ESCALADE INC
Form 10-Q
April 13, 2007

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 March 24, 2007

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, 2007
Common, no par value	12,974,486

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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)

	March 24, 2007 (Unaudited)	March 25, 2006 (Unaudited)	Dec (A
ASSETS			
Current Assets:			

Cash and cash equivalents	$ 37	$ 2,094	$
Receivables, less allowance of $1,440; $2,229; and $1,559; respectively	31,416	26,394	
Inventories	35,595	36,584	
Prepaid expenses	3,352	1,524	
Deferred income tax benefit	968	1,283	
Income Tax Receivable	1,556	1,132	
TOTAL CURRENT ASSETS	72,924	69,011	
Property, plant and equipment, net	20,673	21,080	
Intangible assets	22,551	6,541	
Goodwill	24,992	21,759	
Investments	10,298	7,767	
Interest rate swap	197	247	
Other assets	147	1,606	
	$ 151,782	$ 128,011	$
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Notes payable	$ 9,586	$ 5	$
Current portion of long-term debt	--	906	
Trade accounts payable	4,142	5,109	
Accrued liabilities	21,609	18,270	
TOTAL CURRENT LIABILITIES	35,337	24,290	
Other Liabilities:			
Long-term debt	31,878	26,016	
Deferred compensation	1,005	1,378	
TOTAL LIABILITIES	68,220	51,684	
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 - 13,008,198; 13,028,940; and 13,039,457; shares respectively	13,008	13,029	
Retained Earnings	66,956	62,106	
Accumulated other comprehensive income	3,598	1,192	
	83,562	76,327	
	$ 151,782	$ 128,011	$

See notes to Consolidated Condensed Financial Statements.

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ESCALADE, INCORPORATED AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(All amounts in thousands, except per share amounts)(Unaudited)

	Three Months Ende	
	March 24, 2007	March
Net Sales	$ 33,467	$
Costs, expenses and other income:		
Cost of products sold	22,455	
Selling, general and administrative expenses	8,708	
Operating income	2,304	
Interest expense, net	(517)	
Other income (expense)	(421)	
Income before income taxes	1,366	
Provision for income taxes	269	
Net income	$ 1,097	$
Per Share Data:		
Basic earnings per share	$ 0.08	$
Diluted earnings per share	$ 0.08	$
Cash dividend paid	$ 0.22	$

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

Net income	$ 1,097	$
Unrealized gain on marketable equity securities available for sale, net of tax of $(45) and $(97), respectively	68	
Foreign currency translation adjustment	72	
Unrealized gain (loss) on interest rate swap agreement net of tax of $18 and $(29), respectively	(27)	
Comprehensive income	$ 1,210	$

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 24, 2007	March 25, 2006
Operating Activities:		
Net income	$ 1,097	$ 1,724
Depreciation and amortization	1,061	933
Gain on disposal of property and equipment	(52)	--
Employee stock-based compensation	95	130
Adjustments necessary to reconcile net income to net cash provided (used) by operating activities	(6,418)	(485)
Net cash provided (used) by operating activities	(4,217)	2,302
Investing Activities:		
Purchase of property and equipment	(353)	(1,263)
Acquisition of assets	(3,627)	(7,436)
Proceeds from sale of property and equipment	141	--
Proceeds from reduction in life insurance	306	--
Investment in marketable securities available for sale	(1,090)	--
Net cash used by investing activities	(4,623)	(8,699)
Financing Activities:		
Net increase in notes payable	8,519	7,928
Proceeds from exercise of stock options	129	440
Purchase of common stock	(453)	(227)
Dividends paid	(2,872)	(2,606)
Net cash provided by financing activities	5,323	5,535
Effect of exchange rate changes on cash	(275)	(61)
Net (decrease) increase in cash and cash equivalents	(3,792)	(923)
Cash and cash equivalents, beginning of period	3,829	3,017
Cash and cash equivalents, end of period	$ 37	$ 2,094

See notes to Consolidated Condensed Financial Statements.

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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 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 30, 2006 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 2006 filed with the Securities and Exchange Commission.

Note B - Seasonal Aspects

The results of operations for the three-month periods ended March 24, 2007 and March 25, 2006 are not necessarily indicative of the results to be expected for the full year.

Note C - Inventories

(All amounts in thousands)	March 24, 2007	March 25, 2006	December 30, 2006
Raw materials	$ 10,054	$ 8,754	$ 7,786
Work in progress	6,910	6,452	6,021
Finished goods	18,631	21,378	18,425
	$ 35,595	$ 36,584	$ 32,232

Note D - Income Taxes and Change in Accounting Principle

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

In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48"), which became effective for the Company on December 31, 2006. The Interpretation prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. The adoption of FIN 48 has resulted in a transition adjustment reducing beginning retained earnings by $264 thousand; $164 thousand in taxes and $100 thousand in interest. If recognized, the tax portion of the adjustment would affect the effective tax rate. Interest costs and penalties related to income taxes are classified as interest expense and selling, general and administrative costs, respectively in the Company's financial statements. Tax returns for all years after 2002 are subject to future examination by tax authorities.

Note E - Earnings Per Share

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

	3 Months Ende	
All amounts in thousands	March 24, 2007	March
Weighted average common shares outstanding	13,034	
Dilutive effect of stock options	16	
Weighted average common shares outstanding, assuming dilution	13,050	
Number of anti-dilutive stock options	462	

Note F - Dividend Payment

On March 16, 2007, the Company paid a dividend of $0.22 per common share to all shareholders of record on March 9, 2007. The total amount of the dividend was approximately $2.9 million and was charged against retained earnings.

Note G - Segment Information

	As of and for the Three Months Ended March 24, 2007			
In thousands	Sporting Goods	Office Products	Corp.	Tota
Revenues from external customers	$ 20,457	$ 13,010	$ --	$ 33
Operating income(loss)	916	2,151	(763)	2
Net income (loss)	43	1,286	(232)	1
Total assets	$ 93,723	$ 45,569	$ 12,490	$ 151

	As of and for the Three Months Ended March 25, 2006			
In thousands	Sporting Goods	Office Products	Corp.	Tota

Revenues from external customers	$ 19,884	$ 12,916	$ --	$ 32
Operating income(loss)	525	2,414	(592)	2
Net income (loss)	50	1,584	90	1
Total assets	$ 74,150	$ 42,305	$ 11,556	$ 128

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Note H - Acquisition

In February 2007, the Company purchased substantially all of the assets of Trophy Ridge, LLC, which manufactures and sells premium archery accessories under the Trophy Ridge brand name. The Trophy Ridge brand name has significant appeal in the sports enthusiast market place and will be used to further expand distribution of the Company's archery accessory products. The Trophy Ridge operation will be relocated and consolidated into the Company's existing archery operations in the Gainesville, Florida plant. The operating results of Trophy Ridge will be included in the Sporting Goods segment results from the date of acquisition. The purchase price of $3.8 million was paid in Cash. Contingent on the achievement of certain performance criteria, the Company may be obligated to pay an additional $1.0 million over a two year period from the date of acquisition. The estimated fair market value of the assets acquired as of the date of acquisition is as follows:

(Amounts in thousands)	Amount
Current assets	$ 1,083
Property, plant & equipment	170
Other assets	125
Patents & Trademarks	2,376
Net assets acquired	$ 3,754

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 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 over 75 years of manufacturing and import experience that enable it to be a low cost supplier.

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Results of Operations

Consolidated net sales for the first quarter of 2007 were up 2% compared to the same quarter last year. Consolidated gross margins and operating income remained relatively unchanged from the same period last year. However, increased interest and amortization costs resulted in a decline in net income of $627 thousand.

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

	Three months ended March 24, 2007	Three months ended March 25, 2006
Net revenue	100.0%	100.0%
Cost of products sold	67.1%	67.2%
Gross margin	32.9%	32.8%
Selling, administrative and general expenses	26.0%	25.6%
Operating income	6.9%	7.2%

Consolidated Revenue and Gross Margin

Net revenues in the Sporting Goods business were up 3% in the first quarter compared to last year, primarily due to increased sales in the specialty and dealer channel which increased 74% in the current quarter compared to the same period last year. The bulk of this increase, approximately 62%, came from internal growth in the archery and playground product lines; the remainder came from products acquired during the second quarter of last year. Expanding distribution into the specialty retail and dealer marketplace is a key element in the Company's strategy designed to expand the customer base, increase product offerings and lessen the impact of changes in the Company's mass-market retail customers. Sales to mass-market retail customers were down 25% in the first quarter compared to the same period last year primarily due to a general overall market decline in consumer demand for game room products such as table tennis, billiards and other table games which are primarily sold through mass-market retailers. The Company continues to enjoy strong relationships with its mass-market retail customers, but believes that the general trend of diminishing consumer demand for game room products will result in lower sales to mass-market retail customers in 2007 than was achieved in 2006. Growth in the specialty and dealer channel is expected to compensate for the anticipated decline in the mass-market retail channel so that total Sporting Goods sales in 2007 will be relatively unchanged from the 2006 results.

Net revenues in the Office Products business increased 1% in the first quarter of 2007 compared to the same period last year. A slight decline in North America sales was offset by increased sales in Europe which benefited from a change in exchange rates and is now beginning to realize benefits from the additional resources allocated to sales efforts in the latter half of 2006. Management believes total sales in the Office Products business will be relatively unchanged from the level achieved in 2006.

The consolidated gross margin ratio for the first quarter of 2007 was relatively unchanged from the same quarter last year. However, the gross margin ratio in the Sporting Goods business realized a slight increase over the same period last year due to increased sales in the specialty and dealer channel which has higher overall gross margin ratios than the mass-market retail channel. The gross margin ratio in the Office Products business declined slightly during the

quarter as a result of the decline in North America sales which have a higher gross margin ratio than Europe sales. Management anticipates continued improvement in the Sporting Goods gross margin ratio to be offset by continued declines in the Office Products gross margin ratio resulting in little or no change in the overall gross margin ratio for 2007 compared to last year.

Consolidated Selling, General and Administrative Expenses

As a percentage of sales, consolidated selling, general and administrative ("SG&A") costs increased slightly during the first quarter compared to the same period last year because of one-time costs associated with the integration of the Trophy Ridge acquisition into the Sporting Goods business and higher professional fees incurred by Corporate.

Interest Expense and Other Expense

Interest costs in the first quarter of 2007 were higher in comparison to the same quarter in 2006 because of increased debt levels and higher effective interest rates.

The increase in other expense is due primarily to amortization costs associated with acquisitions completed during the second quarter of 2006.

Financial Condition and Liquidity

The Company continues to exhibit strong financial health. Total bank debt increased in the first quarter of 2007 to accommodate the Trophy Ridge acquisition and the payment of a dividend to shareholders. The following schedule summarizes the Company's total bank debt:

In thousands	March 24, 2007	March 25, 2006	December 30, 2006
Notes payable short-term	$ 9,586	$ 5	$ 10,336
Current portion long-term debt	--	906	--
Long term debt	31,878	26,016	22,609
Total bank debt	$ 41,464	$ 26,927	$ 32,945

As a percentage of stockholders' equity, total bank debt was 50%, 35% and 38% at March 24, 2007, March 25, 2006 and December 30, 2006, respectively. Management believes that it can generate a higher rate of return on shareholder's equity at current debt levels.

During the first quarter of 2007, operations used $4.2 million in cash primarily due to reductions in accounts payable and accrued liabilities. In addition to funding operations, the Company used $3.8 million in cash to acquire the assets of Trophy Ridge, $2.9 million to pay a dividend to shareholders, and invested $1.1 million in marketable equity securities available for sale. Funding came primarily from borrowings on the Company's revolving debt facilities.

The Company funds working capital requirements through operating cash flows and revolving credit agreements with its bank. 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 2006. 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 could have resulted in a material impact on income before taxes for the three months ended March 24, 2007.

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 into 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 24, 2007 the aggregate carrying value of long-term marketable equity securities was $4.0 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. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

Management of the Company has evaluated, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, changes in the Company's internal controls over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act) during the first quarter of 2007.

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 2007 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

Shares purchases prior to 12/30/2006 under the current repurchase program.	482,438	$9.46	482,438
First quarter purchases:			
12/31/2006 - 01/27/2007	None	None	No Change
01/28/2007 - 02/24/2007	7,984	$9.33	490,422
03/01/2007 - 03/24/2007	39,970	$9.46	530,392
Total share purchases under the current program	530,392	$9.46	530,392

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.

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Item 3, 4 and 5 Not Required.

Item 6. Exhibits

(a) Exhibits

Number	Description
3.1	Restatement of Articles of Incorporation for Escalade, Incorporated.
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: April 12, 2007

/s/ TERRY D. FRANDSEN

Interim CEO, Vice President and
Chief Financial Officer