

ESCALADE INC
Form 10-Q
November 05, 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 October 03, 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

13-2739290

(State of incorporation)

(I.R.S. EIN)

817 Maxwell Ave, Evansville, Indiana

47711

(Address of principal executive office)

(Zip Code)

812-467-4449

(Registrant's Telephone Number)

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

Yes No

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

Yes No

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

Large accelerated filer

Accelerated filer

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Non-accelerated filer

Smaller reporting company

(do not check if a 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.

| Class | Outstanding at October 26, 2009 |
|----------------------|---------------------------------|
| Common, no par value | 12,623,542 |

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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)

| | October 3, 2009 | October 4, 2008 | December 27, 2008 |
|--|--------------------|--------------------|----------------------|
| | (Unaudited) | (Unaudited) | (Audited) |
| ASSETS | | | |
| Current Assets: | | | |
| Cash and cash equivalents | \$ 5,735 | \$ 3,342 | \$ 3,617 |
| Receivables, less allowance of \$1,635; \$950; and \$1,114; respectively | 22,007 | 31,549 | 27,178 |
| Inventories | 27,428 | 36,070 | 29,860 |
| Prepaid expenses | 1,944 | 3,965 | 1,254 |
| Assets held for sale | 3,325 | — | 3,325 |
| Deferred income tax benefit | 1,966 | 2,069 | 2,015 |
| Income tax receivable | 2,146 | 3,613 | 5,327 |
| TOTAL CURRENT ASSETS | 64,551 | 80,608 | 72,576 |
| Property, plant and equipment, net | 19,094 | 24,453 | 20,209 |
| Intangible assets | 17,446 | 19,340 | 19,153 |
| Goodwill | 26,325 | 25,527 | 25,811 |
| Investments | 9,176 | 10,442 | 8,129 |
| Deferred income tax benefit | 873 | — | 723 |
| Other assets | 706 | 1,438 | 1,100 |
| | \$ 138,171 | \$ 161,808 | \$ 147,701 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| Current Liabilities: | | | |
| Notes payable | \$ 36,577 | \$ 49,032 | \$ 46,525 |
| Trade accounts payable | 3,765 | 7,659 | 3,272 |
| Accrued liabilities | 14,164 | 15,915 | 16,698 |
| Income taxes payable | — | — | 1,239 |
| TOTAL CURRENT LIABILITIES | 54,506 | 72,606 | 67,734 |
| Other Liabilities: | | | |
| Long-term debt | — | 2,729 | — |
| Other non-current income tax liability | — | 1,237 | — |
| Deferred income tax liability | — | 589 | — |
| Deferred compensation | 1,262 | 1,149 | 1,177 |

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55,768 78,310 68,911

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 – 12,623,542; 12,616,042; and 12,616,042; respectively

12,624 12,616 12,616

Retained earnings

64,019 67,238 63,050

Accumulated other comprehensive income

5,760 3,644 3,124

82,403 83,498 78,790

\$ 138,171 \$ 161,808 \$ 147,701

See notes to Consolidated Condensed Financial Statements.

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

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|--------------------|--------------------|--------------------|
| | October 3, 2009 | October 4, 2008 | October 3, 2009 | October 4, 2008 |
| Net sales | \$ 26,358 | \$ 40,797 | \$ 86,957 | \$ 115,759 |
| Costs, expenses and other income: | | | | |
| Cost of products sold | 18,558 | 31,576 | 60,233 | 85,594 |
| Selling, general and administrative expenses | 6,571 | 8,520 | 23,342 | 30,140 |
| Amortization | 617 | 619 | 2,024 | 1,788 |
| Operating income (loss) | 612 | 82 | 1,358 | (1,763) |
| Interest expense, net | (630) | (552) | (1,530) | (1,699) |
| Other income (expense) | 966 | (61) | 1,197 | 144 |
| Income (loss) before income taxes (benefit) | 948 | (531) | 1,025 | (3,318) |
| Provision (benefit) for income tax | 330 | 834 | 480 | (401) |
| Net income (loss) | \$ 618 | \$ (1,365) | \$ 545 | \$ (2,917) |

Per Share Data:

| | | | | |
|-----------------------------------|---------|-----------|--------|-----------|
| Basic earnings (loss) per share | \$ 0.05 | \$ (0.11) | \$.04 | \$ (0.23) |
| Diluted earnings (loss) per share | \$ 0.05 | \$ (0.11) | \$.04 | \$ (0.23) |
| Cash dividend paid | — | — | — | \$ 0.25 |

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

| | | | | |
|--|--------|------------|--------|------------|
| Net income (loss) | \$ 618 | \$ (1,365) | \$ 545 | \$ (2,917) |
| Unrealized gain (loss) on securities available for sale, net of tax (benefit) of \$0, \$175, \$0 and \$480, respectively | — | (271) | — | (740) |
| Realization of previously unrealized (gains) losses on securities available for sale, net of tax (benefit) of \$75, \$(53), \$0 and \$(53), respectively | (116) | 83 | — | 83 |
| Foreign currency translation adjustment | 1,339 | (2,888) | 2,636 | (1,487) |
| Unrealized loss on interest rate swap agreement, net of tax of \$0, \$0, \$0 and \$23, respectively | — | — | — | (35) |

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| | | | | | | | | |
|-----------------------------|----|-------|----|---------|----|-------|----|---------|
| Comprehensive income (loss) | \$ | 1,841 | \$ | (4,441) | \$ | 3,181 | \$ | (5,096) |
|-----------------------------|----|-------|----|---------|----|-------|----|---------|

See notes to Consolidated Condensed Financial Statements.

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

| | Nine Months Ended | |
|---|-------------------|-----------------|
| | October 3, 2009 | October 4, 2008 |
| Operating Activities: | | |
| Net income (loss) | \$ 545 | \$ (2,917) |
| Depreciation and amortization | 4,605 | 4,287 |
| Loss (gain) on disposal of property and equipment | 20 | 119 |
| Loss (gain) on disposal of Investments held for sale | (432) | — |
| Employee stock-based compensation | 431 | 613 |
| Adjustments necessary to reconcile net income (loss) to net cash used by operating activities | 6,333 | (10,674) |
| Net cash provided (used) by operating activities | 11,502 | (8,572) |
| Investing Activities: | | |
| Purchase of property and equipment | (1,594) | (6,838) |
| Acquisition of assets | — | (521) |
| Purchase of investments held for sale | — | (996) |
| Proceeds from sale of property and equipment | 268 | 27 |
| Proceeds from sale of investments | 1,645 | 1,374 |
| Net cash provided (used) by investing activities | 319 | (6,954) |
| Financing Activities: | | |
| Net increase (decrease) in notes payable | (9,948) | 19,592 |
| Proceeds from exercise of stock options | — | 313 |
| Purchase of common stock | — | (921) |
| Dividends paid | — | (3,174) |
| Net cash provided (used) by financing activities | (9,948) | 15,810 |
| Effect of exchange rate changes on cash | 245 | 250 |
| Net increase in cash and cash equivalents | 2,118 | 534 |
| Cash and cash equivalents, beginning of period | 3,617 | 2,808 |

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| | | | | |
|--|----|-------|----|-------|
| Cash and cash equivalents, end of period | \$ | 5,735 | \$ | 3,342 |
|--|----|-------|----|-------|

See notes to Consolidated Condensed Financial Statements.

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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 nine month periods ended October 3, 2009 and October 4, 2008 are not necessarily indicative of the results to be expected for the full year.

Note D – Inventories

| (All amounts in thousands) | October 3, 2009 | October 4, 2008 | December 27, 2008 |
|----------------------------|-----------------|-----------------|-------------------|
| Raw materials | \$ 8,640 | \$ 10,406 | \$ 9,540 |
| Work in progress | 2,468 | 5,801 | 4,506 |
| Finished goods | 16,320 | 19,863 | 15,814 |
| | \$ 27,428 | \$ 36,070 | \$ 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. In September 2009, the agreement was amended to extend the deadline for completion of certain post closing matters to October 30, 2009.

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Note F – Income Taxes

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

| In Thousands | Nine Months Ended | |
|--|-------------------|-----------------|
| | October 3, 2009 | October 4, 2008 |
| Beginning Balance | \$ 954 | \$ 118 |
| Additions for current year tax positions | 7 | 38 |
| Additions for prior year tax positions | 291 | 1,081 |
| Settlements | — | — |
| Reductions Settlements | — | — |
| Reductions for prior year tax positions | — | — |
| Ending Balance | \$ 1,252 | \$ 1,237 |

Note G – Fair Values of Financial Instruments

Effective December 30, 2007, the Company adopted guidance now codified as FASB ASC 820 *Fair Value Measurements and Disclosures*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FASB ASC 820 has been applied prospectively as of the beginning of the year.

FASB ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

| | |
|----------------|---|
| Level 1 | Quoted prices in active markets for identical assets or liabilities |
| Level 2 | Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities |
| Level 3 | Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities |

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Money Market Funds

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include money market funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows.

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The following table presents the fair value measurements of assets and liabilities recognized in the accompanying balance sheet measured at fair value on a recurring basis and the level within the FASB ASC 820 fair value hierarchy in which the fair value measurements fall at October 3, 2009:

| In thousands | Fair Value Measurements Using | | | |
|--------------------|-------------------------------|--|---|---|
| | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Money Market Funds | \$ 2,739 | \$ 2,739 | \$ — | \$ — |

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

Cash and Cash Equivalents

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

Notes Payable and Long-term Debt

As of October 3, 2009, the Company does not have debt classified as long-term. The Company believes the carrying value of short-term debt adequately reflects the fair value of these instruments.

The following table presents estimated fair values of the Company's financial instruments in accordance with FASB ASC 825 not previously disclosed at October 3, 2009 and October 4, 2008.

| In thousands | October 3, 2009 | | October 4, 2008 | |
|--|--------------------|------------|--------------------|------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial assets | | | | |
| Cash and cash equivalents | \$ 2,996 | \$ 2,996 | \$ 3,342 | \$ 3,342 |
| Available-for-sale securities-mutual funds | \$ — | \$ — | \$ 2,702 | \$ 2,702 |
| Financial liabilities | | | | |
| Note payable and Long-term debt | \$ 36,577 | \$ 36,577 | \$ 51,761 | \$ 51,761 |

Note H – Employee Stock Compensation

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

During the three and nine months ended October 3, 2009 and pursuant to the 2008 Incentive Plan, the Company awarded 52,026 stock options and 54,103 restricted stock units to directors and 667,000 stock options to employees. The stock options awarded to directors vest at the end of one year and have an exercise price equal to the market price on the date of grant. The restricted stock units awarded to the directors vest after one year following the grant date. The stock options awarded to employees vest at the end of three years and are subject to forfeiture if on the vesting date the employee is not employed. Director stock options and restricted stock units are subject to forfeiture if on the vesting date the director no longer holds a position with the Company.

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The Company utilizes the Black-Scholes option pricing model to determine the fair value of stock options granted and Monte Carlo techniques to determine the fair value of restricted stock units granted with market conditions attached to vesting.

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During the three months and nine months ended October 3, 2009, the Company recognized stock based compensation expense of \$158 thousand and \$431 thousand, respectively. During the three months and nine months ended October 4, 2008, the Company recognized stock based compensation expense of \$166 thousand and \$613 thousand, respectively. At October 3, 2009 and October 4, 2008, respectively, there was \$0.7 million and \$1.2 million in unrecognized stock-based compensation expense related to non-vested stock awards.

Note I – Segment Information

| As of and for the Three Months Ended October 3, 2009 | | | | |
|---|-------------------|--------------------|-------|-----------|
| In thousands | Sporting Goods | Office Products | Corp. | Total |
| Revenues from external customers | \$ 17,642 | \$ 8,716 | \$ — | \$ 26,358 |
| Operating income (loss) | 942 | 222 | (552) | 612 |
| Net income (loss) | 574 | (133) | (171) | 270 |

| As of and for the Nine Months Ended October 3, 2009 | | | | |
|--|-------------------|--------------------|-----------|------------|
| In thousands | Sporting Goods | Office Products | Corp. | Total |
| Revenues from external customers | \$ 56,612 | \$ 30,345 | \$ — | \$ 86,957 |
| Operating income (loss) | 3,154 | 1,722 | (3,520) | 1,358 |
| Net income (loss) | 774 | 836 | (1,413) | 197 |
| Total assets | \$ 72,254 | \$ 41,499 | \$ 24,070 | \$ 137,823 |

| As of and for the Three Months Ended October 4, 2008 | | | | |
|---|-------------------|--------------------|---------|-----------|
| In thousands | Sporting Goods | Office Products | Corp. | Total |
| Revenues from external customers | \$ 28,552 | \$ 12,245 | \$ — | \$ 40,797 |
| Operating income (loss) | 106 | 989 | (1,013) | 82 |
| Net income (loss) | (185) | 464 | (1,644) | (1,365) |

| As of and for the Nine Months Ended October 4, 2008 | | | | |
|--|-------------------|--------------------|-------|------------|
| In thousands | Sporting Goods | Office Products | Corp. | Total |
| Revenues from external customers | \$ 75,282 | \$ 40,477 | \$ — | \$ 115,759 |

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| | | | | |
|-------------------------|-----------|-----------|-----------|------------|
| Operating income (loss) | (1,573) | 3,116 | (3,306) | (1,763) |
| Net income (loss) | (1,856) | 1,710 | (2,771) | (2,917) |
| Total assets | \$ 92,757 | \$ 45,798 | \$ 23,253 | \$ 161,808 |

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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:

| All amounts in thousands | Three Months Ended | | Nine Months Ended | |
|---|--------------------|--------------------|--------------------|--------------------|
| | October 3, 2009 | October 4, 2008 | October 3, 2009 | October 4, 2008 |
| Weighted average common shares outstanding | 12,624 | 12,616 | 12,620 | 12,644 |
| Dilutive effect of stock options and restricted stock units | 385 | 30 | 163 | 32 |
| Weighted average common shares outstanding, assuming dilution | 13,009 | 12,646 | 12,783 | 12,676 |

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 was 451,725 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 nine months ended October 3, 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 guidance now codified as FASB ASC 825, *Financial Instruments*, effective for interim and annual periods ending after June 15, 2009. The standard requires fair value disclosures of financial instruments on a quarterly basis, as well as new disclosures regarding the methodology and significant assumptions underlying the fair value measures and any changes to the methodology and assumptions during the reporting period. The Company has applied the disclosure provisions as appropriate.

In April 2009, the FASB issued guidance now codified as FASB ASC 320, *Investments – Debt and Equity Securities*, which amends the other-than-temporary impairment guidance for debt and equity securities. This guidance is effective for interim and annual reporting periods ending after June 15, 2009. The adoption of this standard did not have a material impact on the Company's financial position or results of operation.

In May 2009, the FASB issued guidance now codified as FASB ASC 855, *Subsequent Events*, which establishes general statements of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. FASB ASC 855 is effective for interim annual reporting periods ending after June 15, 2009. The adoption of this standard did not have a material impact on the Company's financial position or results of operation.

Note M – Subsequent Events

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Subsequent events have been evaluated through November 5, 2009 which is the date the financial statements were issued.

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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 over 80 years of manufacturing and import experience that enable it to be a low cost supplier.

Results of Operations

The Company's operating income for the quarter and nine months ended October 3, 2009 was \$612 thousand and \$1,358 thousand, respectively, compared to operating income (loss) of \$82 thousand and \$(1,763) thousand for the same periods last year. Net revenue for the third quarter and nine months ended October 3, 2009 declined 35.4% and 24.9%, respectively, compared to same periods last year. Sporting Goods net revenues this quarter compared with same quarter last year was significantly affected by the lost placement of seasonal sales with Sears Holdings. Office Products sales experienced a further softening for the quarter from 26.3% decline in the prior quarter to 28.8% decline in the current quarter. Company expectations for the year are that combined net revenues will be approximately 25% below prior year.

The Company continues to achieve improved gross margins and lower selling, administrative and general expenses mainly due to facility consolidation in the Sporting Goods segment and Company-wide cost cutting measures implemented last year which have dramatically improved Company profits. Gross margin for the nine months ended October 3, 2009 is 30.7% compared with 26.1% for the same period last year.

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

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|--------------------|--------------------|--------------------|
| | October 3, 2009 | October 4, 2008 | October 3, 2009 | October 4, 2008 |
| Net revenue | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of products sold | 70.4% | 77.4% | 69.3% | 73.9% |
| Gross margin | 29.6% | 22.6% | 30.7% | 26.1% |
| Selling, administrative and general expenses | 24.9% | 20.9% | 26.8% | 26.0% |
| Amortization | 2.4% | 1.5% | 2.3% | 1.6% |
| Operating income (loss) | 2.3% | 0.2% | 1.6% | (1.5)% |
| Consolidated Revenue and Gross Margin | | | | |

Net revenue in the Sporting Goods business declined 38.2% and 24.8% for three and nine months ended October 3, 2009 respectively, compared to the same periods last year. The prior year third quarter results include sales of Gameroom products to Sears Holdings which is not repeated in 2009. Based on the year to date results and product placement information, the Company expects Sporting Goods sales to be approximately 25%

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lower in 2009 compared to 2008. The Company is continuing to identify and implement cost saving initiatives and to enhance product design to expand market share and to improve Company profits.

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Compared to last year, Office Products net revenue declined 28.8% and 25.0% for the three and nine months ended October 3, 2009, respectively. Net revenues declined 25.9% in the United States and 24.2% in Europe for the first nine months of 2009. Excluding the effect of changes in foreign currency rates, year to date net revenues in Europe declined 21.5% compared with prior year. The Company expects net revenue declines for the Office Products segment for the remainder of 2009 to be approximately 25% lower than prior year.

The overall gross margin ratios for the third quarter and first nine months of fiscal 2009 were 7.0% and 4.6% higher, respectively, over the same periods last year due to favorable price variances and cost reductions and facility consolidations initiated in 2008 resulting in positive production cost variances.

Consolidated Selling, General and Administrative Expenses

Consolidated selling, general and administrative expenses ("SG&A") for the third quarter and nine months ended October 3, 2009 were down 22.9% and 22.6%, respectively, compared to the same periods last year. The variance is due mainly to decreases in variable compensation in relation to decreases in sales volume and the continued benefit of personnel reductions and facility consolidation initiated in 2008.

Provision for Income Taxes

The effective tax rate for the first nine months of 2009 for domestic operations was 42% compared with 38% for the same period last year. The increase results mainly from a valuation allowance for capital loss carryovers that are not expected to be realized. As a result of net losses in certain foreign countries where a tax benefit is not expected to be realized and an accrual for a proposed tax assessment in a foreign jurisdiction, the Company is reporting a provision for income tax as of the end of the third quarter of \$480 thousand on pre-tax income of \$1,025 thousand.

Financial Condition and Liquidity

The following schedule summarizes the Company's total debt:

| In thousands | October 3, 2009 | October 4, 2008 | December 27, 2008 |
|--------------------------|------------------|------------------|-------------------|
| Notes payable short-term | \$ 36,577 | \$ 49,032 | \$ 46,525 |
| Long-term debt | — | 2,729 | — |
| Total debt | \$ 36,577 | \$ 51,761 | \$ 46,525 |

As a percentage of stockholders' equity, total bank debt was 45%, 62% and 59% at October 3, 2009, October 4, 2008 and December 27, 2008, respectively.

During the first nine months of 2009, operations provided \$11.5 million in cash primarily due to reductions in accounts receivable and inventory and income tax refunds.

The Company's working capital requirements are funded from operating cash flows and revolving credit agreements with its primary 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 2008.

The Company is pursuing all viable offers of purchase or lease relating to the sale of its Reynosa facility which is marketed through a national broker. 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. To mitigate these risks, the Company has utilized derivative financial instruments, among other strategies but is not currently utilizing any derivative financial instruments. The Company does not use derivative financial instruments for 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, Chinese Yuan, Swedish Krona and South African Rand.

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 of 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.

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 third 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 third quarter of 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Not Required.

Item 1A. Not Required.

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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 (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs |
|--|---|--|---|---|
| Shares purchased prior to 07/11/2009 under the current repurchase program. | 982,916 | \$ 8.84 | 982,916 | \$ 2,273,939 |
| Third quarter purchases: | | | | |
| 07/12/2009 – 08/08/2009 | None | None | No change | No change |
| 08/09/2009 – 09/05/2009 | None | None | No change | No change |
| 09/06/2009 – 10/03/2009 | 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 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 2008, the Board of Directors increased the remaining amount on this plan to its original level of \$3,000,000. Although authorized by the Board, the Company has agreed to certain restrictions on the repurchase of shares as part of the April 30, 2009 Credit Agreement terms. There have been no share purchases since the second quarter of 2008.

Item 3 Not Required.

Item 4. Not Required.

Item 5. Other Information

In accordance with its April 30, 2009 credit agreement, the Company has satisfied all post-closing conditions required by its primary bank to be completed as of October 30, 2009. The Company and the bank have agreed that certain other post-closing deliveries will be made subsequently following request by the bank.

Item 6. Exhibits
Exhibits

| Number | Description |
|--------|---|
| 10.1 | Second Amendment dated as of September 30, 2009 to Credit Agreement by and between Escalade, Incorporated and JPMorgan Chase Bank, N.A. (1) |
| 10.2 | Third Amendment dated as of October 30, 2009 to Credit Agreement by and between Escalade, Incorporated and JPMorgan Chase Bank, N.A. |
| 31.1 | Chief Executive Officer Rule 13a-14(a)/15d-14(a) Certification. |

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- 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.

(1) Incorporated by reference from the Company's Form 8-K filed on September 30, 2009.

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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: November 5, 2009

/s/ Deborah Meinert

Vice President Finance and
Chief Financial Officer

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