported	Adjustments
Deferred income tax benefit	2,154	(434)
Income tax receivable	--	123
Total current assets	77,910	(311)
Total Assets	128,314	(311)
Accrued Liabilities	21,205	(657)
Income tax payable	793	(793)
Total current liabilities	27,865	(1,450)
Total liabilities	59,714	(1,450)
Retained earnings	51,560	(1,139)
Total stockholder's equity	68,600	(1,139)

The restatement had no effect on net cash provided by operating activities for the three months ended March 25, 2006 and March 19, 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 three months ended March 25, 2006 and March 19, 2005:

10

(Amounts in thousands)	For the three months ended March 25, 2006 As Previously Reported	Adjustments	As Restated
Net Income	1,364	360	1,724
Adjustments necessary to reconcile net income to net cash provided by operating activities:	(125)	(360)	(485)

(Amounts in thousands)	For the three months ended March 19, 2005 As Previously Reported	Adjustments	As Restated
------------------------	--	-------------	----------------

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

Net Income	1,154	84	1,238
Adjustments necessary to reconcile net income to net cash provided by operating activities:	1,802	(84)	1,718

Item 1A. Not Required.

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

Forward-Looking Statements

This report contains forward-looking statements relating to present or future trends or factors that are subject to risks and uncertainties. These risks include, but are not limited to, the impact of competitive products and pricing, product demand and market acceptance, new product development, 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

Consolidated net sales and net income increased 10% and 39%, respectively, for the first quarter of 2006, compared to the same quarter last year. The increase in profitability is principally due to increased sales in the Sporting Goods business segment and improved gross margins in both the Sporting Goods and

Office Products business segments.

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

Three months ended	
March 25,	March 19,
2006	2005

-----

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

Net revenue	100.0%	100.0%
Cost of products sold	67.2%	70.0%
	-----	-----
Gross margin	32.8%	30.0%
Selling, administrative and general expenses	25.6%	24.1%
	-----	-----
Operating income	7.2%	5.9%
	=====	=====

### Consolidated Revenue and Gross Margin

Compared to the same quarter last year, revenues in the Sporting Goods business were 41.8% higher in 2006, while the Office Products business was down 18.0%.

Sporting Goods sales in the first quarter were up primarily due to increased sales to sporting goods chains as a direct result of the introduction of glass backboards for the Company's premier in-ground basketball systems. Sales into the mass market channel, which includes large mass market retailers and sporting goods chain stores, were up 45% for the quarter compared to the same period last year with basketball sales comprising 76% of this increase. Sales in the specialty market, which includes dealers and specialty retailers, were up 28% primarily due to higher sales of playground systems which accounted for 77% of the increase. Product placement for the 2006 fall and Christmas programs is still being negotiated with our retail customers. Based on preliminary results, the Company expects to have increased placement in 2006 and Management is optimistic that this will result in higher sales in the mass market channel. The Company continues to focus on diversifying its customer base and product offerings by focusing on the specialty channel. The recent acquisition of the Woodplay product line, a premium residential playground system made of wood, is part of that strategy.

Approximately 38% of the decline in Office Product sales relates to products and customers rationalized in 2005 because they were non-core, low margin or unprofitable. In addition, changes in foreign exchange rates negatively impacted office product sales and account for approximately 24% of the sales decline. The balance of the decline is related to the Company's data shredder sales which are down 21% compared to the same period last year primarily due to stiff price competition. During the first quarter of 2006, the Company introduced a new line of data shredders that Management believes will increase sales and profitability through competitive pricing and product cost reduction. However, Management is not optimistic that this will offset the declines related to rationalized products and foreign currency changes. Accordingly, Management anticipates that Office Product sales in 2006 will be lower than 2005, but profitability will be higher barring any further sales declines or adverse foreign exchange movements.

Management's strategy of rationalizing unprofitable products and customers in the Office Products business segment resulted in improved gross margin ratios during the current quarter compared to last year. Product mix changes in the Sporting Goods business, a higher percentage of basketball and playground system sales, also contributed to the higher gross margin. Management believes that the gross margin ratios achieved in the first quarter can be maintained through the balance of fiscal 2006.

### Consolidated Selling, General and Administrative Expenses

Consolidated selling, general and administrative expenses in the first quarter increased 17% compared to the same quarter last year. Approximately half of this

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

increase is attributed to new basketball display units associated with the glass backboards introduced in 2006. Display units are usually replaced every three years, or whenever a major product is introduced. Another large component of the increase in selling, general and administrative expenses is associated with one-time relocation costs related to the Company's new manufacturing plant in Reynosa, Mexico. Management expects these costs to be recouped in the form of lower manufacturing costs during the second half of 2006. The Company has identified a number of cost reduction opportunities in each of its business segments and is actively implementing these. However, these cost reductions will come slowly and are not expected to materially impact fiscal 2006.

### Financial Condition and Liquidity

The Company continues to exhibit very strong financial health. Current assets are down from the same period last year reflecting the Company's continued emphasis on accounts receivable collection efforts and inventory control. Total debt increased in the first quarter of 2006 to accommodate the acquisition of the Woodplay product line from Family Industries, Inc. The following schedule summarizes the Company's total debt:

In thousands	March 25, 2006	March 19, 2005	December 31, 2005
Notes payable short-term	\$ 5	\$ --	\$ --
Current portion long-term debt	906	354	1,066
Long term debt	26,016	30,589	18,487
Total debt	\$ 26,927	\$ 30,943	\$ 19,553
	=====	=====	=====

As a percentage of stockholders' equity, total debt decreased from 44.4% at March 19, 2005, to 35.3% at March 25, 2006.

During the first quarter of 2006, operations generated \$2.3 million in cash which was used to fund, in part, the payment of a cash dividend to shareholders of approximately \$2.6 million and purchase equipment; primarily for the new manufacturing facility in Reynosa, Mexico which has now been completed and commenced operations in the second quarter of 2006.

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.

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 not have resulted in a material impact on income before taxes for the three months ended March 25, 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 March 25, 2006 the aggregate carrying value of long-term marketable equity securities was \$3.4 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 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 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 March 25, 2006 because of a material weakness in internal control over

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

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 first 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 first quarter of 2006 through March 25, 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 as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares (or Units) that May Be Purchased Under the Plans or Programs (or Approximate Dollar Value)
Shares purchases prior to 12/31/2005 under the current repurchase program.	449,964	\$9.38	449,964	\$ 3,000,000
First quarter purchases:				
01/01/2006 - 01/28/2006	None	None	None	None
01/29/2006 - 02/25/2006	None	None	None	None
02/26/2006 - 03/25/2006	None	None	None	None
Total share purchases under the current program	449,964	\$9.38	449,964	\$ 3,000,000



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

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 3,4 and 5 Not Required.

15

### 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.

### 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. FRANSDEN  
-----

Terry D. Frandsen  
Vice President and  
Chief Financial Officer

16