

ESCALADE INC  
Form 10-Q  
May 04, 2009

**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 21, 2009 or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-6966

**ESCALADE, INCORPORATED**

(Exact name of registrant as specified in its charter)

**Indiana**  
(State of incorporation)

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

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

**47711**  
(Zip Code)

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

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

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

Accelerated filer   
Smaller reporting company

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

Yes  No

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

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| Class                | Outstanding at April 14, 2009 |
|----------------------|-------------------------------|
| Common, no par value | 12,616,042                    |

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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 21,<br>2009<br>(Unaudited) | March 22,<br>2008<br>(Unaudited) | December 27,<br>2008<br>(Audited) |
|--|----------------------------------|----------------------------------|-----------------------------------|
| <b>ASSETS</b>  |                                  |                                  |                                   |
| Current Assets:  |                                  |                                  |                                   |
| Cash and cash equivalents  | \$ 4,562                         | \$ 3,693                         | \$ 3,617                          |
| Receivables, less allowance of \$1,275; \$1,023; and \$1,114; respectively | 22,915                           | 23,781                           | 27,178                            |
| Inventories  | 31,010                           | 37,991                           | 29,860                            |
| Prepaid expenses   | 1,461                            | 2,797                            | 1,254                             |
| Assets held for sale   | 3,325                            |                                  | 3,325                             |
| Deferred income tax benefit  | 2,060                            | 1,611                            | 2,015                             |
| Income tax receivable  | 5,155                            | 1,831                            | 5,327                             |
| <b>TOTAL CURRENT ASSETS</b>  | <b>70,488</b>                    | <b>71,704</b>                    | <b>72,576</b>                     |
| Property, plant and equipment, net   | 20,409                           | 22,200                           | 20,209                            |
| Intangible assets  | 18,591                           | 20,633                           | 19,153                            |
| Goodwill   | 25,543                           | 26,281                           | 25,811                            |
| Investments  | 8,897                            | 12,165                           | 8,129                             |
| Interest rate swap   |                                  | 27                               |                                   |
| Deferred income tax benefit  | 723                              |                                  | 723                               |
| Other assets   | 952                              | 1,764                            | 1,100                             |
|  | \$ 145,603                       | \$ 154,774                       | \$ 147,701                        |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>                                 |                                  |                                  |                                   |
| Current Liabilities:   |                                  |                                  |                                   |
| Notes payable  | \$                               | \$ 11,764                        | \$ 46,525                         |
| Trade accounts payable   | 3,144                            | 3,078                            | 3,272                             |
| Accrued liabilities  | 15,251                           | 20,389                           | 16,698                            |
| Income tax payable   | 992                              |                                  | 1,239                             |
| <b>TOTAL CURRENT LIABILITIES</b>   | <b>19,387</b>                    | <b>35,231</b>                    | <b>67,734</b>                     |
| Other Liabilities:   |                                  |                                  |                                   |
| Long-term debt   | 46,244                           | 29,029                           |                                   |
| Other non-current income tax liability                                     |                                  | 118                              |                                   |
| Deferred income tax liability  |                                  | 589                              |                                   |
| Deferred compensation  | 1,203                            | 1,099                            | 1,177                             |
| <b>TOTAL LIABILITIES</b>   | <b>66,834</b>                    | <b>66,066</b>                    | <b>68,911</b>                     |
| 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         | 12,616,042;                      |                                  |                                   |
| 12,697,586; and 12,616,042; shares respectively                            | 12,616                           | 12,698                           | 12,616                            |
| Retained earnings  | 62,726                           | 69,481                           | 63,050                            |
| Accumulated other comprehensive income                                     | 3,427                            | 6,529                            | 3,124                             |

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|  |            |            |            |
|--|------------|------------|------------|
|  | 78,769     | 88,708     | 78,790     |
|  | \$ 145,603 | \$ 154,774 | \$ 147,701 |

See notes to Consolidated Condensed Financial Statements.

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

|  | Three Months Ended |                   |
|--|--------------------|-------------------|
|  | March 21,<br>2009  | March 22,<br>2008 |
| Net sales                                    | \$ 24,958          | \$ 29,166         |
| Costs, expenses and other income:            |                    |                   |
| Cost of products sold                        | 17,096             | 20,743            |
| Selling, general and administrative expenses | 8,023              | 9,042             |
| Amortization                                 | 467                | 437               |
| Operating loss                               | (628)              | (1,056)           |
| Interest expense, net                        | (242)              | (487)             |
| Other income                                 | 184                | 162               |
| Loss before income taxes                     | (686)              | (1,381)           |
| Provision for income tax benefit             | 247                | 533               |
| Net loss                                     | \$ (439)           | \$ (848)          |
| Per share data:                              |                    |                   |
| Basic loss per share                         | \$ (0.03)          | \$ (0.07)         |
| Diluted loss per share                       | \$ (0.03)          | \$ (0.07)         |
| Cash dividend paid                           | \$ 0.25            | \$ 0.25           |

**CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE LOSS (UNAUDITED)**

|  |          |          |
|--|----------|----------|
| Net loss   | \$ (439) | \$ (848) |
| Unrealized loss on marketable equity securities available for sale, net of tax benefit of \$20 and \$218, respectively | (30)     | (330)    |
| Foreign currency translation adjustment  | 333      | 1,053    |
| Unrealized loss on interest rate swap agreement, net of tax of \$0 and \$11, respectively                              |          | (17)     |
| Comprehensive loss   | \$ (136) | \$ (142) |

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 21, 2009     | March 22, 2008  |
| <b>Operating Activities:</b>  |                    |                 |
| Net loss  | \$ (439)           | \$ (848)        |
| Depreciation and amortization   | 1,194              | 1,225           |
| Loss (Gain) on disposal of property and equipment   | 13                 | (8)             |
| Employee stock-based compensation   | 115                | 153             |
| Adjustments necessary to reconcile net income (loss) to net cash used by operating activities | 1,201              | (3,042)         |
| <b>Net cash provided (used) by operating activities</b>                                       | <b>2,084</b>       | <b>(2,520)</b>  |
| <b>Investing Activities:</b>  |                    |                 |
| Purchase of property and equipment  | (1,054)            | (2,268)         |
| Proceeds from sale of property and equipment  |                    | 22              |
| <b>Net cash used by investing activities</b>  | <b>(1,054)</b>     | <b>(2,246)</b>  |
| <b>Financing Activities:</b>  |                    |                 |
| Net increase (decrease) in notes payable  | (281)              | 8,625           |
| Proceeds from exercise of stock options   |                    | 313             |
| Purchase of common stock  |                    | (195)           |
| Director compensation   |                    | 11              |
| Dividends paid  |                    | (3,175)         |
| <b>Net cash provided (used) by financing activities</b>                                       | <b>(281)</b>       | <b>5,579</b>    |
| <b>Effect of exchange rate changes on cash</b>  | <b>196</b>         | <b>72</b>       |
| <b>Net increase in cash and cash equivalents</b>  | <b>945</b>         | <b>885</b>      |
| <b>Cash and cash equivalents, beginning of period</b>   | <b>3,617</b>       | <b>2,808</b>    |
| <b>Cash and cash equivalents, end of period</b>   | <b>\$ 4,562</b>    | <b>\$ 3,693</b> |

See notes to Consolidated Condensed Financial Statements.

**ESCALADE, INCORPORATED AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**  
**(Unaudited)**

Note A Summary of Significant Accounting Policies

**Presentation of Consolidated Condensed Financial Statements** The significant accounting policies followed by the Company and its wholly owned subsidiaries for interim financial reporting are consistent with the accounting policies followed for annual financial reporting. All adjustments that are of a normal recurring nature and are in the opinion of management necessary for a fair statement of the results for the periods reported have been included in the accompanying consolidated condensed financial statements. The consolidated condensed balance sheet of the Company as of December 27, 2008 has been derived from the audited consolidated balance sheet of the Company as of that date. Certain information and note disclosures normally included in the Company's annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Form 10-K annual report for 2008 filed with the Securities and Exchange Commission.

Note B - Reclassifications

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

Note C - Seasonal Aspects

The results of operations for the three-month periods ended March 21, 2009 and March 22, 2008 are not necessarily indicative of the results to be expected for the full year.

Note D - Inventories

| (All amounts in thousands) | March 21,<br>2009 | March 22,<br>2008 | December 27,<br>2008 |
|----------------------------|-------------------|-------------------|----------------------|
| Raw materials              | \$ 11,148         | \$ 9,588          | \$ 9,540             |
| Work in progress           | 2,599             | 6,497             | 4,506                |
| Finished goods             | 17,263            | 21,906            | 15,814               |
|                            | \$ 31,010         | \$ 37,991         | \$ 29,860            |

Note E Notes Payable

On April 30, 2009 the Company signed a loan agreement with JP Morgan Chase Bank, N.A. (Chase) for a senior secured revolving credit facility in the maximum amount up to \$50,000,000 and through Chase London Branch, as senior secured revolving credit facility in the maximum amount of 3,000,000 Euro upon certain terms and conditions. The credit facility has a maturity date of May 31, 2010. A portion of the credit facility not in excess of \$3,500,000 is available for the issuance of commercial or standby letters of credit to be issued by Chase.



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### Note F Income Taxes

The provision for income taxes was computed based on financial statement income. In accordance with 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 Company has recorded the following changes in uncertain tax positions:

| In Thousands                             | Quarter Ended  |                |
|--|----------------|----------------|
|  | March 21, 2009 | March 22, 2008 |
| Beginning Balance                        | \$ 954         | \$ 118         |
| Additions for current year tax positions |                |                |
| Additions for prior year tax positions   |                |                |
| Settlements                              |                |                |
| Reductions Settlements                   |                |                |
| Reductions for prior year tax positions  |                |                |
| Ending Balance                           | \$ 954         | \$ 118         |

### Note G Fair Values of Financial Instruments

In September 2006, the Financial Accounting Standards Board ( *FASB* ) issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ( *Statement No. 157* ) which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This became effective for the Company on December 30, 2007. The Company holds one type of financial asset subject to valuation under Statement No. 157: marketable equity securities available for sale. The Company does not have any liabilities subject to valuation under Statement 157. Fair values as of March 21, 2009 were calculated as follows:

| (All amounts in thousands)                      | Balance at<br>March 21,<br>2009 | Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets (Level<br>1) | Significant<br>Other<br>Observable<br>Inputs (Level<br>2) | Significant<br>unobservable<br>Inputs (Level<br>3) |
|---|---------------------------------|---|---|--|
| Marketable equity securities available for sale | \$ 1,161                        | \$ 1,161  | \$  | \$   |

### Note H Employee Stock Compensation

The fair value of stock-based compensation is recognized in accordance with the provisions of SFAS No. 123R *Share-Based Payments* ( *SFAS 123R* ).

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During the three months ended March 21, 2009 and pursuant to the 2007 Incentive Plan, in lieu of director fees, the Company awarded to certain directors 30,592 restricted stock units. No other restricted stock units were awarded. The restricted stock units awarded to the directors vest after one year following the grant date. Restricted stock awards are subject to forfeiture if on the vesting date the employee is not employed or the director no longer holds a position with the Company.

For the three months ended March 21, 2009 and March 22, 2008, the Company recognized stock based compensation expense of \$115 thousand and \$153 thousand, respectively. At March 21, 2009 and March 22, 2008, respectively, there was \$.7 and \$1.7 million in unrecognized stock-based compensation expense related to non-vested stock awards.

### Note I - Segment Information

| In thousands                     | As of and for the Three Months<br>Ended March 21, 2009 |                    |           |            |
|----------------------------------|--|--------------------|-----------|------------|
|                                  | Sporting<br>Goods                                      | Office<br>Products | Corp.     | Total      |
| Revenues from external customers | \$ 15,567  | \$ 9,391           | \$        | \$ 24,958  |
| Operating income(loss)           | 35   | 998                | (1,661)   | (628)      |
| Net income (loss)                | (491)  | 755                | (703)     | (439)      |
| Total assets                     | \$ 75,968  | \$ 44,371          | \$ 25,264 | \$ 145,603 |

| In thousands                     | As of and for the Three Months<br>Ended March 22, 2008 |                    |           |            |
|----------------------------------|--|--------------------|-----------|------------|
|                                  | Sporting<br>Goods                                      | Office<br>Products | Corp.     | Total      |
| Revenues from external customers | \$ 17,533  | \$ 11,633          | \$        | \$ 29,166  |
| Operating income(loss)           | (1,299)  | 1,020              | (777)     | (1,056)    |
| Net income (loss)                | (918)  | 587                | (517)     | (848)      |
| Total assets                     | \$ 86,219  | \$ 47,008          | \$ 21,547 | \$ 154,774 |

### Note J Dividend Payment

The Company has not declared a dividend to be paid in 2009.

### Note K - Earnings Per Share

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

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| All amounts in thousands                                      | 3 Months Ended    |                   |
|---|-------------------|-------------------|
|   | March 21,<br>2009 | March 22,<br>2008 |
| Weighted average common shares outstanding                    | 12,616            | 12,683            |
| Dilutive effect of stock options                              | 103               | 12                |
| Weighted average common shares outstanding, assuming dilution | 12,719            | 12,695            |

Stock options that are anti-dilutive as to earnings per share and unvested restricted stock units which have a market condition for vesting that has not been achieved are ignored in the computation of dilutive earnings per share. The number of stock options and restricted stock units that were excluded in 2009 and 2008 were 520,942 and 659,117, respectively.

Note L New Accounting Standards

With the exception of those discussed below, there have been no recent accounting pronouncements or changes in accounting pronouncements during the three months ended March 21, 2009, as compared to the recent accounting pronouncements described in the Company's Annual Report on Form 10-K for the fiscal year ended December 27, 2008, that are of significance, or potential significance to the Company.

In April 2009, the FASB issued FASB Staff Position No. 107-1 ( FSP FAS 107-1 ) and APB 28-1 ( APB 28-1 ), which amends FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments and APB Opinion NO. 28, Interim Financial Reporting, to require disclosures about the fair value of financial instruments for interim reporting periods. FSP FAS 107-1 and APB 28-1 will be effective for interim reporting periods ending after June 15, 2009. The adoption of this staff position is not expected to have a material impact on the Company's financial position or results of operation.

In April 2009, the FASB issued FASB Staff Position No. 115-2 ( FSP FAS 115-2 ) and FASB Staff Position No. 124-2 ( FSP FAS 124-2 ), which amends the other-than-temporary impairment guidance for debt and equity securities. FSP FAS 115-2 and FSP FAS 124-2 shall be effective for interim and annual reporting periods ending after June 15, 2009. The Company has not determined the impact of its adoption of this staff position.

In April 2009 the FASB issued FSP No. 141R-1 Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies, or FSP 141R-1. FSP 141R-1 amends the provisions in Statement 141R for the initial recognition and measurement, subsequent measurement and accounting, and disclosures for assets and liabilities arising from contingencies in business combinations. The FSP eliminates the distinction between contractual and non-contractual contingencies, including the initial recognition and measurement criteria in Statement 141R and instead carries forward most of the provisions in SFAS 141 for acquired contingencies. FSP 141R-1 is effective for contingent assets and contingent liabilities acquired in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The adoption of this staff position is not expected to have a material impact on the Company's financial position or results of operation.

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In April 2009, the FASB issued FASB Staff Position No. 157-4 ( FSP FAS 157-4 ), which provides additional guidance in accordance with FASB No. 157, Fair Value Measurements, when the volume and level of activity for the asset or liability has significantly decreased. FSP FAS 157-4 shall be effective for interim and annual reporting periods ending after June 15, 2009. The Company has not determined the impact of its adoption of this staff position.

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

#### **Forward-Looking Statements**

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

#### **Overview**

Escalade, Incorporated ( Escalade or Company ) manufactures and distributes products for two industries: Sporting Goods and 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 substantial manufacturing and import experience that enable it to be a low cost supplier.

A majority of the Company s products are in markets that are experiencing low growth rates. Where the Company enjoys a commanding market position, such as table tennis tables in the Sporting Goods segment and paper folding machines in the Office Products segment, revenue growth is expected to be roughly equal to general growth/decline in the economy. However, in markets that are fragmented and where the Company is not the dominant leader, such as archery in the Sporting Goods segment and data security shredders in the Office Products segment, the Company anticipates growth. To enhance internal growth, the Company has a strategy of acquiring companies or product lines that complement or expand the Company s product lines. A key objective is the acquisition of product lines with barriers to entry that the Company can take to market through its established distribution channels or through new market channels. Significant synergies are achieved through assimilation of acquired product lines into the existing company structure. Management believes that key indicators in measuring the success of this strategy are revenue growth, earnings growth and the expansion of channels of distribution.

**Results of Operations**

Consolidated net sales for the first quarter of 2009 were down in both the Sporting Goods and Office Product segments compared to the same quarter last year; however, improved gross margin percentages helped reduce the operating loss to \$.6 million for the quarter compared to an operating loss of \$1.1 million for the same quarter last year.

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

|  | Three months ended |                   |
|--|--------------------|-------------------|
|  | March 21,<br>2009  | March 22,<br>2008 |
| Net revenue                                  | 100.0%             | 100.0%            |
| Cost of products sold                        | 68.5%              | 71.1%             |
| Gross margin                                 | 31.5%              | 28.9%             |
| Selling, administrative and general expenses | 32.1%              | 31.0%             |
| Amortization                                 | 1.9%               | 1.5%              |
| Operating loss                               | -2.5%              | -3.6%             |

***Consolidated Revenue and Gross Margin***

Revenues from the Sporting Goods business were down 11% in the first quarter compared to the same quarter last year due to several factors. Dealers are reducing inventory in light of the economy to conserve cash in light of the economy. Within many sporting goods categories, consumers are buying lower-priced models rather than high-end systems. Management believes that total sales to its mass-market retail customers in 2009 will be slightly lower than levels achieved in 2008.

Revenues from the Office Products business, excluding the effects of changes in currency exchange rates, declined 14% in the first quarter compared to the same period in 2008 primarily due to lower sales to office supply mass-retailers in the U.S. which are being negatively impacted by the worsening economy and a slowdown in European sales due to the slowing economy in Germany, France and Spain. Management anticipates further declines in sales to office product retailers as the global economy continues to decline. However, new product launches and an expanding presence in machine dealers is expected to lessen the impact of these declines.

The overall gross margin ratio improved by 2.6% in the first quarter of 2009 compared to the same period in 2008. The gross margin improvement is attributed to the cost reductions and facility consolidations initiated during 2008 and the impact of price increases initiated in 2009. The Sporting Goods business gross margin ratio improved to 22% from 18% in the prior year. Office Products gross margin ratio improved to 47% from 45% in the prior year. The Company continues to evaluate further cost reduction strategies to further enhance gross margin improvements. Management expects the overall gross margin ratio for 2009 to be greater than that achieved in 2008.

**Consolidated Selling, General and Administrative Expenses**

Compared to the same period last year, consolidated selling, general and administrative ( SG&A ) costs decreased 11% in the first quarter. SG&A costs in the Sporting Goods business segment decreased 28% due to decreased selling and marketing costs associated with the specialty retailer and dealer channel, personnel reductions initiated during 2008 and the consolidation of table tennis manufacturing in Mexico. The Office Products segment also experienced a decrease in SG&A costs as a direct result of a series of cost savings measures taken. SG&A costs in the Office Products business decreased 18% including changes in currency exchange rates; excluding the effect of currency exchange rates, SG&A costs in the Office Products business declined 10% during the first quarter of 2009 compared to last year.

**Provision for Income Taxes**

The effective tax rate in the first quarter of 2009 was 23% compared to 39% in the same period last year. This decrease is related to the size of the loss incurred in the current quarter relative to the size of permanent adjustments in taxable income which were smaller in the first quarter of 2009 than in the same period last year. The Company anticipates the effective tax rate for 2009 to be relatively unchanged from that experienced in fiscal 2008.

**Financial Condition and Liquidity**

The Company continues to experience the effect of the current economic downturn as reflected in lower sales volumes. Total bank debt at the end of the first quarter of 2009 was up 13% from the same period last year, but down slightly from the latest year end. The following schedule summarizes the Company's total bank debt:

| In thousands                   | March 21,<br>2009 | March 22,<br>2008 | December 27,<br>2008 |
|--------------------------------|-------------------|-------------------|----------------------|
| Notes payable short-term       | \$                | \$ 11,764         | \$ 46,525            |
| Current portion long-term debt |                   |                   |                      |
| Long term debt                 | 46,244            | 29,029            |                      |
| Total bank debt                | \$ 46,244         | \$ 40,793         | \$ 46,525            |

As a percentage of stockholders' equity, total bank debt was 59%, 46% and 59% at March 21, 2009, March 22, 2008 and December 27, 2008, respectively.

During the first quarter of 2009, operations provided \$2.1 million in cash primarily due to reductions in accounts receivable exceeding increases in inventory and decreases in accounts payable.

The Company funds working capital requirements through operating cash flows and revolving credit agreements with its bank. The Company expects to have access to the same level of revolving credit that was available in 2008.

The Company has finalized its new credit agreement with JP Morgan Chase. The Company is continuing to market the Reynosa facility through a national broker hired in late 2008 and is pursuing all viable offers of purchase or lease. There have been no material changes to previously identified cost reduction measures.

**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. The Company attempts to minimize these risks through regular operating and financing activities and, when considered appropriate, through the use of derivative financial instruments. Through the first quarter of 2009, the Company has no derivative financial instruments. The Company does not purchase, hold or sell derivative financial instruments for trading or speculative purposes.

*Interest Rates*

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

*Foreign Currency*

The Company conducts business in various countries around the world and is therefore subject to risks associated with fluctuating foreign exchange rates. This revenue is generated from the operations of the Company's subsidiaries in their respective countries and surrounding geographic areas and is primarily denominated in each subsidiary's local functional currency. These subsidiaries incur most of their expenses (other than inter-company expenses) in their local functional currency and include the Euro, Great Britain Pound Sterling, Mexican Peso and Chinese Yuan.

The geographic areas outside the United States in which the Company operates are generally not considered to be highly inflationary. Nonetheless, the Company's foreign operations are sensitive to fluctuations in currency exchange rates arising from, among other things, certain inter-company transactions that are denominated in currencies other than the respective functional currency. Operating results as well as assets and liabilities are also subject to the effect of foreign currency translation when the operating results, assets and liabilities of our foreign subsidiaries are translated into U.S. dollars in our consolidated financial statements.

The Company and its subsidiaries conduct substantially all their business in their respective functional currencies to avoid the effects of cross-border transactions. 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 as matching assets and liabilities in the same currency. Such programs reduce, but do not entirely eliminate, the impact of currency exchange rate changes. The Company currently has no currency exchange hedging instruments in place. Changes in currency exchange rates may be volatile and could affect the Company's performance.

*Marketable Securities*

An adverse movement of equity market prices has impacted the Company's long-term marketable equity securities available for sale that are included in investments on the consolidated balance sheet. At March 21, 2009 the aggregate fair market value of long-term marketable equity securities available for sale was \$1.2 million. The Company has not employed any hedge programs relative to these investments.

**Item 4T. 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 2009.

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 2009 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 1A.** Not Required.



**Item 2. (c) ISSUER PURCHASES OF EQUITY SECURITIES**

| Period   | (a) Total<br>Number of<br>Shares (or<br>Units)<br>Purchased | (b) Average<br>Price Paid per<br>Share (or Unit) | (c) Total<br>Number of<br>Shares (or<br>Units)<br>Purchased as<br>Part of Publicly<br>Announced<br>Plans or<br>Programs | (d) Maximum<br>Number (or<br>Approximate<br>Dollar Value)<br>of Shares (or<br>Units) that May<br>Yet Be<br>Purchased<br>Under the Plans<br>or Programs |
|--|---|--|---|--|
| Shares purchases prior to 12/27/2008 under the current repurchase program. | 982,916   | \$ 8.84  | 982,916   | \$ 2,273,939   |

## First quarter purchases:

|            |            |      |      |           |           |
|------------|------------|------|------|-----------|-----------|
| 12/28/2009 | 01/24/2009 | None | None | No Change | No Change |
| 01/25/2009 | 02/21/2009 | None | None | No Change | No Change |
| 02/22/2009 | 03/21/2009 | None | None | No Change | No Change |

|   |         |         |         |              |
|---|---------|---------|---------|--------------|
| Total share purchases under the current program | 982,916 | \$ 8.84 | 982,916 | \$ 2,273,939 |
|---|---------|---------|---------|--------------|

The Company has one stock repurchase program which was established in February 2003 by the Board of Directors and which initially authorized management to expend up to \$3,000,000 to repurchase shares on the open market as well as in private negotiated transactions. In each of February 2005 and 2006, August 2007 and February 2008 the Board of Directors increased the remaining balance on this plan to its original level of \$3,000,000. The repurchase plan has no termination date and there have been no share repurchases that were not part of a publicly announced program except for shares purchased in connection with the exercise of stock options.

**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 24, 2009 at the Company's facilities in Evansville, Indiana. Proxy materials were circulated on April 9, 2009 proposing the election of eight members to the Board of Directors for a one year term.

Shareholders elected the proposed directors by the following vote totals:

|                         | For        | Withheld |
|-------------------------|------------|----------|
| Robert E. Griffin       | 11,376,402 | 365,427  |
| Robert J. Keller        | 11,389,367 | 352,462  |
| Blaine E. Matthews, Jr. | 11,658,098 | 83,731   |
| Edward E. Williams      | 11,692,943 | 48,886   |
| Richard D. White        | 11,719,977 | 21,852   |
| George Savitsky         | 11,705,958 | 35,871   |
| Richard F. Baalman, Jr. | 11,697,190 | 44,639   |
| Patrick J. Griffin      | 11,374,977 | 366,852  |

**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.             |

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: May 4, 2009

/s/ Deborah Meinert

Vice President and  
Chief Financial Officer