

Edgar Filing: ESCALADE INC - Form 10-K

ESCALADE INC
Form 10-K
March 15, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-K

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

For the Fiscal Year Ended December 30, 2006

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)

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

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

Common Stock, No Par Value
(Title of Class)

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act: Yes ☐ No ☒

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

Edgar Filing: ESCALADE INC - Form 10-K

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12 b-2 of the Exchange Act). Yes [] No [X]

Aggregate market value of common stock held by nonaffiliates of the registrant as of July 15, 2006 based on the closing sale price as reported on the NASDAQ National Market System: \$101,200,812

The number of shares of Registrant's common stock (no par value) outstanding as of February 23, 2007: 13,039,568

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the registrant's Proxy Statement relating to its annual meeting of stockholders scheduled to be held on April 27, 2007 are incorporated by reference into Part III of this Report.

ESCALADE, INCORPORATED AND SUBSIDIARIES

Table of Contents

Part I

- Item 1. Business
- Item 1A. Risk Factors
- Item 1B. Unresolved Staff Comments
- Item 2. Properties
- Item 3. Legal Proceedings
- Item 4. Submission of Matters to a Vote of Security Holders

Part II

- Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters
- Item 6. Selected Financial Data
- Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations
- Item 7A. Quantitative and Qualitative Disclosures About Market Risk
- Item 8. Financial Statements and Supplementary Data
- Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure
- Item 9A. Controls and Procedures
- Item 9B. Other Information

Part III

- Item 10. Directors, Executive Officers and Corporate Governance
- Item 11. Executive Compensation
- Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters
- Item 13. Certain Relationships and Related Transactions
- Item 14. Principal Accountant Fees and Services

Part IV

- Item 15. Exhibits and Financial Statement Schedules

Edgar Filing: ESCALADE INC - Form 10-K

Part I

ITEM 1--BUSINESS

General

Escalade, Incorporated ("Escalade" or "Company") operates in two business segments: sporting goods and office products. Escalade and its predecessors have more than 75 years of manufacturing and selling experience in these two industries.

The following table presents the percentages contributed to Escalade's net sales by each of its business segments:

	2006	2005	2004
Sporting goods	71%	66%	65%
Office/graphic arts	29%	34%	35%
Total net sales	100%	100%	100%

For additional segment information, see Note 15 - Operating Segment and Geographic Information in the consolidated financial statements.

Sporting Goods

Headquartered in Evansville, Indiana, Escalade Sports manufactures and distributes widely recognized brands in family game room and outdoor sporting goods products through traditional department stores, mass merchandise retailers, and sporting goods specific retailers. Escalade is the world's largest producer of table tennis tables and the world's largest unit producer of pool tables in the United States. Some of the Company's most recognized brands include:

Product Segment	Brand Names
Table Tennis	Ping-Pong(R), STIGA(R)
Pool Tables and Accessories	Mizerak(TM), Murrey(R), Mosconi(TM), Black Widow(TM)
Basketball Backboards and Goals	Goalrilla(TM), Goaliath(R), Silverback(TM)
Game Tables (Hockey and Soccer)	Harvard Game(R), Rhino(TM), Murrey Game(TM)
Archery	Fred Bear(R), Indian Archery(R), Jennings(R), Carolina
Fitness	The STEP(R), USWeight(TM)
Play Systems	ChildLife(R), Woodplay(R)

The largest sporting goods customer is Sears Holdings Corporation ("Sears"), which accounted for 30%, 33% and 42% of total sporting goods revenues in 2006, 2005 and 2004, respectively. On a consolidated basis, Sears accounted for 19%, 22% and 27% of Escalade revenues in 2006, 2005 and 2004, respectively. Escalade Sports has been a preferred supplier of sporting goods products to Sears for more than 30 years, winning numerous awards for delivering outstanding products and service. Although the Company does not have long-term supplier contracts with Sears, the strong relationship with Sears supports the Company's belief that Sears will continue to be a significant customer.

Escalade Sports manufactures in the U.S.A. and Mexico; and imports product from

Edgar Filing: ESCALADE INC - Form 10-K

China, where the Company employs a number of contract manufacturers.

Certain products produced by Escalade Sports are subject to regulation by the Consumer Product Safety Commission. The Company believes it is in full compliance with all applicable regulations.

3

Office Products

Operating under the Martin Yale name, the office product business gained a worldwide presence with the 2003 acquisition of a manufacturer and distributor of data shredding equipment headquartered in Germany. In addition to data shredding equipment and accessories, Martin Yale products include: paper trimmers, folding machines, paper drills, collators, bursting machines, letter openers, and office related products such as keyboard drawers and hole punches. Martin Yale brands include Martin Yale(TM), Premier(R), Master(TM), Mead Hatcher(TM), Intimus(R), and Paper Monster(R).

Martin Yale manufactures and sources product in the United States, Germany and China. In addition to the sales offices located at manufacturing plants, Martin Yale also has offices in the United Kingdom, Spain and France. Products are sold throughout the world to office products retailers, wholesalers and catalog distributors. No single Martin Yale customer accounted for more than 10% of Office Product sales during 2006.

Marketing and Product Development

In both the sporting goods and office product business segments, Escalade has rigorously developed strategic plans to enhance and promote product branding. The Company constantly evaluates the quality-to-price paradigm of its customers, and then designs and redesigns its products to achieve the best fit. Marketing efforts are then initiated through its retail partners in the form of advertising and other promotion allowances. In general, the Company does not directly advertise to end-users.

In order to meet customer needs, each operating segment conducts its own independent research and development efforts to design new products and enhance already existing products. On a consolidated basis, the Company incurred research and development costs of approximately \$2.2 million, \$2.0 million and \$2.3 million in 2006, 2005 and 2004, respectively.

Competition

Escalade is subject to competition with various manufacturers in each product line produced or sold by Escalade. The Company is not aware of any other single company that is engaged in both the same industries as Escalade or that produces the same range of products as Escalade within such industries. Nonetheless, competition exists for many Escalade products within both the sporting goods and office product industries and some competitors are larger and have substantially greater resources than the Company. Escalade believes that its long-term success depends on its ability to strengthen its relationship with existing customers, attract new customers and develop new products that satisfy the quality and price requirements of sporting goods and office product customers.

Licenses, Trademarks and Brand Names

Escalade Sports has an agreement and contract with Sweden Table Tennis AB for the exclusive right and license to distribute and produce table tennis equipment under the brand name STIGA(R) for the United States and Canada.

Edgar Filing: ESCALADE INC - Form 10-K

Escalade is the owner of several registered trademarks and brand names. In the sporting goods segment, the Company holds the Ping-Pong(R), Harvard(R), Accudart(R), Indian Archery(R) and Goaliath(R), registered trademarks and utilizes the Goalrilla(TM), Silverback(TM), Rhino Play(TM), U. S. Weight(TM), The Step(R), Murrey(R), Mosconi(R), and Mizerak(R) brand names. In the office/graphic arts segment, the Company owns the Premier(R) and Intimus(R) registered trademarks and utilizes the Martin Yale(TM), Master Products(TM), Mead Hatcher(TM), Taros(TM), and Paper Monster(TM) brand names.

4

Backlog and Seasonality

Sales are based primarily on standard purchase orders and in most cases orders are shipped within the same month received. Unshipped orders at the end of the fiscal year (backlog), were not material, and therefore not an indicator of future results. Consumer demand for sporting goods is extremely seasonal and driven by Christmas season demand. Over the past three years approximately 65% of sporting goods sales have come in the second half of the year. The Company expects sporting goods sales to continue to be seasonal in the future. Demand for Office Products has not been seasonal and is not expected to be so in the future.

Employees

The number of employees at December 30, 2006 and December 31, 2005 for each business segment were as follows:

	2006	2005

Sporting Goods		
USA	460	335
Mexico	169	207
	-----	-----
	629	542
	-----	-----
Office/Graphic Arts		
USA	117	120
Europe	136	137
Asia	9	6
	-----	-----
	262	263
	-----	-----
Total	891	805
	=====	=====

The International Union of Electronic, Electrical, Salaried, Machine and Furniture Workers AFL-CIO represent hourly rated employees at the Escalade Sports' Evansville, Indiana factory; approximately 131 employees at December 30, 2006. A 3-year labor contract was negotiated and renewed in April 2006; the new agreement expires on April 30, 2009. Management believes it has satisfactory relations with its employees.

Sources of Supplies

Raw materials for Escalade's various product lines consist of wood, steel, plastics, fiberglass and packaging. Escalade relies upon suppliers in various countries and upon various third party Asian manufacturers for certain of its game tables and non-security paper shredders. The Company believes that these sources will continue to provide adequate supplies as needed and that all other materials needed for the Company's various operations are available in adequate

Edgar Filing: ESCALADE INC - Form 10-K

quantities from a variety of domestic and foreign sources.

SEC Reports

The Company's internet site (www.escaladeinc.com) makes available free of charge to all interested parties the Company's annual report on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, and all amendments to those reports, as well as all other reports and schedules filed electronically with the Securities and Exchange Commission (the "Commission"), as soon as reasonably practicable after such material is electronically filed with or furnished to the Commission. Interested parties may also find reports, proxy and information statements and other information on issuers that file electronically with the Commission at the Commission's internet site (<http://www.sec.gov>).

5

ITEM 1A--RISK FACTORS

Failure to improve and maintain the quality of internal controls over financial reporting could materially and adversely affect the Company's ability to provide timely and accurate financial information about the Company, which could harm the Company's reputation and share price.

In connection with the preparation of the financial statements for the year ended December 30, 2006, Management identified a deficiency in the internal controls over financial reporting relating to the calculation of income tax provisions which rose to the level of a "material weakness." The errors resulted in an overstatement of income tax expense and an understatement of net income of \$1.0 million and \$0.4 million for the years ended December 31, 2005 and December 25, 2004, respectively and an increase of \$0.7 million to the December 28, 2003 retained earnings balance. The financial statements for those fiscal years have been restated. Management cannot be certain that other deficiencies will not arise or be identified or that the Company will be able to correct and maintain adequate controls over financial processes and reporting in the future. Any failure to maintain adequate controls or to adequately implement required new or improved controls could harm operating results or cause failure to meet reporting obligations in a timely and accurate manner. Ineffective internal controls over financial reporting could also cause investors to lose confidence in the Company's reported financial information, which could adversely affect the trading price of the Company's common stock.

The Company's disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives. However, Management, including the Chief Executive Officer and Chief Financial Officer, do not expect that disclosure controls and procedures will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

Our markets are highly competitive and we may not continue to compete successfully.

The sporting goods and office products markets are highly competitive. We compete with a variety of regional, national and international manufacturers for customers, employees, products, services and other important aspects of our business. Some of our current and potential competitors are larger than we are and have substantially greater financial resources that may be devoted to

Edgar Filing: ESCALADE INC - Form 10-K

sourcing, promoting and selling their products. It is possible that increased competition or improved performance by our competitors may reduce our market share, profit margin and projected operating results, and may adversely affect our business and financial performance in other ways.

A large portion of our sales are to a major customer, the loss of which could have a material adverse impact on the Company.

Sears is our largest customer and accounted for 19%, 22% and 27% of our total consolidated revenues in 2006, 2005 and 2004, respectively. We have been a preferred supplier of sporting goods products to Sears for more than 30 years and we have won numerous awards from Sears for delivering outstanding products and services. However, we have never had a long-term supplier contract with Sears and do not expect to obtain any such contract in the future. In addition, Sears continues to reshape its product mix and positioning in the consumer market, and we have no control over decisions that could adversely affect our sales to Sears. We believe that sales to Sears will continue, but there can be no assurances that this will occur.

Our business is seasonal and our annual results are dependent on the success of our second half sales.

Our Sporting Goods business is seasonal in nature with the highest sales and operating income historically occurring during the third and fourth fiscal quarters due largely to the holiday selling season. In 2006 approximately 61% of our sporting goods sales have come in the second half of the year. Any decrease

6

in our second half sales, whether because of a slow holiday selling season or otherwise, could have a material adverse effect on our business, financial condition and operating results for the entire fiscal year.

We may pursue strategic acquisitions, which could have an adverse impact on our business.

We may from time to time acquire complementary companies or businesses. Acquisitions may result in difficulties in assimilating acquired companies, and may result in the diversion of our capital and our management's attention from other business issues and opportunities. We may not be able to successfully integrate operations that we acquire, including their personnel, financial systems, distribution, and operating procedures. If we fail to successfully integrate acquisitions, our business could suffer. In addition, the integration of any acquired business, and their financial results, into ours may adversely affect our operating results. We expect to do additional acquisitions in the future, but we currently do not have any agreements with respect to any such acquisitions.

Our ability to expand our business will be dependent upon the availability of adequate capital.

The rate of our expansion will also depend on the availability of adequate capital, which in turn will depend in large part on cash flow generated by our business and the availability of equity and debt capital. We cannot assure you that we will be able to obtain equity or debt capital on acceptable terms or at all.

Our growth may strain our resources, which could adversely affect our business and financial performance.

Both our sporting goods and office products businesses have grown over the past

Edgar Filing: ESCALADE INC - Form 10-K

several years through strategic acquisitions. Our growth places additional demands on our management and our operational systems. If we are not successful in continuing to support our operational and financial systems, expanding our management team and increasing and effectively managing our customers and suppliers, our growth may result in operational inefficiencies and ineffective management of the business, which could adversely affect our business and financial performance.

Our expanding international operations expose us to the unique risks inherent in foreign operations.

We have operations in Mexico and Europe, and rely on Asian suppliers for various raw materials and products. Our foreign operations encounter risks similar to those faced by our U.S. operations, as well as risks inherent in foreign operations, such as local customs and regulatory constraints, foreign trade policies, competitive conditions, foreign currency fluctuations and unstable political and economic conditions. Our 2003 acquisition of Schleicher and Company, International AG in Germany and our business relationships in Asia have increased our exposure to these foreign operating risks, which could have an adverse impact on our international income and worldwide profitability.

Our business may be adversely affected by the actions of and risks associated with our third-party suppliers.

The raw materials that we purchase for our own manufacturing operations and many of the products that we sell are sourced from a wide variety of third-party suppliers. We cannot control the supply, design, function or cost of many of the products that we offer for sale and are dependent on the availability and pricing of key materials and products. Disruptions in the availability of raw materials used in production of these products may adversely affect our sales and result in customer dissatisfaction. In addition, global sourcing of many of the products we sell is an important factor in our financial performance. Our ability to find qualified suppliers and access products in a timely and efficient manner is a significant challenge, especially with respect to goods sourced outside the United States. Political instability, the financial instability of suppliers, merchandise quality issues, trade restrictions, tariffs, currency exchange rates, transport capacity and costs, inflation and other factors relating to foreign trade are beyond our control.

Historically, instability in the political and economic environments of the countries in which we or our suppliers obtain products and raw materials has not had a material adverse effect on our operations. However, we cannot predict the

7

effect that future changes in economic or political conditions in such foreign countries may have on our operations. In the event of disruptions or delays in supply due to economic or political conditions in foreign countries, such disruptions or delays could adversely affect our results of operations unless and until alternative supply arrangements could be made. In addition, products and materials purchased from alternative sources may be of lesser quality or more expensive than the products and materials we currently purchase abroad.

These and other issues affecting our suppliers could adversely affect our business and financial performance.

Deterioration in our relationships with our suppliers or in the financial condition of our suppliers could adversely affect our liquidity, financial position and results of operations.

Access to materials, parts and supplies is dependent upon close relationships

Edgar Filing: ESCALADE INC - Form 10-K

with our suppliers and our ability to purchase products from our principal suppliers on competitive terms. We do not enter into long-term supply contracts with these suppliers, and we have no current plans to do so in the future. These suppliers are not required to sell to us and are free to change the prices and other terms at which they sell to us. Any deterioration or change in our relationships with, or in the financial condition of our significant suppliers, could have an adverse impact on our ability to procure materials and parts necessary to produce products for sale and distribution. If one of these suppliers terminated or significantly curtailed its relationship with us, or if one of these suppliers ceased operations, we would be forced to expand our relationship with other suppliers, seek out new relationships with other suppliers or risk a loss in market share due to diminished product offerings and availability. Any change in one or more of these suppliers' willingness or ability to continue to supply us with their products could have an adverse impact on our liquidity, financial position and results of operations.

Our quarterly operating results are subject to fluctuation.

Our operating results have fluctuated from quarter to quarter in the past, and we expect that they will continue to do so in the future. Our earnings may not continue to grow at rates similar to the growth rates achieved in recent years and may fall short of either a prior fiscal period or market expectations. Factors that could cause these quarterly fluctuations include the following: international, national and local general economic and market conditions; the size and growth of the overall sporting goods and office products markets; intense competition among manufacturers, marketers, distributors and sellers of our products; demographic changes; changes in consumer preferences; popularity of particular designs, categories of products and sports; seasonal demand for our products; the size, timing and mix of purchases of our products; fluctuations and difficulty in forecasting operating results; our ability to sustain, manage or forecast our growth and inventories; new product development and introduction; our ability to secure and protect trademarks, patents and other intellectual property; performance and reliability of our products; our customer service; the loss of significant customers or suppliers; our dependence on distributors; business disruptions; increased costs of freight and transportation to meet delivery deadlines; changes in our business strategy or development plans; general risks associated with doing business outside the United States, including, without limitation, import duties, tariffs, quotas and political and economic instability; changes in government regulations; any liability and other claims asserted against us; our ability to attract and retain qualified personnel; and other factors referenced or incorporated by reference in this Form 10-K and any other filings with the Securities and Exchange Commission.

Our operating results may be impacted by changes in the economy that impact business and consumer spending.

In general, our sales depend on discretionary spending by our customers. A deterioration of current economic conditions or an economic downturn in any of our major markets or in general could result in declines in sales and impair our growth. Accordingly, our operating results are directly impacted by the health of the North American, European and Asian economies. Our business and financial performance may be adversely affected by current and future economic conditions, including unemployment levels, energy costs, interest rates, recession, inflation, the impact of natural disasters and terrorist activities, and other matters that influence business and consumer spending.

Our failure to improve our operational efficiency and reduce our administrative costs could have a material adverse effect on our liquidity, financial position

Edgar Filing: ESCALADE INC - Form 10-K

and results of operations.

Our ability to improve our profit margins is largely dependent on the success of our initiatives to streamline our infrastructure, improve our operational efficiency and the reduction of administrative costs at every level of the Company. Our failure to implement these initiatives successfully, or the failure of such initiatives to result in improved profitability, could have a material adverse effect on our liquidity, financial position and results of operations.

Our stock price may fluctuate based on market expectations.

The public trading of our stock is based in large part on market expectations that our business will continue to grow and that we will achieve certain levels of net income. If our quarterly financial performance does not meet market expectations, our stock price would likely decline. Any decrease in our stock price may be disproportionate to any shortfall in our financial performance.

Our intellectual property rights are valuable, and any inability to protect them could reduce the value of our products.

We obtain patents, trademarks and copyrights for our intellectual property, which represent important assets to the Company. If we fail to adequately protect our intellectual property through patents, trademarks and copyrights, our intellectual property rights may be misappropriated by others, invalidated or challenged, and our competitors could duplicate our products or may otherwise limit any competitive design or manufacturing advantages we may have. We believe that our success is likely to depend upon continued innovation, technical expertise, marketing skills and customer support and services rather than on legal protection of our intellectual property rights. However, we intend to aggressively assert our intellectual property rights when necessary.

We may be subject to product liability claims and our insurance may not be sufficient to cover damages related to those claims.

We may be subject to lawsuits resulting from injuries associated with the use of sporting goods equipment and office products that we sell. We may incur losses relating to these claims or the defense of these claims. There is a risk that claims or liabilities will exceed our insurance coverage. In addition, we may be unable to retain adequate liability insurance in the future. In addition, we are subject to regulation by the Consumer Product Safety Commission and similar state regulatory agencies. If we fail to comply with government and industry safety standards, we may be subject to claims, lawsuits, fines and adverse publicity that could have a material adverse effect on our business, results of operations and financial condition.

These risks are not exhaustive.

Other sections of this Form 10-K may include additional factors which could adversely impact our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for our management to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

ITEM 1B--UNRESOLVED STAFF COMMENTS

None.

Edgar Filing: ESCALADE INC - Form 10-K

9

ITEM 2--PROPERTIES

At December 30, 2006, the Company operated from the following locations:

Location	Square Footage	Owned or Leased	Use

Sporting Goods			

Evansville, Indiana, USA	359,000	Owned	Manufacturing and distribution and marketing; administration
Evansville, Indiana, USA	126,400	Leased	Warehousing
Olney, Illinois, USA	108,500	Leased	Manufacturing and distribution
Gainesville, Florida, USA	154,000	Owned	Manufacturing and distribution
National City, California, USA	51,000	Leased	Warehousing and distribution
Rosarito, Mexico	66,500	Owned	Manufacturing and distribution
Rosarito, Mexico	82,500	Leased	Manufacturing
Reynosa, Mexico	126,800	Owned	Manufacturing and distribution
Raleigh, N. Carolina, USA	69,800	Leased	Manufacturing and distribution
Jacksonville, Florida, USA	2,000	Leased	Sales and marketing
Office Products			

Wabash, Indiana, USA	141,000	Owned	Manufacturing and distribution and marketing; administration
Sanford, N. Carolina, USA	4,100	Leased	Sales and marketing
Markdorf, Germany	70,300	Owned	Manufacturing and distribution and marketing; administration
Paris, France	12,900	Leased	Distribution; sales and marketing
Crawley, UK	8,300	Leased	Sales and marketing
Barcelona, Spain	8,600	Leased	Distribution; sales and marketing

The Company has no idle facilities, and believes that its facilities are in excellent condition and suitable for their respective operations. The Company also believes that it is in compliance with all applicable environmental regulations and is not subject to any proceeding by any federal, state or local authorities regarding such matters. The Company provides regular maintenance and service on its plants and machinery as required.

ITEM 3--LEGAL PROCEEDINGS

The Company is involved in litigation arising in the normal course of its business, but the Company does not believe that the disposition or ultimate resolution of such claims or lawsuits will have a material adverse affect on the business or financial condition of the Company.

The Company is not aware of any probable or levied penalties against the Company relating to the American Jobs Creation Act.

ITEM 4--SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

Edgar Filing: ESCALADE INC - Form 10-K

Part II

ITEM 5--MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's common stock is traded under the symbol "ESCA" on the NASDAQ Global Market. The following table sets forth, for the calendar periods indicated, the high and low sales prices of the Common Stock as reported by the NASDAQ Global Market (formerly the NASDAQ National Market):

Prices	High	Low
2006		
Fourth quarter ended December 30, 2006	\$10.98	\$9.69
Third quarter ended October 7, 2006	11.68	9.83
Second quarter ended July 15, 2006	13.74	10.15
First quarter ended March 25, 2006	12.70	10.11
2005		
Fourth quarter ended December 31, 2005	\$13.45	\$11.29
Third quarter ended October 1, 2005	15.18	12.67
Second quarter ended July 9, 2005	15.00	12.52
First quarter ended March 19, 2005	15.15	11.78

The closing market price on February 23, 2007 was \$10.00 per share.

Depending on profitability and cash flows from operations, the Board of Directors anticipates issuing annual dividends and has done so for four consecutive years. Dividends issued/declared over the last three years are as follows:

Record Date	Payment Date	Amount per Common Share
March 11, 2005	March 18, 2005	\$0.15
March 17, 2006	March 21, 2006	\$0.20
March 9, 2007	March 16, 2007	\$0.22

There were approximately 243 holders of record of the Company's Common Stock at February 23, 2007. The approximate number of stockholders, including those held by depository companies for certain beneficial owners, was 1,085.

11

SHAREHOLDER RETURN PERFORMANCE GRAPH

Set forth below is a line graph comparing the yearly percentage change in the cumulative total shareholder return on the Company's common stock with that of the cumulative total return on the NASDAQ US Stock Market Index and the NASDAQ Non-Financial Stocks Index for the five year period ended December 30, 2006. The following information is based on an investment of \$100, on January 1, 2001, in the Company's common stock, the NASDAQ US Stock Market Index and the NASDAQ Non-Financial Stocks Index, with dividends reinvested.

COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN

[GRAPHIC OMITTED]

Edgar Filing: ESCALADE INC - Form 10-K

	2001	2002	2003	2004	2005	2006
Escalade Common Stock	100	111	173	156	139	12
NASDAQ US Stock Index	100	69	103	112	115	12
NASDAQ Non-Financial Stock Index	100	65	100	108	110	12

The above performance graph does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Company filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates the performance graph by reference therein.

12

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Share (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 Shares (or Units) that Yet Be Purchased Under the Plan or Program
Shares purchases prior to 10/07/2006 under the current repurchase program.	482,418	\$9.46	482,438	\$ 2,654,81
Fourth quarter purchases:				
10/08/2006 - 11/04/2006	None	None	None	No Chang
11/05/2006 - 12/02/2006	None	None	None	No Chang
12/03/2006 - 12/30/2006	None	None	None	No Chang
Total share purchases under the current program	482,418	\$9.46	482,438	\$ 2,654,81

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, 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

Edgar Filing: ESCALADE INC - Form 10-K

share repurchases that were not part of a publicly announced program.

13

ITEM 6--SELECTED FINANCIAL DATA (In thousands, except per share data)

At and For Years Ended	December 30, 2006	December 31, 2005	December 25, 2004	December 27, 2003	Dece

Income Statement Data					
Net sales					
Sporting goods	\$ 136,733	\$ 120,996	\$ 141,644	\$ 134,750	\$
Office and graphic					
arts products	54,732	62,319	76,040	81,518	
Total net sales	191,465	183,315	217,684	216,268	
Net income	8,495	12,916	8,180	14,850	
Weighted-average shares	13,011	13,055	12,980	12,968	
Per Share Data					
Basic earnings per share	\$ 0.65	\$ 0.99	\$ 0.63	\$ 1.15	\$
Cash dividends	\$ 0.20	\$ 0.15	\$ 0.12	--	
Balance Sheet Data					
Working capital	33,125	42,350	36,852	24,657	
Total assets	150,715	124,860	134,969	134,437	
Short-term bank debt	10,336	1,066	11,638	21,568	
Long-term bank debt	22,609	18,487	15,542	15,020	
Total stockholders' equity	85,715	76,623	71,034	61,283	

Fiscal year 2006 was adversely impacted by the completion of a plan to rationalize certain products in the Office Products business. This event is more fully described in Management's Discussion and Analysis of Financial Condition and Results of Operations.

Fiscal year 2005 was adversely impacted by lower sales to Sears, a major sporting goods customer, and the rationalization of certain products in the Office Products business. These events are more fully described in Management's Discussion and Analysis of Financial Condition and Results of Operations.

Fiscal year 2004 was negatively impacted by restructuring charges and a goodwill impairment loss.

ITEM 7--MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following section should be read in conjunction with Item 1: Business; Item 1A: Risk Factors; Item 6: Selected Financial Data; and Item 8: Financial Statements and Supplementary Data.

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,

Edgar Filing: ESCALADE INC - Form 10-K

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

14

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.

Where the Company has a strong market position in mature product lines such as table tennis tables and basketball, the Company does not expect significant internal growth. However, in product lines such as paper shredders, wooden swing sets, archery and billiards, the Company is not among the market leaders and consequently anticipates internal growth potential. To enhance internal growth the Company has developed 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. The following table sets forth the percentage growth in revenues and net income over the past three years:

	2006	2005	2004
Net revenue			
Sporting Goods	13.0%	-14.6%	5.1%
Office Products	-12.2%	-18.0%	-6.7%
Total	4.4%	-15.8%	0.7%
Net Income	-34.2%	57.9%	-44.9%

Results of Operations

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

	2006	2005
Net revenue	100.0%	100.0%
Cost of products sold	72.0%	69.7%

Edgar Filing: ESCALADE INC - Form 10-K

Gross margin	28.0%	30.3%
Selling, administrative and general expenses	20.8%	19.9%
Restructuring costs	0.0%	-0.3%
Goodwill impairment loss	0.0%	0.0%
Operating income	7.2%	10.7%

Consolidated Revenue and Gross Margin

Consolidated net revenues for fiscal 2006 were up 4% over the prior year due to increased sales in the Sporting Goods segment which continues to expand distribution into the specialty retail and dealer market. However, gains in the Sporting Goods business segment were partially offset by declines in the Office Products business segment. The decline in the Office Products Segment reflects the continued rationalization of low margin products and a decline in sales of high security paper shredders.

Compared to fiscal 2005, the overall gross margin ratio declined in fiscal 2006 as a result of pricing pressures and high manufacturing variances in the Sporting Goods business segment. As expansion continues into the Specialty Retail and Dealer market, the gross margin ratio in Sporting Goods is expected to improve. The gross margin ratio in the Office Products business segment increased slightly during fiscal 2006 over the ratios achieved in fiscal 2005 as a direct result of rationalizing low margin products.

15

Consolidated Selling, General and Administrative Expenses

Total selling, general and administrative expenses ("SG&A") were up in 2006 compared to 2005, but roughly equal to the amount recorded in 2004. Approximately half of the increase experienced in fiscal 2006 came from the Sporting Goods business segment and included relocation costs associated with the new manufacturing plant in Reynosa, Mexico and higher selling costs associated with expansion into the specialty and dealer markets. The remainder of the increase in SG&A came from increased corporate costs in the form of stock option expense and costs associated with the recent change in senior management.

Provision for Income Taxes

The effective income tax rate declined from 41.3% and 32.9% in fiscal 2004 and fiscal 2005, respectively, to 25.9% in fiscal 2006 primarily due to favorable tax rates on profits derived from foreign operations. The Company does not expect further declines in the effective tax rate. Instead the Company expects the future effective tax rate to be higher than the rate achieved in fiscal 2006 but lower than the rate achieved in fiscal 2005.

Sporting Goods

Net sales, operating income, and net income for the Sporting Goods business segment for the three years ended December 30, 2006 were as follows:

In Thousands	2006	2005	2004
Net Sales	\$136,733	\$120,996	\$141,644
Operating income	9,551	13,283	17,926
Net income	3,562	7,386	10,747

Edgar Filing: ESCALADE INC - Form 10-K

Net sales for fiscal 2006 increased 13% over fiscal 2005, but remain slightly less than the level achieved in fiscal 2004. Substantially all of the increase in the current year came from acquisitions completed during the first half of fiscal 2006. These acquisitions are a key component in the Company's strategy to diversify and expand both its product offering as well as its customer base. Both the Woodplay (residential playground systems) and Carolina Archery Products (archery accessories) acquisitions involve products that are sold through specialty stores and dealers. As a direct result of these acquisitions, sales into the specialty and dealer channel increased 65% in fiscal 2006 over 2005. Without further acquisitions, the Company expects modest growth in the specialty and dealer channel in 2007. Sales to mass-market retail customers, including Sears, were relatively unchanged from the prior year. The Company continues to enjoy strong relationships with its mass-market retail customers, but because of changes in the market place, sales to these customers may be less in 2007 than achieved in 2006. Year-end inventories at major customers appear to be in line with historical trends and are not expected to have a major impact on 2007 results. In 2007, the Sporting Goods business will be focused on internal core growth and increasing profitability. Total sales in 2007 are expected to be relatively unchanged from the total achieved in 2006 because declines in the mass-market channel are expected to offset revenue gains in the specialty and dealer channel.

The revenue decline experienced in 2005 when compared to 2004 was due to lower sales to Sears. In 2005 Sears changed its focus to improve profitability by cutting back on advertising efforts and raising prices to its customers. This resulted in reduced sales volume and a \$12 million reduction in purchases from Escalade. In addition, Sears discontinued an arcade product that was first introduced in 2004 and accounted for \$7 million in sales during 2004.

In fiscal 2006, operating income declined from the prior year as a result of lower gross margins and increased selling, general and administrative costs. The gross margin ratio declined as a result of pricing pressures exerted by the Company's mass-market retail customers and manufacturing variances associated with the Company's new manufacturing plant in Reynosa, Mexico. The increase in selling, general and administrative costs is composed of relocation costs associated with the Reynosa, Mexico manufacturing plant and higher selling costs associated with expansion into the specialty and dealer market channels. Management has taken actions to reduce manufacturing inefficiencies and administrative costs.

16

Office Products

Net sales, operating income, and net income for the Office Products business segment for the three years ended December 30, 2006 were as follows:

In Thousands	2006	2005	2004
Net Sales	\$54,732	\$62,319	\$76,040
Operating income	8,241	8,760	573
Net income (loss)	5,095	5,683	(1,634)

Sales in the Office Products business segment declined 12% in fiscal 2006 compared to the prior year due to the continued rationalization of low margin products and a decline in the sales of high security paper shredders. The products rationalization program, begun in 2004, involves low margin non-core products produced by third-parties. Product rationalization accounted for approximately 31% of the year-over-year sales decline in 2006 and was a major

Edgar Filing: ESCALADE INC - Form 10-K

factor in year-over-year decline in 2005 compared to 2004. Product rationalization was an integral part of the restructuring plans initiated in 2004 to restore profitability to the Office Products business segment. The decline in demand for security paper shredders is primarily in Asia where demand for high security shredders peaked in 2005 following the introduction of new security standards in 2003. Another contributing factor to the decline in paper shredders sales has been strong price competition in Europe. In the last half of fiscal 2006, Management took steps to strengthen the sales organization in Europe and expects to reap benefits from these actions in fiscal 2007. As a result, Management is optimistic that 2007 revenues will remain at the level achieved in fiscal 2006.

Although sales declined in fiscal 2006, operating profitability as a percentage of net sales increased slightly; due primarily to the product rationalization discussed in the previous paragraph. The abnormally low profitability in fiscal 2004 reflects a restructuring charge of \$2.4 million and a goodwill impairment charge of \$1.3 million. In the Office Products business segment, Management anticipates that profits in 2007 will be equal too or greater than the profits achieved in 2006.

Financial Condition and Liquidity

The Company continues to experience strong cash flows and financial strength as a result of its continued profitability. The current ratio, a basic measure of liquidity (current assets divided by current liabilities), was lower at the end of fiscal 2006 compared to fiscal 2005 due to increased short-term bank debt needed to finance the acquisitions completed in the Sporting Goods business. The current ratio at the end of fiscal 2006 is roughly equal to the same ratio at the end of fiscal 2004. Accounts receivable and inventory balances are consistent with prior year trends and sales levels.

Total debt to banks, including short-term and long-term, increased \$12.9 million as of December 30, 2006 compared to the prior year. This increase in debt was used, along with cash from operations, to fund acquisitions totaling \$28.8 million, payment of \$2.6 million in dividends, capital acquisitions of \$2.7 million and the repurchase of common stock totaling \$1.5 million. As a percentage of stockholders' equity, total bank debt was 38% at December 30, 2006 compared to 25% and 39% at December 31, 2005 and December 25, 2004, respectively.

Net cash provided by operating activities was \$19.9 million in 2006 compared to \$24.6 million in 2005 and \$15.7 million in 2004. The major factors in the decline in 2006 compared to 2005 were lower earnings and the absence of a major reduction in accounts receivable as experienced in 2005.

Spending on property, plant and equipment in 2006 totaled \$2.7 million compared to \$8.4 million in 2005. Approximately \$6.6 million of the amount spent in 2005 related to a new manufacturing plant in Reynosa, Mexico. The 2006 spending level is consistent with prior years and reflects the expenditure level anticipated in 2007.

The Company's working capital requirements are primarily funded from cash flows from operations and revolving credit agreements with its bank. During 2006 the Company's maximum borrowings under its primary revolving credit lines totaled \$55.4 compared to \$37.4 million in 2005. The Company met all its debt covenants. Rising interest rates resulted in an increase in the effective interest rate in 2006 to 6.7% compared to 5.8% and 3.4% in 2005 and 2004, respectively. The

Company's relationship with its primary lending bank remains strong and the

Edgar Filing: ESCALADE INC - Form 10-K

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 with its current lending bank or an alternate lending source to increase available credit should the need arise.

On February 21, 2007, The Company announced the payment of an annual dividend of \$0.22 per share to all shareholders of record on March 9, 2007, payable on March 16, 2007.

New Accounting Pronouncements

Refer to Note 1 (Summary of Significant Accounting Policies) to the consolidated financial statements.

Off Balance Sheet Financing Arrangements

The Company has no financing arrangements that are not recorded on the Company's balance sheet.

Contractual Obligations

The following schedule summarizes the Company's contractual obligations as of December 30, 2006:

Amounts in thousands	Payments Due by Period				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	More y
Contractual Obligations					
Long-term debt	\$ 22,609	\$ --	\$ 19,909	\$ --	\$
Future interest payments (1)	4,525	1,504	918	221	
Future interest payments (receipts) under the Interest rate swap agreement (2)	(251)	(177)	(74)	--	
Operating Leases	2,763	1,260	1,162	341	
Minimum payments under royalty and license agreements	1,124	562	462	--	
Total	\$ 30,770	\$ 3,149	\$ 22,377	\$ 562	\$

Notes:

(1) Assumes that the Company will not increase borrowings under its long-term credit agreements and that the effective interest rate experienced in 2006 (6.7%) will continue for the life of the agreements.

(2) Assumes that the LIBOR rate (5.4%) at December 30, 2006 will remain unchanged for the term of the swap agreement.

Critical Accounting Estimates

The methods, estimates and judgments used in applying the Company's accounting

Edgar Filing: ESCALADE INC - Form 10-K

policies have a significant impact on the results reported in its financial statements. Some of these accounting policies require difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. The most critical accounting estimates are described below and in the Notes to the Consolidated Financial Statements.

Product Warranty

The Company provides limited warranties on certain of its products, for varying periods. Generally, the warranty periods range from 90 days to one year. However, some products carry extended warranties of seven-year, ten-year, and lifetime warranties. The Company records an accrued liability and expense for estimated future warranty claims based upon historical experience and management's estimate of the level of future claims. Changes in the estimated

18

amounts recognized in prior years are recorded as an adjustment to the accrued liability and expensed in the current year. To the extent there are product defects in current products that are unknown to management and do not fall within historical defect rates, the product warranty reserve could be understated and the Company could be required to accrue additional product warranty costs thus negatively affecting gross margin.

Inventory Valuation Reserves

The Company evaluates inventory for obsolescence and excess quantities based on demand forecasts based on specified time frames; usually one year. The demand forecast is based on historical usage, sales forecasts and current as well as anticipated market conditions. All amounts in excess of the demand forecast are deemed to be excess or obsolete and a reserve is established based on the anticipated net realizable value. To the extent that demand forecasts are greater than actual demand and the Company fails to reduce manufacturing output accordingly, the Company could be required to record additional inventory reserves which would have a negative impact on gross margin.

Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. Accounts receivable are ordinarily due between 30 and 60 days after the issuance of the invoice. Accounts are considered delinquent when more than 90 days past due. Delinquent receivables are reserved or written off based on individual credit evaluation and specific circumstances of the customer. To the extent that actual bad debt losses exceed the allowance recorded by the Company, additional reserves would be required which would increase selling, general and administrative costs.

CO-OP Advertising

The Company offers co-operative advertising allowances to certain retailers to encourage product promotions. These agreements are typically based on a percentage of retailer purchases up to a maximum allowance and the Company is never directly involved with the media provider. The Company accrues the estimated cost of these programs based on the sales volume of the retailer and historical trends. As costs are accrued they are recorded as a reduction in sales. To the extent that actual co-operative advertising costs exceed the Company's estimates, additional co-operative advertising allowances would be required which would reduce net revenues.

Volume Rebates

The Company has various rebate programs with certain retailers that are based on purchase volume. Typically these programs are based on achieving specified sales volumes and the rebate is calculated as a percentage of purchases. Based on the terms of the agreement, purchase levels and historical trends the Company

Edgar Filing: ESCALADE INC - Form 10-K

accrues the estimated cost of these programs and records the same as a reduction in sales. To the extent that actual rebate program costs exceed the Company's estimates, additional rebate program allowances would be required which would reduce net revenues.

Catalog Allowances

A number of large office supply dealers operate through catalogs distributed to businesses throughout the country. Product content is decided by the dealer each time a new catalog is issued; typically once a year. Catalog allowances are required by the dealer as an inducement to include the Company's products. The allowance is based on a fixed cost per page and/or a percentage of purchases by the dealer. The fixed portion of the allowance is often paid when the catalog is distributed and is recognized when incurred and the variable portion is accrued based on dealer purchases and historical trends. Catalog allowances are recorded as a reduction in sales. To the extent that actual catalog costs exceed the estimated costs associated with variable agreement provisions, additional catalog allowances would be required which would negatively impact net revenues.

19

Effect of Inflation

The Company cannot accurately determine the precise effects of inflation; however, there were some increases in sales and costs due to inflation in 2006. The Company attempts to pass on increased costs and expenses through price increases when necessary. The Company is working on reducing expenses; improving manufacturing technologies; and redesigning products to keep these costs under control.

Capital Expenditures

As of December 30, 2006, the Company had no material commitments for capital expenditures.

ITEM 7A -- 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. During fiscal 2006, the only derivative in use was an interest rate swap agreement. 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. In an effort to mitigate the risk of unfavorable interest rate fluctuations the Company entered into an interest rate swap agreement which effectively converted a portion of its variable rate debt into fixed rate debt.

Foreign Currency

The Company conducts business in various countries around the world and is therefore subject to risks associated with fluctuating foreign exchange rates. Approximately 13% of consolidated revenue is derived from sales outside of the U.S. This revenue is generated from the operations of the Company's subsidiaries

Edgar Filing: ESCALADE INC - Form 10-K

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 unrealized effect of foreign currency translation in 2006 resulted in a \$2.4 million gain that was recorded in stockholders' equity as other comprehensive income, compared to a \$3.9 million loss in 2005 and a \$1.8 million gain in 2004. At December 30, 2006, a hypothetical change of 10% in foreign currency exchange rates would cause a \$2.8 million change to stockholders' equity on our consolidated balance sheet and a \$0.2 million change to net income in our consolidated statement of income.

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 has evaluated the use of currency exchange hedging financial instruments but has determined that they would not be practicable under the current circumstances. 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. A hypothetical adverse change of 20% would have resulted in a decline of 3% in net revenues and a 5% decline in net income.

20

Marketable Securities

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 December 30, 2006 the aggregate book value of long-term marketable equity securities was \$2.8 million. Due to the unpredictable nature of the equity market the Company has not employed any hedge programs relative to these investments.

ITEM 8 -- FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary data required by Item 8 are set forth in Part IV, Item 15.

ITEM 9 -- CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Edgar Filing: ESCALADE INC - Form 10-K

ITEM 9A --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.

Management's Report on Internal Control over Financial Reporting

Escalade's management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Escalade's internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting of the Company includes those policies and procedures that:

- (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions of the Company;
- (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of

21

the Company are being made only in accordance with authorizations of management and directors of the Company; and

- (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Company's financial statements.

All internal control systems, no matter how well designed, have inherent limitations, including the possibility of human error or circumvention through collusion or improper overriding of controls. Therefore, even those internal control systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in

Edgar Filing: ESCALADE INC - Form 10-K

conditions, the effectiveness of internal control may vary over time.

The management of Escalade assessed the effectiveness of the Company's internal control over financial reporting as of December 30, 2006. In making its assessment of internal control over financial reporting, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework and implemented a process to monitor and assess both the design and operating effectiveness of the Company's internal controls. Based on this assessment, management believes that, as of December 30, 2006, the Company's internal control over financial reporting was effective.

In April 2006, the Company acquired Desmar Seguridad Y Archivo, S.L. ("Desmar") through its wholly owned subsidiary Martin Yale International, GmbH. Desmar comprises approximately 1.3% and 1.2% of the Company's consolidated assets and total revenues, respectively, as of December 30, 2006. Because Desmar was acquired during the year and is deemed to be immaterial to the consolidated Company results, management elected to exclude Desmar from its assessment of internal control over financial reporting as of December 30, 2006.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 30, 2006 has been audited by BKD LLP, an independent registered public accounting firm that audited the Company's consolidated financial statements included in this annual report. The attestation report on management's assessment of the Company's internal control over financial reporting prepared by the independent registered public accounting firms are included below in this Item 9A.

/s/ Daniel A. Messmer, Chief Executive Officer

/s/ Terry Frandsen, Chief Financial Officer

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 fourth quarter of 2006. Other than as set forth in the following paragraph, in connection with such evaluation, there have been no changes to the Company's internal control over financial reporting that occurred since the beginning of the Company's fourth quarter of 2006 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

As discussed herein under "Risk Factors," Note 2 to the Company's financial statements and elsewhere herein, the Company's management identified a deficiency in its internal controls over financial reporting relating to the calculation of income tax provisions which rose to the level of a "material weakness" which resulted in the Company restating its financial statements for its 2004 and 2005 fiscal years and its first three fiscal quarters of 2006. As the Company has expanded over the last several years and is subject to taxation in a larger number of jurisdictions, the factors impacting the Company's tax liabilities have become more complex. The Company's management determined during its 2006 annual financial statement preparation process that its failure to correctly calculate such income tax provisions was due to the Company's lack of substantive knowledge regarding these tax matters and insufficient internal resources being devoted to these tax issues previously. The Company's management believes it currently has remedied these deficiencies by utilizing additional third party resources to assist management in understanding and calculating

Edgar Filing: ESCALADE INC - Form 10-K

these tax liabilities. The Company's management further believes that adding additional internal resources to oversee these and other tax issues may be necessary in the future.

22

Report of Independent Registered Public Accounting Firm

Audit Committee,
Board of Directors and Stockholders
Escalade, Incorporated
Evansville, Indiana

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting that Escalade, Incorporated (Company) maintained effective internal control over financial reporting as of December 30, 2006, based on criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit. We did not examine the effectiveness of internal control over financial reporting of Martin Yale International, GmbH, a wholly-owned subsidiary, whose consolidated financial statements reflect total assets and net sales of \$28,391 and \$24,378 (dollars in thousands), respectively, included in the related consolidated financial statement amounts as of and for the year ended December 30, 2006. The effectiveness of this subsidiary's internal control over financial reporting was audited by other accountants whose report has been furnished to us, and our opinion, insofar as it relates to the effectiveness of the subsidiary's internal control over financial reporting, is based solely on the report of the other accountants.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control and performing such other procedures as we consider necessary in the circumstances. We believe that our audit and the report of the other accountants provide a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Edgar Filing: ESCALADE INC - Form 10-K

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, based on our audit and the report of other accountants, management's assessment that Escalade, Incorporated maintained effective internal control over financial reporting as of December 30, 2006, is fairly stated, in all material respects, based on criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, based on our audit and the report of other accountants, Escalade, Incorporated maintained, in all material respects, effective internal control over financial

23

reporting as of December 30, 2006, based on criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of Escalade, Incorporated, and our report dated March 13, 2007, expressed an unqualified opinion thereon.

/s/ BKD, LLP
Evansville, Indiana
March 13, 2007

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Martin Yale International GmbH,
Markdorf/Germany

We have audited management's assessment, included in the accompanying "Management's Report on Internal Control over Financial Reporting", that Martin Yale International GmbH (Company), Markdorf/Germany maintained effective internal control over financial reporting as of December 30, 2006, based on criteria established in Internal Control-- Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting

Edgar Filing: ESCALADE INC - Form 10-K

and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As discussed in the Management Report on Internal Control over Financial Reporting, management has excluded Desmar Seguridad Y Archivo, S.L. ("Desmar") from its assessment of internal control over financial reporting as of December 30, 2006, because Desmar was acquired by the Company in a purchase during 2006. We also excluded the subsidiary, Desmar, from our audit of internal control over financial reporting. Desmar, is a wholly-owned subsidiary of the Company located

24

in Spain whose total assets and total revenues represent 7.5% and 9.2%, respectively, of the financial statement amounts of the Company, as of and for the year ended December 30, 2006.

In our opinion, management's assessment that Martin Yale International GmbH, Markdorf/Germany maintained effective internal control over financial reporting as of December 30, 2006, is fairly stated, in all material respects, based on criteria established in Internal Control-- Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also in our opinion, Martin Yale International GmbH, Markdorf/Germany maintained, in all material respects, effective internal control over financial reporting as of December 30, 2006, based on criteria established in Internal Control-- Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the financial statements of Martin Yale International GmbH, Markdorf/Germany and our report dated March 7, 2007, expressed an unqualified opinion thereon.

/s/ FALK & Co GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft
Heidelberg/Germany
March 7, 2007

ITEM 9B -- OTHER INFORMATION

None.

Part III

Edgar Filing: ESCALADE INC - Form 10-K

ITEM 10 -- DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information required under this item with respect to Directors and Executive Officers is contained in the registrant's Proxy Statement relating to its annual meeting of stockholders scheduled to be held on April 27, 2007 under the captions "Certain Beneficial Owners," "Election of Directors," "Executive Officers of the Registrant," Board of Directors, Its Committees, Meetings and Functions," and "Section 16(a) Beneficial Ownership Reporting Compliance" and is incorporated herein by reference.

ITEM 11-- EXECUTIVE COMPENSATION

Information required under this item is contained in the registrant's Proxy Statement relating to its annual meeting of stockholders scheduled to be held on April 27, 2007 under the captions "Compensation Discussion and Analysis," "Compensation Committee Interlocks and Insider Participation" and "Executive Compensation" and is incorporated herein by reference, except that the information required by Item 407(e) (5) of Regulation S-K which appear within such caption under the sub-heading "Report of Compensation Committee" is specifically not incorporated by reference into this Form 10-K or into any other filing by the registrant under the Securities Act of 1933 or the Securities Exchange Act of 1934.

ITEM 12--SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Except for the information required by Item 201(d) of Regulation S-K, which is included below, information required by this item is contained in the registrant's proxy statement relating to its annual meeting of stockholders

25

scheduled to be held on April 27, 2007 under the caption "Certain Beneficial Owners" and is incorporated herein by reference.

Equity Compensation Plan Information

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Sec Av
Equity compensation plans approved by security holders (1)	544,586	\$13.19	
Equity compensation plans not approved by security holders	--	--	
Total	544,586		

(1) These plans include the Company's 1997 Incentive Stock Option Plan, the 1997 Director Stock Option Plan and a special grant of 10,000 options to Directors approved at the 2006 annual shareholders meeting.

ITEM 13--CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Edgar Filing: ESCALADE INC - Form 10-K

The information required by Item 407(a) of Regulation S-K is contained in the registrant's proxy statement relating to its annual meeting of stockholders to be held on April 27, 2007 under the captions "Election of Directors" and "Board of Directors, Its Committees, Meetings and Functions" and is incorporated herein by reference. The information required by Item 404 of Regulation S-K is: None.

ITEM 14 -- PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is contained in the registrant's proxy statement relating to its annual meeting of stockholders scheduled to be held on April 27, 2007 under the caption "Principal Accounting Firm Fees" and is incorporated herein by reference.

Part IV

ITEM 15--EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(A) Documents filed as a part of this report:

(1) Financial Statements

Report of Independent Registered Public Accounting Firm
Consolidated financial statements of Escalade, Incorporated and subsidiaries:

Consolidated balance sheets--December 30, 2006 and December 31, 2005

Consolidated statements of income--fiscal years ended December 30, 2006, December 31, 2005, and December 25, 2004

Consolidated statements of stockholders' equity--fiscal years ended December 30, 2006, December 31, 2005, and December 25, 2004

Consolidated statements of cash flows--fiscal years ended December 30, 2006, December 31, 2005, and December 25, 2004

Notes to consolidated financial statements

All other schedules are omitted because of the absence of conditions under which they are required or because the required information is given in the consolidated financial statements or notes thereto.

26

(3) Exhibits

- | | |
|------|--|
| 3.1 | Articles of incorporation of Escalade, Incorporated (a) |
| 3.2 | By-Laws of Escalade, Incorporated (a) |
| 4.1 | Form of Escalade, Incorporated's common stock certificate (a) |
| 10.1 | Licensing agreement between Sweden Table Tennis AB and Indian Industries, Inc. dated January 1, 1995 (d) |
| 10.2 | Amended and Restated Credit Agreement dated October 24, 2001 between Escalade, Incorporated and Bank One, Indiana, N.A. dated August 29, 2002 (g) |
| 10.3 | First Amendment to Amended and Restated Credit Agreement dated October 24, 2001 between Escalade, Incorporated and Bank One, Indiana, N.A. dated August 29, 2002 (h) |
| 10.4 | Third Amendment to amend and restate the credit agreement between Escalade, Incorporated and Bank One, N.A. The effective date is June 1, 2003 (i) |

Edgar Filing: ESCALADE INC - Form 10-K

- 10.5 Credit Agreement dated as of September 5, 2003 by and between Indian-Martin, Inc. and Bank One, National Association (excluding exhibits and schedules not deemed to be material). The effective date is September 7, 2003 (j)
- 10.6 Revolving Note dated as of September 5, 2003 in principal amount of \$45,000,000, executed by Indian-Martin, Inc. in favor of Bank One, National Association (j)
- 10.7 Pledge Agreement dated as of September 5, 2003 by and between Indian-Martin, Inc. and Bank One, National Association (j)
- 10.8 Collateral Assignment and Security Agreement dated as of September 5, 2003 by and between Indian-Martin, Inc. and Bank One, National Association (j)
- 10.9 Receivables Purchase Agreement dated as of September 5, 2003 by and between Indian-Martin, Inc. and Indian-Martin AG (j)
- 10.10 Receivables Purchase Agreement dated as of September 5, 2003 by and between Indian-Martin, Inc. and Indian Industries, Inc. Substantially similar Receivables Purchase Agreements were also entered into by Indian-Martin, Inc. and each of Escalade, Incorporated's other domestic operating subsidiaries, Harvard Sports, Inc., Martin Yale Industries, Inc., Master Products Manufacturing Company, Inc., U.S. Weight, Inc. and Bear Archery, Inc. (j)
- 10.11 Services Agreement dated as of September 5, 2003 by and between Indian-Martin, Inc. and Martin Yale Industries, Inc. Substantially similar Services Agreements were also entered into by Indian-Martin, Inc. and each of Escalade, Incorporated's other domestic operating subsidiaries, Harvard Sports, Inc., Indian Industries, Inc., Master Products Manufacturing Company, Inc., U.S. Weight, Inc. and Bear Archery, Inc. (j)
- 10.12 Escalade Subordination Agreement dated as of September 5, 2003 between Escalade, Incorporated and Bank One, National Association (j)
- 10.13 Offset Waiver Agreement dated as of September 5, 2003 between Escalade, Incorporated, Bank One, National Association, Indian-Martin, Inc., Harvard Sports, Inc., Indian Industries, Inc., Martin Yale Industries, Inc., Master Products Manufacturing Company, Inc., U.S. Weight, Inc. and Bear Archery, Inc. (j)
- 10.14 Loan Agreement dated September 1, 1998 between Martin Yale Industries, Inc. and City of Wabash, Indiana (f)
- 10.15 Trust Indenture between the City of Wabash, Indiana and Bank One Trust Company, NA as Trustee dated September 1, 1998 relating to the Adjustable Rate Economic Development Revenue Refunding Bonds, Series 1998 (Martin Yale Industries, Inc. Project) (f)
- 10.16 First Amendment to Credit Agreement dated September 5, 2003 by and between Indian-Martin, Inc. and Bank One, National Association, a national banking association. The Effective date of the Amendment was July 15, 2004. (k)
- 10.17 Fourth amendment to amended and restated credit agreement dated June 1, 2003 by and between Escalade, Incorporated and Bank One, N.A. a national banking association. The Effective date of amendment was July 15, 2004. (l)
- 10.18 Euro revolving note dated July 15, 2004, in principal

Edgar Filing: ESCALADE INC - Form 10-K

amount of (euro)2,500,000, executed by Escalade, Incorporated in favor of Bank One, N.A., London branch. (l)

- 10.19 Uncommitted overdraft facility not to exceed 1.0 million Euro and 500 thousand pounds sterling between Escalade, Incorporated and Bank One, N.A., London branch. (l)
- 10.20 Sixth Amendment to Amended and Restated Credit Agreement effective October 24, 2001 by and between Escalade, Incorporated and JPMorgan Chase Bank, NA. The effective date of the Amendment was May 19, 2006. (n)
- 10.21 Seventh Amendment to Amended and Restated Credit Agreement effective October 24, 2001 by and between Escalade, Incorporated and JPMorgan Chase Bank, NA. The effective date of the Amendment was July 1, 2006. (n)

27

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

(4) Executive Compensation Plans and Arrangements

- 10.25 The Harvard Sports/Indian Industries, Inc. 401(k) Plan as amended and merged in 1993 (c)
- 10.26 Martin Yale Industries, Inc. 401(k) Retirement Plan as amended in 1993 (c)
- 10.27 Incentive Compensation Plan for Escalade, Incorporated and its subsidiaries (a)
- 10.28 Example of contributory deferred compensation agreement between Escalade, Incorporated and certain management employees allowing for deferral of compensation (a)
- 10.29 1997 Director Stock Compensation and Option Plan (e)
- 10.30 1997 Incentive Stock Option Plan (e)
- 10.31 1997 Director Stock Compensation and Option Plan Certificate (m)
- 10.32 1997 Incentive Stock Option Plan Certificate (m)
- 10.33 Agreement dated April 19, 2006 by and between Charles William Reed and Escalade, Incorporated (Management Contract) (n)
- 10.34 Relocation and retention agreement dated July 24, 2006 by and between Escalade, Incorporated and Terry Frandsen. (Management Contract) (o)
- 10.35 Escalade, Incorporated schedule of Directors Compensation
- 10.36 Escalade, Incorporated schedule of Executive Officers Compensation
- 21 Subsidiaries of the Registrant
- 23.1 Consent of BKD, LLP
- 23.2 Consent of FALK & Co GmbH
- 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)

Edgar Filing: ESCALADE INC - Form 10-K

Certification

- 32.1 Chief Executive Officer Section 1350 Certification
32.2 Chief Financial Officer Section 1350 Certification

- (a) Incorporated by reference from the Company's Form S-2 Registration Statement, File No. 33-16279, as declared effective by the Securities and Exchange Commission on September 2, 1987
- (b) Intentionally not used
- (c) Incorporated by reference from the Company's 1993 Annual Report on Form 10-K
- (d) Incorporated by reference from the Company's 1995 Annual Report on Form 10-K
- (e) Incorporated by reference from the Company's 1997 Proxy Statement
- (f) Incorporated by reference from the Company's 1998 Third Quarter Report on Form 10-Q
- (g) Incorporated by reference from the Company's 2001 Third Quarter Report on Form 10-Q
- (h) Incorporated by reference from the Company's 2002 Third Quarter Report on Form 10-Q
- (i) Incorporated by reference from the Company's 2003 Second Quarter Report on Form 10-Q
- (j) Incorporated by reference from the Company's 2003 Third Quarter Report on Form 10-Q
- (k) Incorporated by reference from the Company's 2004 Second Quarter Report on Form 10-Q
- (l) Incorporated by reference from the Company's 2004 Third Quarter Report on Form 10-Q
- (m) Incorporated by reference from the Company's 2004 Annual Report on Form 10-K
- (n) Incorporated by reference from the Company's 2006 Second Quarter Report on Form 10-Q
- (o) Incorporated by reference from the Company's 2006 Third Quarter Report on Form 10-Q
- (p)

28

ESCALADE, INCORPORATED AND SUBSIDIARIES

Index to Financial Statements

The following consolidated financial statements of the Registrant and its subsidiaries and Independent Accountants' Report are submitted herewith:

Report of Independent Registered Accounting Firm.....

Consolidated financial statements of Escalade, Incorporated and subsidiaries:

Consolidated balance sheets--December 30, 2006 and December 31, 2005.....

Consolidated statements of income--fiscal years ended December 30, 2006,
December 31, 2005 and December 25, 2004.....

Edgar Filing: ESCALADE INC - Form 10-K

Consolidated statements of stockholders' equity--fiscal years ended December 30,
2006, December 31, 2005 and December 25, 2004.....

Consolidated statements of cash flows--fiscal years ended December 30, 2006,
December 31, 2005 and December 25, 2004.....

Notes to consolidated financial statements.....

29

[GRAPHIC OMITTED]
BKD LLP

Report of Independent Registered Public Accounting Firm

Audit Committee, Board of Directors and Stockholders
Escalade, Incorporated
Evansville, Indiana

We have audited the accompanying consolidated balance sheets of Escalade, Incorporated as of December 30, 2006 and December 31, 2005, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 30, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the 2006 and 2005 consolidated financial statements of Martin Yale International, GmbH, a wholly-owned subsidiary, which consolidated statements reflect total assets of \$28,391 and \$24,132 and net sales of \$24,378 and \$31,923 (dollars in thousands) for 2006 and 2005, respectively, included in the related consolidated financial statement amounts as of and for the years ended December 30, 2006 and December 31, 2005. Those consolidated statements were audited by other accountants, whose report has been furnished to us and our opinion, insofar as it relates to the amounts included for Martin Yale International, GmbH, is based solely on the report of the other accountants.

Our audits also included auditing the adjustments to convert the financial statements of Martin Yale International, GmbH into accounting principles generally accepted in the United States of America for purposes of consolidation.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other accountants provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other accountants for 2006 and 2005, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Escalade, Incorporated as of December 30, 2006 and December 31, 2005, and the results of its operations and its cash flows for each of the three years in the period ended December 30, 2006, in conformity with accounting principles generally accepted in the United States of America.

Edgar Filing: ESCALADE INC - Form 10-K

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Escalade, Incorporated's internal control over financial reporting as of December 30, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 13, 2007, expressed unqualified opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting.

/s/ BKD LLP
Evansville, Indiana
March 13, 2007

30

FALK & Co

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Martin Yale International GmbH,
Markdorf/Germany

We have audited the balance sheets of Martin Yale International GmbH, Markdorf/Germany (the Company) as of December 30, 2006 and December 31, 2005 and the related statements of income for each of the three years ended December 30, 2006. The financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 30, 2006 and December 31, 2005 and the results of its operations for each of the three years in the period ended December 30, 2006, in conformity with accounting principles generally accepted in Germany.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 30, 2006, based on criteria established in Internal Control -- Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 7, 2007, expressed an unqualified opinion on management's assessment and on the effectiveness of the Company's internal control over financial reporting.

/s/ FALK & Co GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft
Heidelberg/Germany,

Edgar Filing: ESCALADE INC - Form 10-K

March 7, 2007

31

ESCALADE, INCORPORATED AND SUBSIDIARIES Consolidated Balance Sheets

All Amounts in Thousands Except Share Information	December 30, 2006	December 31, 2005
Assets		
Current assets		
Cash and cash equivalents	\$ 3,829	\$ 3,017
Receivables, less allowances of \$1,559 and \$1,544	33,590	31,744
Inventories	32,232	33,049
Prepaid expenses	2,085	1,559
Deferred income tax benefit	733	1,382
Prepaid income tax	2,001	--
	-----	-----
Total current assets	74,470	70,751
Property, plant and equipment, net	20,657	20,307
Intangible assets	20,608	6,634
Goodwill	25,027	17,157
Investments	9,011	7,786
Interest rate swap	239	181
Other assets	703	2,044
	-----	-----
Total assets	\$ 150,715	\$ 124,860
	=====	=====
Liabilities and Stockholders' Equity		
Current liabilities		
Notes payable--bank	\$ 10,336	\$ --
Current portion of long-term debt	--	1,066
Trade accounts payable	3,350	3,518
Accrued liabilities	27,659	23,728
Income tax payable	--	89
	-----	-----
Total current liabilities	41,345	28,401
Long-term debt, less current portion	22,609	18,487
Deferred compensation	1,046	1,349
	-----	-----
Total liabilities	65,000	48,237
Commitments and contingencies	--	--
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: 2006--13,039,457 shares,		
2005--12,946,869 shares	13,039	12,947
Retained earnings	69,194	62,726
Accumulated other comprehensive income	3,482	950
	-----	-----

Edgar Filing: ESCALADE INC - Form 10-K

Total stockholders' equity	85,715	76,623
	-----	-----
Total liabilities and stockholders' equity	\$ 150,715	\$ 124,860
	=====	=====

See notes to consolidated financial statements.

32

ESCALADE, INCORPORATED AND SUBSIDIARIES Consolidated Statements of Income

All Amounts in Thousands Except Per Share Data	Years Ended		
	December 30, 2006	December 31, 2005	December 2004
Net Sales	\$ 191,465	\$ 183,315	\$ 217,000
Costs, Expenses and Other Income			
Cost of products sold	137,821	127,719	158,000
Selling, administrative and general expenses	39,918	36,401	39,000
Restructuring costs	--	(631)	2,000
Goodwill impairment loss	--	--	1,000
	-----	-----	-----
Operating Income	13,726	19,826	15,000
Interest expense	2,637	1,482	1,000
Other expense (income)	(372)	(915)	--
	-----	-----	-----
Income Before Income Taxes	11,461	19,259	13,000
Provision for Income Taxes	2,966	6,343	5,000
	-----	-----	-----
Net Income	\$ 8,495	\$ 12,916	\$ 8,000
	=====	=====	=====
Earnings Per Share Data			
Basic earnings per share	\$ 0.65	\$ 0.99	\$ 0.65
	=====	=====	=====
Diluted earnings per share	\$ 0.65	\$ 0.98	\$ 0.65
	=====	=====	=====

See notes to consolidated financial statements.

33

ESCALADE, INCORPORATED AND SUBSIDIARIES Consolidated Statements of Stockholders' Equity

Edgar Filing: ESCALADE INC - Form 10-K

All Amounts in Thousands	Common Stock		Retain Earnings
	Shares	Amount	
Balances at December 27, 2003	12,854	12,854	46,88
Comprehensive income			
Net income			8,18
Unrealized gain on securities, net of tax			
Foreign currency translation adjustment			
Unrealized gain on interest rate swap agreement, net of tax			
Total comprehensive income			
Exercise of stock options	226	226	81
Dividend paid			(1,55)
Stock issued under the director stock option plan	10	10	5
Purchase of stock	(59)	(59)	(92)
Balances at December 25, 2004	13,031	13,031	53,45
Comprehensive income			
Net income			12,91
Unrealized loss on securities, net of tax			
Foreign currency translation adjustment			
Unrealized gain on interest rate swap agreement, net of tax			
Total comprehensive income			
Exercise of stock options	82	82	23
Dividend paid			(1,96)
Stock issued under the director stock option plan	6	6	9
Purchase of Stock	(172)	(172)	(2,00)
Balances at December 31, 2005	12,947	12,947	62,72
Comprehensive income			
Net income			8,49
Unrealized gain on securities, net of tax			
Realization of previously unrealized gains on securities, net of tax			
Foreign currency translation adjustment			
Unrealized gain on interest rate swap agreement, net of tax			
Total comprehensive income			
Expense of stock options			58
Exercise of stock options	226	226	1,23
Dividend paid			(2,60)
Stock issued under the director stock option plan	10	10	13
Purchase of stock	(144)	(144)	(1,38)

Edgar Filing: ESCALADE INC - Form 10-K

Balances at December 30, 2006	13,039	\$ 13,039	\$ 69,19
	=====	=====	=====

See notes to consolidated financial statements.

34

ESCALADE, INCORPORATED AND SUBSIDIARIES Consolidated Statements of Cash Flows (All Amounts in Thousands)

Years Ended	December 30 2006	December 31 2005
<hr/>		
Operating Activities		
Net income	\$ 8,495	\$ 12,916
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	5,649	4,735
Goodwill impairment	--	--
Provision for doubtful accounts	116	561
Stock option expense	588	--
Deferred income taxes	436	413
Provision for deferred compensation	(303)	116
Deferred compensation paid	--	--
(Gain) loss on disposals of assets	(98)	226
Changes in		
Accounts receivable	1,663	13,553
Inventories	5,543	(2,868)
Prepays	(86)	(122)
Other assets	(807)	(1,706)
Income tax payable	(1,836)	3,066
Accounts payable and accrued expenses	539	(6,258)
	<hr/>	<hr/>
Net cash provided by operating activities	19,899	24,632
<hr/>		
Investing Activities		
Change in cash surrender value, net of loans and premiums	(43)	--
Purchase of property and equipment	(2,683)	(8,395)
Purchase of long-term investments	(192)	--
Acquisitions, net of cash acquired	(28,759)	(3,213)
Proceeds from sale of property and equipment	142	70
Retirement of life insurance policies	1,036	--
Proceeds from sale of investments	952	--
	<hr/>	<hr/>
Net cash used by investing activities	(29,547)	(11,538)
<hr/>		
Financing Activities		
Net increase (decrease) in notes payable--bank	12,898	(7,597)
Proceeds from exercise of stock options	1,464	313
Reduction of long-term debt	--	(354)
Purchase of stock	(1,524)	(2,172)
Cash dividend paid	(2,604)	(1,961)

Edgar Filing: ESCALADE INC - Form 10-K

Directors compensation	141	96
	-----	-----
Net cash provided (used) by financing activities	10,375	(11,675)
	-----	-----
Effect of Exchange Rate Changes on Cash	85	(1,452)
	-----	-----
Increase (Decrease) in Cash and Cash Equivalents	812	(33)
Cash and Cash Equivalents, Beginning of Year	3,017	3,050
	-----	-----
Cash and Cash Equivalents, End of Year	\$ 3,829	\$ 3,017
	=====	=====
Supplemental Cash Flows Information		
Interest paid	\$ 2,630	\$ 1,815
Income taxes paid	2,512	5,561

See notes to consolidated financial statements.

35

ESCALADE, INCORPORATED AND SUBSIDIARIES Notes to Consolidated Financial Statements

Note 1 -- Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Escalade, Incorporated and its wholly owned subsidiaries (the "Company") are engaged in the manufacture and sale of sporting goods and office products. The Company is headquartered in Evansville, Indiana and has manufacturing facilities in the United States of America, Mexico and Germany. The Company sells products to customers throughout the world.

Principles of Consolidation

The consolidated financial statements include the accounts of Escalade, Incorporated and its wholly-owned subsidiaries. All material inter-company accounts and transactions have been eliminated.

Basis of Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The books and records of Subsidiaries located in foreign countries are maintained according to generally accepted accounting principles in those countries. Upon consolidation the Company evaluates the differences in accounting principles and determines whether adjustments are necessary to convert the foreign financial statements to the accounting principles upon which the consolidated financial statements are based. As a result of this evaluation no material adjustments were identified.

Fiscal Year End

The Company's fiscal year is a 52 or 53 week period ending on the last Saturday in December. Fiscal 2006 was 52 weeks long ending on December 30, 2006, while fiscal 2005 was 53 weeks and 2004 was 52 weeks long ending on December 31, 2005 and December 25, 2004, respectively.

Cash and Cash Equivalents

Edgar Filing: ESCALADE INC - Form 10-K

Highly liquid financial instruments with insignificant interest rate risk and with original maturities of three months or less are classified as cash and cash equivalents.

Fair Values of Financial Instruments

Fair values of cash equivalents approximate cost due to the short period of time to maturity. Fair values of long-term investments, non-marketable debt investments, short-term debt, long-term debt and swaps, are based on quoted market prices or pricing models using current market rates. The Company believes the carrying value of short-term debt and long-term debt adequately reflects the fair value of these instruments. For the Company's portfolio of non-marketable equity securities, management believes that the carrying value of the portfolio approximates the fair value at December 30, 2006. All of the estimated fair values are management's estimates; however, there is no readily available market and the estimated fair value may not necessarily represent the amounts that could be realized in a current transaction, and these fair values could change significantly.

Accounts Receivable

Revenue from the sale of the Company's products is recognized as products are shipped to customers and accounts receivable are stated at the amount billed to customers. Interest and late charges that are billed to customers are not included in accounts receivable. The Company does not offer the right of return on any of its sales and the Company does not engage in consignment or contingency sales. The Company provides an allowance for doubtful accounts which is described in Note 3 - Certain Significant Estimates.

Inventories

Inventory cost is computed on a currently adjusted standard cost basis (which approximates actual cost on a current average or first-in, first-out basis). Work in process and finished goods inventory are determined to be saleable based on a demand forecast within a specific time horizon, generally one year or less. Inventory in excess of saleable amounts is reserved, and the remaining inventory is valued at the lower cost or market. This inventory valuation reserve totaled

36

ESCALADE, INCORPORATED AND SUBSIDIARIES Notes to Consolidated Financial Statements

\$2.7 million and \$3.9 million at fiscal year-end 2006 and 2005, respectively. Inventories, net of the valuation reserve, at fiscal year-ends were as follows:

In Thousands	2006	2005
Raw materials	\$ 7,786	\$ 7,128
Work in process	6,021	5,358
Finished goods	18,425	20,563
	-----	-----
	\$ 32,232	\$ 33,049
	=====	=====

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Depreciation and amortization are computed for financial reporting purposes principally using the straight-line method over the following estimated useful lives: buildings, 20-30 years; leasehold improvements, term of the lease; machinery and equipment, 5-15 years; and tooling, dies and molds, 2-4 years. Property, plant and equipment consist of the following:

Edgar Filing: ESCALADE INC - Form 10-K

In Thousands	2006	2005
Land	\$ 2,780	\$ 2,672
Buildings and leasehold improvements	20,450	19,520
Machinery and equipment	32,561	33,725
	-----	-----
Total cost	55,791	55,917
Accumulated depreciation and amortization	(35,134)	(35,610)
	-----	-----
	\$ 20,657	\$ 20,307
	=====	=====

Investments

Investments at fiscal year-ends are composed of the following:

In Thousands	2006	2005
Marketable equity securities available for sale	\$ 2,843	\$ 3,172
Non-marketable equity investments (equity method)	6,168	4,614
	-----	-----
	\$ 9,011	\$ 7,786
	=====	=====

Marketable Equity Securities Available for Sale. This consists of marketable equity securities recorded at fair value. The unrealized gains and losses, net of tax, are reported in accumulated other comprehensive income. Summarized financial data for these securities at fiscal year-end were as follows:

In Thousands	2006	2005
Cost basis	\$ 2,539	\$ 2,984
Unrealized gain	304	188
	-----	-----
Approximate fair market value	\$ 2,843	\$ 3,172
	=====	=====

Non-Marketable Equity Investments. The Company has minority equity positions in companies strategically related to the Company's business. The Company does not have control over these companies and the accounting method employed is dependent on the degree of influence the Company can exert on the operations. Where the equity interest is less than 20% and the degree of influence is not significant, the cost method of accounting is employed. Where the equity interest is greater than 20% but not more than 50%, the equity method of accounting is utilized. Under the equity method, the Company's proportionate share of income or losses is recorded in other expense (income) on the consolidated statement of income. The proportionate share of income was \$1,290 thousand, \$1,455 thousand and \$1,291 thousand in 2006, 2005 and 2004, respectively. Total cash dividends received from these equity investments amounted to \$434 thousand, \$638 thousand, and \$331 thousand in 2006, 2005 and 2004, respectively. The Company considers whether the fair values of any of its equity investments have declined below their carrying value whenever adverse

Edgar Filing: ESCALADE INC - Form 10-K

ESCALADE, INCORPORATED AND SUBSIDIARIES Notes to Consolidated Financial Statements

events or changes in circumstances indicate that recorded values may not be recoverable. If the Company considered any such decline to be other than temporary (based on various factors, including historical financial results, product development activities and overall health of the investments' industry), a write-down is recorded to estimated fair value.

Intangible Assets

The Company has various intangible assets including consulting agreements, patents, trademarks, non-competition agreements and goodwill. Amortization is computed using the straight-line method over the following lives: consulting agreements, the life of the agreement; non-compete agreements, the lesser of the term or 5 years; and patents, 5 to 8 years. Trademarks are deemed to have indefinite useful lives and accordingly are not amortized, but evaluated on an annual basis to determine whether any impairment in value has occurred.

Employee Stock Option Plan

The Company has two stock-based compensation plans which are more fully explained in Note 12. Beginning on January 1, 2006, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123R, Share-Based Payment selecting the modified prospective application. Accordingly, after January 1, 2006, the Company began expensing the fair value of stock options granted, modified, repurchased or cancelled.

Prior to 2006, the Company accounted for these plans under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock issued to Employees, and related interpretations. Accordingly, in 2005 and 2004, no stock-based employee compensation cost is reflected in net income, as all options granted under this plan had an exercise price equal to the market value of the underlying common stock at the grant date.

Foreign Currency Translation

The functional currency for the foreign operations of Escalade is the local currency. The translation of foreign currencies into U.S. dollars is performed for balance sheet accounts using exchange rates in effect at the balance sheet dates and for revenue and expense accounts using a weighted average exchange rate during the year. The gains or losses resulting from the translation are included in Accumulated Other Comprehensive Income (Loss) in the Consolidated Statements of Stockholders' Equity and are excluded from net income. Gains or losses resulting from foreign currency transactions are included in Other expense (income) in the Consolidated Statements of Income and were insignificant in fiscal years 2006, 2005, and 2004.

Cost of Products Sold

Cost of products sold are comprised of those costs directly associated with or allocated to the products sold and include materials, labor and factory overhead.

Other Expense (Income)

The components of Other Expense (Income) were as follows:

In Thousands	2006	2005	2004
Amortization of intangibles	\$ 2,343	\$ 1,210	\$ 1,224
Investment (income)	(1,798)	(1,628)	(601)
Deferred compensation costs	65	116	133
Vendor charge-backs	(261)	(80)	(255)

Edgar Filing: ESCALADE INC - Form 10-K

Royalty income from patents	(456)	(382)	(711)
Other	(265)	(151)	191
	-----	-----	-----
	\$ (372)	\$ (915)	\$ (19)
	=====	=====	=====

38

ESCALADE, INCORPORATED AND SUBSIDIARIES Notes to Consolidated Financial Statements

Income Taxes

Income tax in the consolidated statement of income includes deferred income tax provisions or benefits for all significant temporary differences in recognizing income and expenses for financial reporting and income tax purposes. A valuation allowance is established if it is more likely than not that a deferred tax asset will not be realized.

Research and Development

Research and development costs are charged to expense as incurred. Research and development costs incurred during 2006, 2005 and 2004 were approximately \$2,170 thousand, \$1,991 thousand, and \$2,299 thousand, respectively.

Reclassifications

Certain reclassifications have been made to the 2005 and 2004 financial statements to conform to the 2006 financial statement presentation. These reclassifications had no effect on net earnings.

New Accounting Pronouncements

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" (SFAS 154), which replaces APB Opinion No. 20, "Accounting Changes," (APB 20) and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements." SFAS 154 changes the requirements for the accounting for and reporting of a change in accounting principle. Upon the adoption of SFAS 154 beginning January 1, 2006, Escalade has applied the standard's guidance to changes in accounting methods as required. The adoption of SFAS 154 was not material to Escalade's consolidated results of operations and financial condition.

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109" (FIN 48). This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS 109. This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. Escalade is required to adopt the provisions of FIN 48 as of January 1, 2007; the cumulative effect of adoption will be recorded as an adjustment to the opening balance of retained earnings for 2007. Pending further analysis, Escalade does not expect an adjustment to the opening balance of retained earnings for 2007. Compliance with FIN 48 is not expected to have a material impact on the consolidated results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in applying generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies under other

Edgar Filing: ESCALADE INC - Form 10-K

accounting pronouncements that require or permit fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. Escalade is evaluating the impact of SFAS 157 on its consolidated results of operations and financial condition.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - An amendment of FASB Statements No. 87, 88, 106, and 132(R)" (SFAS 158). SFAS 158 requires employers to recognize the over funded or under funded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position, to recognize changes in that funded status in the year in which the changes occur through accumulated other comprehensive income of a business entity, and to measure the funded status of a plan as of the date of its year-end statement of financial position. Escalade does not have any defined benefit postretirement plans.

In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108, "Financial Statements - Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" (SAB 108). The SEC staff is providing guidance on how prior year misstatements should be taken into consideration when quantifying misstatements in current year financial statements for purposes of determining whether the current year's financial

39

ESCALADE, INCORPORATED AND SUBSIDIARIES Notes to Consolidated Financial Statements

statements are materially misstated. SAB 108 is effective for fiscal years ending after November 15, 2006. The adoption of SAB 108 did not impact Escalade's consolidated results of operations and financial condition.

Note 2 -- Restatement

The consolidated financial statements for the years ended December 31, 2005 and December 25, 2004 have recently been restated by filing amended Forms 10-K/A with the Securities and Exchange Commission, and the 2005 and 2004 consolidated financial statements presented herein reflect amounts after restatement as detailed in those filings. On February 13, 2007, the Audit Committee of the Company's Board of Directors, upon the recommendation of management and in consultation with the Company's registered public accounting firm, decided to restate these financial statements to correct overstatements of the provision for income taxes and employee benefit costs. The effect of these errors on the financial statements for the years prior to December 25, 2004 was determined to be immaterial and has been reflected as an adjustment to the 2004 beginning of year retained earnings balance. The errors causing the restatements were the result of computational errors in calculating the tax provision and a misapplication of the Company's year end accrual of its 401(k) plan matching contribution.

Note 3 -- Certain Significant Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities; the disclosure of contingent assets and liabilities at the date of the consolidated financial statements; and the reported amounts of revenues and expenses during the reporting period. These estimates and judgments are evaluated on an ongoing basis and are based on experience; current and expected future conditions; third party evaluations; and various other assumptions believed reasonable under the

Edgar Filing: ESCALADE INC - Form 10-K

circumstances. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities as well as identifying and assessing the accounting treatment with respect to commitments and liabilities. Actual results may differ from the estimates and assumptions used in the financial statements and related notes.

Listed below are certain significant estimates and assumptions related to the preparation of the consolidated financial statements:

Product Warranty

The Company provides limited warranties on certain of its products, for varying periods. Generally, the warranty periods range from 90 days to one year. However, some products carry extended warranties of seven-year, ten-year, and lifetime warranties. The Company records an accrued liability and expense for estimated future warranty claims based upon historical experience and management's estimate of the level of future claims. Changes in the estimated amounts recognized in prior years are recorded as an adjustment to the accrued liability and expense in the current year. A reconciliation of the liability is as follows:

In Thousands	2006	2005	2004
Beginning balance	\$ 1,043	\$ 1,298	\$ 1,634
Additions	560	472	1,294
Deductions	(462)	(727)	(1,630)
Ending balance	\$ 1,141	\$ 1,043	\$ 1,298

40

ESCALADE, INCORPORATED AND SUBSIDIARIES Notes to Consolidated Financial Statements

Inventory Valuation Reserves

The Company evaluates inventory for obsolescence and excess quantities based on demand forecasts based on specified time frames; usually one year. The demand forecast is based on historical usage, sales forecasts and current as well as anticipated market conditions. All amounts in excess of the demand forecast are deemed to be excess or obsolete and a reserve is established based on the anticipated net realizable value. A reconciliation of the reserve is as follows:

In Thousands	2006	2005	2004
Beginning balance	\$ 3,867	\$ 6,223	\$ 5,465
Additions	669	763	2,810
Deductions	(1,868)	(3,119)	(2,052)
Ending balance	\$ 2,668	\$ 3,867	\$ 6,223

Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. Accounts receivable are ordinarily due between 30 and 60 days after the issuance of the invoice. Accounts are considered delinquent when more than 90 days past due. Delinquent receivables are reserved or written off based on individual credit evaluation and specific circumstances of the customer. A

Edgar Filing: ESCALADE INC - Form 10-K

reconciliation of the allowance is as follows:

In Thousands	2006	2005	2004

Beginning balance	\$ 1,544	\$ 2,510	\$ 1,991
Additions	116	561	1,523
Deductions	(101)	(1,527)	(1,004)
	-----	-----	-----
Ending balance	\$ 1,559	\$ 1,544	\$ 2,510
	=====	=====	=====

Advertising Subsidies

The Company enters agreements with certain retailers to pay for direct advertising programs and/or provide in-store display units. These agreements are not based on retailer purchase volumes and do not obligate the retailer to continue carrying the Company's products. The Company determines the value of the advertising services based on its own research and history of providing such services. The Company expenses these costs in the period in which they are incurred as a selling expense. A reconciliation of the liability is as follows:

In Thousands	2006	2005	2004

Beginning balance	\$ 991	\$ 725	\$ 779
Additions	1,828	1,579	2,885
Deductions	(1,573)	(1,313)	(2,939)
	-----	-----	-----
Ending balance	\$ 1,246	\$ 991	\$ 725
	=====	=====	=====

41

ESCALADE, INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

CO-OP Advertising

The Company offers co-operative advertising allowances to certain retailers to encourage product promotions. These agreements are typically based on a percentage of retailer purchases up to a maximum allowance and the Company is never directly involved with the media provider. The Company accrues the estimated cost of these programs based on the sales volume of the retailer and historical trends. As costs are accrued they are recorded as a reduction in sales. A reconciliation of the liability is as follows:

In Thousands	2006	2005	2004

Beginning balance	\$ 2,794	\$ 3,545	\$ 2,782
Additions	4,484	4,081	3,238
Deductions	(3,657)	(4,832)	(2,475)
	-----	-----	-----
Ending balance	\$ 3,622	\$ 2,794	\$ 3,545
	=====	=====	=====

Volume Rebates

The Company has various rebate programs with its retailers that are based on purchase volume. Typically these programs are based on achieving specified sales volumes and the rebate is calculated as a percentage of purchases. Based on the terms of the agreement, purchase levels and historical trends the Company

Edgar Filing: ESCALADE INC - Form 10-K

accrues the cost of these programs and records the same as a reduction in sales. A reconciliation of the liability is as follows:

In Thousands	2006	2005	2004
Beginning balance	\$ 1,503	\$ 3,419	\$ 2,435
Additions	2,044	2,150	5,400
Deductions	(1,935)	(4,066)	(4,416)
Ending balance	\$ 1,612	\$ 1,503	\$ 3,419

Catalog Allowances

A number of large office supply dealers operate through catalogs distributed to businesses throughout the country. Product content is decided by the dealer each time a new catalog is issued; typically once a year. Catalog allowances are required by the dealer as an inducement to include the Company's products. The allowance is based on a fixed cost per page and/or a percentage of purchases by the dealer. The fixed portion of the allowance is often paid when the catalog is distributed and is recognized in the period incurred and the variable portion is accrued based on dealer purchases and historical trends. Catalog allowances are recorded as a reduction in sales. A reconciliation of the liability is as follows:

In Thousands	2006	2005	2004
Beginning balance	\$ 1,040	\$ 761	\$ 1,027
Additions	1,444	1,637	1,380
Deductions	(1,787)	(1,358)	(1,646)
Ending balance	\$ 697	\$ 1,040	\$ 761

42

ESCALADE, INCORPORATED AND SUBSIDIARIES Notes to Consolidated Financial Statements

Note 4 -- Accrued Liabilities

Accrued liabilities consist of the following:

In Thousands	2006	2005
Employee compensation	\$ 9,262	\$ 9,041
Customer related allowances and accruals	10,029	10,379
Other accrued items	8,368	4,308
	\$ 27,659	\$ 23,728

Note 5 -- Operating Leases

The Company leases warehouse and office space under non-cancelable operating leases that expire at various dates through 2011. Terms of the leases, including renewals, taxes, utilities, and maintenance, vary by lease. Total rental expense

Edgar Filing: ESCALADE INC - Form 10-K

included in the results of operations relating to non-cancelable leases with terms of more than one year was \$2,181 thousand, \$1,275 thousand, and \$1,998 thousand in 2006, 2005, and 2004, respectively.

At December 30, 2006, minimum rental payments under non-cancelable leases with terms of more than one year were as follows:

In Thousands	Amount

2007	1,260
2008	753
2009	409
2010	199
2011 and beyond	142

	\$ 2,763
	=====

Note 6 -- Restructuring Costs

In 2004 the Company initiated a facility consolidation plan and involuntary employee terminations in the office product segment in order to reduce costs and increase the competitiveness of the Company. Under this plan the Company closed two facilities in North America and reduced its workforce by approximately 100 individuals in North America and 20 in Europe. Restructuring reserves, before taxes, were composed of the following:

In Thousands	Severance and benefit costs	Facility closure costs	Total

Balance at December 25, 2004	\$ 1,278	\$ 170	\$ 1,448
Non-cash benefit	(631)	--	(631)
Cash payments	(448)	(170)	(618)
	-----	-----	-----
Balance at December 31, 2005	199	--	199
Non-cash benefit	--	--	--
Cash payments	--	--	--
	-----	-----	-----
Balance at December 30, 2006	\$ 199	\$ --	\$ 199
	=====	=====	=====

In December 2005, the Company settled two employment claims relating to the restructuring activities initiated in 2004. As a result, the Company reduced the restructuring liability by \$631.

ESCALADE, INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 7 -- Acquired Intangible Assets and Goodwill

The carrying basis and accumulated amortization of recognized intangible assets are summarized in the following table:

Edgar Filing: ESCALADE INC - Form 10-K

In Thousands	2006		2005
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount
Patents	\$ 21,077	\$ 4,924	\$ 6,078
Consulting agreements	976	956	876
Non-compete agreements	2,072	1,746	1,812
Customer list	1,455	692	622
Trademarks	3,467	121	3,180
	<u>\$ 29,047</u>	<u>\$ 8,439</u>	<u>\$ 12,568</u>
	=====	=====	=====

Amortization expense was \$2,471 thousand, \$1,169 thousand and \$1,324 thousand for 2006, 2005 and 2004, respectively.

Estimated future amortization expense for each reporting segment is summarized in the following table:

In Thousands	2007	2008	2009	2010	2011
Sporting Goods	\$ 2,494	\$ 2,440	\$ 2,239	\$ 1,588	\$ 1,588
Office Products	395	142	--	--	--
	<u>\$ 2,889</u>	<u>\$ 2,582</u>	<u>\$ 2,239</u>	<u>\$ 1,588</u>	<u>\$ 1,588</u>
	=====	=====	=====	=====	=====

The Company evaluates the carrying value of its long-lived and intangible assets on an annual basis, or whenever events and circumstances indicate that the carrying value of the assets may be impaired. The Company determines impairment based on the asset's ability to generate cash flow greater than the carrying value of the asset, using a discounted probability-weighted analysis. If projected discounted cash flows are less than the carrying value of the asset, the asset is adjusted to its fair value.

The changes in the carrying amount of goodwill were:

In Thousands	Sporting Goods	Office Products	Total
Balance at December 25, 2004	\$ 7,151	\$ 10,737	\$ 17,888
Foreign currency translation adjustment	--	(731)	--
Balance at December 31, 2005	7,151	10,006	17,157
Acquisitions	4,866	2,319	7,185
Foreign currency translation adjustment	--	685	685
Balance at December 30, 2006	<u>\$ 12,017</u>	<u>\$ 13,010</u>	<u>\$ 25,027</u>
	=====	=====	=====

Edgar Filing: ESCALADE INC - Form 10-K

ESCALADE, INCORPORATED AND SUBSIDIARIES Notes to Consolidated Financial Statements

Note 8 -- Borrowings

Short-Term Debt

Short-term debt at fiscal year-ends was as follows:

In Thousands	2006	2005
Bank One Revolving line of credit	\$ 10,336 =====	\$ -- =====

The Company's wholly owned subsidiary, Indian-Martin, Inc., has a revolving line of credit under which it can borrow funds from time to time to purchase eligible accounts receivable from the Company's operating subsidiaries which accounts are and will be pledged to secure those borrowings. At December 30, 2006, this line of credit aggregated \$30 million. At the company's option, borrowings can be made under the bank's prime interest rate minus 1.25% or LIBOR plus 1.38%. During 2006 and 2005, weighted average daily borrowings under this line were \$15,374 thousand and \$6,843 thousand with effective interest rates of 6.9% and 5.9%, respectively.

Long-Term Debt

Long-term debt at fiscal year-ends was as follows:

In Thousands	2006
Revolving term loan of \$31,000, the amount available under this revolving term loan is reduced by \$7,000 annually starting May 19, 2007, with the balance due May 19, 2008. At December 30, 2006, \$10,000 had an interest rate of London Interbank Offered Rate (LIBOR) plus 1.00%, or 6.84%, and \$7,934 had an interest rate of prime minus .75% or 7.50%, unsecured	\$ 17,934
Revolving term loan of Euro 3,000 (approximately \$3,950 US Dollars), the balance is due May 19, 2008 and bears an interest rate of EURIBOR plus 2.00%, or 4.97% at December 30, 2006, unsecured	1,975
Mortgage payable (Wabash, Indiana Adjustable Rate Economic Development Revenue Refunding Bonds), annual installments are optional, interest varies with short-term rates and is adjustable weekly based on market conditions, maximum rate is 10.00%, rate at December 30, 2006 is 4.2%, due September 2028, secured by plant facility, machinery and equipment, and a stand-by letter of credit	2,700
Contract payable for Accudart acquisition, due \$167 annually beginning February 1, 2003 through February 1, 2006, non-interest bearing, secured by a stand-by letter of credit	--
Contract payable for acquisition of equity interest in Sweden Table Tennis, AB, unsecured and non-interest bearing. Annual payments of \$188 due March of each year	--
Portion classified as current	22,609

\$ 22,609
=====

Maturities of long-term debt outstanding at December 30, 2006 are as follows:
\$19,909 thousand in 2008 and \$2,700 thousand in 2011 or thereafter.

45

ESCALADE, INCORPORATED AND SUBSIDIARIES
Notes to Consolidated Financial Statements

The mortgages payable and term loan agreements contain certain restrictive covenants, of which the more significant include maintenance of specified net worth and maintenance of specified ranges of debt service and leverage ratios.

Interest Rate Swap Agreement

In May 2003, the Company entered into an interest rate swap agreement having a notional amount of \$10 million and a maturity date of May 19, 2008. This swap agreement is designated as a cash flow hedge, and effectively converts a portion of the Company's variable rate debt to fixed rate debt with a weighted average interest rate of 5.08%. The Company entered into this interest rate swap agreement to manage interest costs and cash flows associated with variable interest rates, primarily short-term changes in LIBOR; changes in the cash flows of the interest rate swap offset changes in the interest payments on the covered portion of the Company's revolving debt. In connection with this interest rate swap agreement the Company recorded an after tax gain of \$38 thousand in Other Comprehensive Income (OCI). There was no impact on net income due to ineffectiveness. The Company's exposure to credit loss on its interest rate swap agreement in the event of non-performance by the counterparty is believed to be remote due to the Company's requirement that the counterparty have a strong credit rating.

Note 9 -- Earnings Per Share

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

In Thousands	2006	2005	2004
Weighted average common shares outstanding	13,012	13,055	12,980
Dilutive effect of stock options	32	153	247
Weighted average common shares outstanding, assuming dilution	13,044	13,208	13,227
Number of anti-dilutive stock options	470	424	181

Weighted average common shares outstanding, assuming dilution, includes the incremental shares that would be issued upon the assumed exercise of stock options outstanding.

Edgar Filing: ESCALADE INC - Form 10-K

Note 10 -- Employee Benefit Plans

The Company has an employee profit-sharing salary reduction plan, pursuant to the provisions of Section 401(k) of the Internal Revenue Code, for non-union employees. The Company's contribution is a matching percentage of the employee contribution as determined by the Board of Directors annually. The Company's expense for the plan was \$579 thousand, \$490 thousand and \$583 thousand for 2006, 2005 and 2004, respectively.

Note 11 -- Deferred Compensation Plan

In October 1985, the Board of Directors approved the adoption of a Contributory Deferred Compensation Plan pursuant to which some recipients of incentive compensation could elect to defer receipt thereof. For each dollar of deferred compensation, the Company provided a 75% matching amount. Amounts deferred earn interest at the rate of 9%. Such amounts are not intended to be recognized for tax purposes until receipt. All deferrals allowed under this plan have been made. Participants have no vested rights in deferred amounts credited to their accounts and are general creditors of the Company until such amounts are actually paid.

46

ESCALADE, INCORPORATED AND SUBSIDIARIES Notes to Consolidated Financial Statements

Note 12 -- Stock Options

The Company has two stock options plans that were approved by the stockholders at the Company's 1997 annual meeting. Under these plans 1,800,000 common shares are reserved for issuance to employees under an Incentive Stock Option Plan (ISO) and 600,000 common shares for issuance to Directors under a Director Stock Option Plan (DSO). At the 2006 annual shareholder meeting, shareholders approved a one-time special grant of 10,000 options to directors with the same basic characteristics as those granted under the existing Director Stock Option Plan. The Company grants selected executives and other key employees' stock option awards, which vest over four years of continued employment. The exercise price of each option, which has a five-year life, is equal to the market price of the Company's stock on the date of grant.

The following table summarizes the option activity under the two plans:

	Incentive Stock Options		Director Stock Option	
	Granted	Outstanding	Granted	Outstanding
2006	197,500	520,695	15,076	2,767
2005	250,000	713,324	2,767	4,126
2004	196,600	555,374	4,126	

The fair value of each option grant award is estimated on the grant date using the Black-Scholes-Merton option valuation model that uses the following assumptions:

	2006	2005

Edgar Filing: ESCALADE INC - Form 10-K

Risk-free interest rates	4.35%	3.77%
Dividend yields	1.81%	1.20%
Volatility factors of expected market price of common stock	51.3%	53.8%
Weighted average expected life of the options	4 years	4 years

Beginning January 1, 2006, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123R, Share-Based Payment. Accordingly, after January 1, 2006, the Company began expensing the fair value of stock options granted, modified, repurchased or cancelled. Total compensation expense recorded in the income statement for 2006 was \$588 thousand. The recognized tax benefit related thereto was \$55 thousand.

Prior to 2006, the Company accounted for these plans under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock issued to Employees, and related interpretations. As result no stock-based employee compensation costs are reflected in net income for 2005 and 2004 because options granted under this plan had an exercise price equal to the market value of the underlying common stock at the grant date.

In anticipation of the effective date of SFAS 123R Share-Based Payment (SFAS 123R) which requires the expensing of stock options based on fair-value assessments, the Company elected in the fourth quarter of fiscal 2005, to accelerate the vesting of 167,800 outstanding options where the exercise price (\$19.21 per share) exceeded the market price for the Company's stock. This resulted in the immediate recognition of the pro-forma stock-based employee compensation costs associated with these options. Accordingly, the pro-forma compensation expense reported in the tables below reflects the additional stock-based employee compensation expense associated with these options.

47

ESCALADE, INCORPORATED AND SUBSIDIARIES Notes to Consolidated Financial Statements

The following table illustrates the effect on net income and earnings per share for 2005 and 2004 if the Company had applied the fair value provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation:

In Thousands Except Per Share Amounts	2005	2004
Net income, as reported	\$ 12,916	\$ 8,18
Less: Total stock-based employee compensation cost determined under the fair value based method, net of income taxes	(1,823)	(80
Pro forma net income	\$ 11,093	\$ 7,37
Earnings per share		
Basic--as reported	\$ 0.99	\$ 0.6
Basic--pro forma	\$ 0.85	\$ 0.5

Edgar Filing: ESCALADE INC - Form 10-K

Diluted--as reported	\$ 0.98	\$ 0.6
	=====	=====
Diluted--pro forma	\$ 0.84	\$ 0.5
	=====	=====

The following table summarizes stock option transactions under these plans for the years ended 2006, 2005 and 2004:

	2006		2005	
	Shares	Option Price	Shares	Option Price
Outstanding at beginning of year	730,569	\$6.99 to 19.21	578,930	\$6.99 to 19.21
Issued during year	212,576	\$11.08 to 11.26	252,767	\$13.40 to 13.88
Canceled or expired	(172,550)		(20,900)	
Exercised during year	(226,009)	\$3.60 to 6.99	(80,228)	\$2.42 to 6.99
	-----		-----	
Outstanding at end of year	544,586	\$6.99 to 19.21	730,569	\$6.99 to 19.21
	=====		=====	
Exercisable at end of year	222,885		376,502	
	=====		=====	
Weighted-average fair value of options granted during the year	\$ 4.32		\$ 5.61	
	=====		=====	

48

ESCALADE, INCORPORATED AND SUBSIDIARIES Notes to Consolidated Financial Statements

The following table summarizes information about fixed stock options outstanding at December 30, 2006:

	Options Outstanding			Options Outstanding
Range of Exercise Prices	Number of Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number of Shares
\$6.99 - \$11.26	232,993	3.2 years	\$ 9.91	51,917
\$13.40 - \$19.21	311,593	2.7 years	\$15.64	170,968
	-----			-----

Edgar Filing: ESCALADE INC - Form 10-K

544,586
=====

222,885
=====

Incentive stock options are generally exercisable at the rate of 25% over each of the four years following the date of grant.

During fiscal year 2006 the Company issued 15,076 Director Stock Options at an option price of \$11.26. These options are exercisable after April 24, 2007. Ten thousand of these options have an expiration date of April 23, 2011 while the remaining options have an expiration date of April 23, 2010.

Note 13 -- Provision for Taxes

Income before taxes and the provision for taxes consisted of the following:

In Thousands	2006	2005	2004

Income (loss) before taxes:			
United States of America (USA)	\$ 8,874	\$ 16,066	\$ 14,152
Non USA	2,587	3,193	(223)
	-----	-----	-----
	\$ 11,461	\$ 19,259	\$ 13,929
	=====	=====	=====
Provision for taxes:			
Current			
Federal	\$ 2,000	\$ 4,580	\$ 4,688
State	482	510	209
International	48	840	283
	-----	-----	-----
	2,530	5,930	5,180
	-----	-----	-----
Deferred			
Federal	186	334	510
State	108	79	59
International	142	--	--
	-----	-----	-----
	436	413	569
	-----	-----	-----
	\$ 2,966	\$ 6,343	\$ 5,749
	=====	=====	=====

The Company has not provided for USA deferred taxes or foreign withholding taxes on undistributed earnings for non-USA subsidiaries where the Company intends to reinvest these earnings indefinitely in operations outside the USA.

ESCALADE, INCORPORATED AND SUBSIDIARIES Notes to Consolidated Financial Statements

The provision for income taxes was computed based on financial statement income. A reconciliation of the provision for income taxes to the amount computed using the statutory rate follows:

In Thousands	2006	2005	2004
--------------	------	------	------

Edgar Filing: ESCALADE INC - Form 10-K

Income tax at statutory rate	\$	3,897	\$	6,548	\$	4
Increase (decrease) in income tax resulting from						
Permanent differences (goodwill impairment, investment income, dividends, and captive insurance earnings)		(79)		(348)		
State tax expense, net of federal effect		390		386		
Effect of foreign tax rates		(689)		(229)		
Research credit		(120)		(121)		
Internal Revenue Service audit settlement		--		278		
Other		(433)		(171)		
		-----		-----		-----
Recorded provision for income taxes	\$	2,966	\$	6,343	\$	5
		=====		=====		=====

The components of the net deferred tax asset are as follows:

In Thousands	2006	2005

Assets		
Employee benefits	\$ 707	\$ 559
Valuation reserves	598	1,250
Deferred compensation	412	501
Depreciation	779	576
Stock option expense	55	--
Net operating loss carry forward	1,318	517
	-----	-----
Total assets	3,869	3,403
	-----	-----
Liabilities		
Unrealized gain on sale of securities available-for-sale	(113)	(85)
Unrealized equity investment income	(984)	(1,156)
Unrealized gain on interest rate swap agreement	(84)	(62)
Goodwill and intangible assets	(492)	(395)
	-----	-----
Total liabilities	(1,673)	(1,698)
	-----	-----
Valuation Allowance		
Beginning balance	(228)	--
(Increase) decrease during period	(983)	(228)
	-----	-----
Ending balance	(1,211)	(228)
	-----	-----
	\$ 985	\$ 1,467
	=====	=====

Deferred tax assets are included in the consolidation balance sheet as follows:

In Thousands	2006	2005

Deferred income tax asset - current	\$ 733	\$ 1,382
Deferred income tax asset - long-term	252	85
	-----	-----
	\$ 985	\$ 1,467
	=====	=====

Edgar Filing: ESCALADE INC - Form 10-K

The Company has a US federal unused net operating loss carry-forward of approximately \$270 thousand and state unused net operating losses of approximately \$15,604 thousand of which an estimated \$15,334 thousand has been reserved as the Company does not expect to be able to utilize it. All operating loss carry-forwards expire in various amounts through 2018.

50

ESCALADE, INCORPORATED AND SUBSIDIARIES Notes to Consolidated Financial Statements

Note 14 -- Other Comprehensive Income

The components of other comprehensive income and related tax effects were as follows:

In Thousands	2006	2005
Change in net unrealized value of available-for-sale investments net of tax of \$(185), \$52, and \$(68), in 2006, 2005 and 2004, respectively	\$ 278	\$ (78)
Realization of previously unrealized gains on available-for-sale investments net of tax of \$126	(189)	--
Change in foreign currency translation adjustment	2,405	(3,893)
Change in unrealized gain (loss) on interest rate swap agreement net of tax of \$(25), \$(245), and \$(289), in 2006, 2005 and 2004, respectively	38	368
	<u>\$ 2,532</u>	<u>\$ (3,603)</u>

The components of accumulated other comprehensive income, net of tax, were as follows:

In Thousands	2006	2005	2004
Accumulated gain on available for sale investments	\$ 192	\$ 103	\$
Foreign currency translation adjustment	3,135	730	
Unrealized gain (loss) on interest rate swap agreement	155	117	
	<u>\$ 3,482</u>	<u>\$ 950</u>	<u>\$</u>

51

ESCALADE, INCORPORATED AND SUBSIDIARIES Notes to Consolidated Financial Statements

Note 15 -- Operating Segment and Geographic Information

The following table presents certain operating segment information.

Edgar Filing: ESCALADE INC - Form 10-K

In Thousands	2006	2005	2004
<hr/>			
Sporting Goods			
Net revenue	136,733	120,996	141,644
Operating income	9,551	13,283	17,926
Interest expense	2,775	874	963
Provision for taxes	1,975	4,154	6,045
Net income	3,562	7,386	10,747
Identifiable assets	88,209	67,641	63,458
Non-marketable equity investments (equity method)	--	--	--
Depreciation & amortization	3,985	2,657	3,001
Capital expenditures	1,843	7,403	1,109
Office Products			
Net revenue	54,732	62,319	76,040
Operating income	8,241	8,760	573
Interest expense	613	786	1,308
Provision for taxes	2,423	2,432	(351)
Net income	5,095	5,683	(1,634)
Identifiable assets	46,778	44,319	57,983
Non-marketable equity investments (equity method)	712	662	--
Depreciation & amortization	1,664	2,078	2,015
Capital expenditures	840	992	1,301
All Other			
Net revenue	--	--	--
Operating income	(4,066)	(2,217)	(2,817)
Interest expense	751	(178)	(499)
Provision for taxes	1,432	(243)	55
Net income	(162)	(153)	(933)
Identifiable assets	15,728	12,900	13,528
Non-marketable equity investments (equity method)	5,456	3,952	4,016
Depreciation & amortization	--	--	--
Capital expenditures	--	--	--
Total			
Net Revenue	191,465	183,315	217,684
Operating income	13,726	19,826	15,682
Interest expense	2,637	1,482	1,772
Provision for taxes	2,966	6,343	5,749
Net income	8,495	12,916	8,180
Identifiable assets	150,715	124,860	134,969
Non-marketable equity investments (equity method)	6,168	4,614	4,016
Depreciation & amortization	5,649	4,735	5,016
Capital expenditures	2,683	8,395	2,410

Each operating segment is individually managed and has separate financial results that are reviewed by the Company's management. Each segment contains closely related products that are unique to the particular segment. There were no changes to the composition of segments in 2006. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies.

The sporting goods segment consists of home entertainment products such as pool tables and accessories; table tennis tables and accessories; soccer and hockey

Edgar Filing: ESCALADE INC - Form 10-K

ESCALADE, INCORPORATED AND SUBSIDIARIES Notes to Consolidated Financial Statements

tables; archery equipment and accessories; basketball goals; and fitness, arcade and darting products. Customers include retailers and wholesalers located throughout the United States and Europe.

The office product segment consists of office machinery used in the office and graphic arts environment. Products include data shredders; folding machines; and paper trimmers and cutters. Customers include large office product retailers, office machine dealers, and office supply catalogs.

The All Other segment consists of general and administrative expenses not specifically related to the operating business segments and includes investment income from equity investments.

Interest expense is allocated to operating segments based on working capital usage and the provision for taxes is allocated based on a combined federal and state statutory rate of 36% adjusted for actual taxes on foreign income. Permanent tax adjustments and timing differences are included in the All Other segment.

Identifiable assets are principally those assets used in each segment. The assets in the All Other segment are principally cash and cash equivalents; deferred tax assets; marketable equity securities; investments; and the cash surrender value of life insurance.

The Company has one customer in the sporting goods segment who accounted for 19%, 22% and 27% of consolidated total revenues in 2006, 2005 and 2004, respectively. No other customers accounted for 10% or more of consolidated revenues. Within the sporting goods segment this customer accounted for 30%, 33% and 42% of total revenues.

As of December 30, 2006, approximately 131 employees of the Company's labor force were covered by a collective bargaining agreement that expires April 30, 2009.

Raw materials for Escalade's various product lines consist of wood, particleboard, slate, standard grades of steel, steel tubing, plastic, vinyl, steel cables, fiberglass and packaging. Escalade relies upon suppliers in Europe and Brazil for its requirement of billiard balls and slate utilized in the production of home pool tables and upon various Asian manufacturers for certain of its table tennis needs and other items. Escalade sources some of its game table product line in China.

Revenues by geographic region/country were as follows:

In Thousands	2006	2005	2004
North America	\$ 162,207	\$ 153,687	\$ 177,340
Europe	18,220	23,015	34,582
Other	11,038	6,613	5,762
	-----	-----	-----
	\$ 191,465	\$ 183,315	\$ 217,684
	=====	=====	=====

Revenues are attributed to country based on location of customer and are for continuing operations.

Edgar Filing: ESCALADE INC - Form 10-K

Identified assets by geographic region/country were as follows:

In Thousands	2006	2005	2004
North America	\$ 122,325	\$ 100,908	\$ 101,422
Europe	28,390	23,952	33,547
	-----	-----	-----
	\$ 150,715	\$ 124,860	\$ 134,969
	=====	=====	=====

53

ESCALADE, INCORPORATED AND SUBSIDIARIES Notes to Consolidated Financial Statements

Note 16 -- Summary of Quarterly Results

In thousands, except per share data (unaudited)	March 25	July 15	October 7	De
2006				
Net sales	\$ 32,800	\$ 48,949	\$ 65,583	\$
Operating income	2,347	2,957	5,910	
Net income	1,724	1,188	2,992	
Basic earnings per share	\$ 0.13	\$ 0.09	\$ 0.23	\$
In thousands, except per share data (unaudited)	March 19	July 9	October 1	De
2005				
Net sales	\$ 29,782	\$ 47,551	\$ 63,557	\$
Operating income	1,748	3,899	8,474	
Net income	1,238	2,431	5,864	
Basic earnings per share	\$ 0.09	\$ 0.19	\$ 0.45	\$

Note 17 -- Acquisitions

All of the Company's acquisitions have been accounted for using the purchase method of accounting.

2006

In February 2006, the Company purchased substantially all of the assets of Family Industries, Inc., which manufactures and sells premium quality residential playground systems made from stained redwood under the WoodPlay brand. Combined with the acquisition of the ChildLife product line in the first quarter of fiscal 2005, this acquisition greatly enhances the breadth of the product offering and expands the Company's potential customer base. Playground systems will continue to be sold under both the Woodplay and ChildLife brand names, primarily through specialty dealers. The operating results from this acquisition have been included in the Sporting Goods business segment results since the date of acquisition. The total price paid, which was paid in cash using the Company's revolving credit lines, exceeded the estimated fair market value of the net assets acquired resulting in \$4.8 million in Goodwill. The

Edgar Filing: ESCALADE INC - Form 10-K

Goodwill recorded will be deductible for income tax purposes. The estimated fair market value of the assets acquired and liabilities assumed as of the date of acquisition are as follows:

(All amounts in thousands)	Amount
Current assets	\$ 2,865
Property, plant & equipment	50
Other assets	112
Goodwill	4,767

Total assets acquired	7,794
Current liabilities	(654)

Net assets acquired	\$ 7,140
	=====

In April 2006, the Company acquired all of the outstanding stock of Desmar Seguridad Y Archivo, S.L. ("Desmar"), a distributor of office products located in Barcelona, Spain. The Company acquired Desmar to solidify its presence in Spain. The operating results from this acquisition have been included in the Office Products business segment results since the acquisition date and the Company intends to operate this acquisition as a wholly owned distributor from its existing location. The total purchase price of EUR 1.9 million (\$2.4 million) was paid in cash and financed through the Company's current Euro debt

54

ESCALADE, INCORPORATED AND SUBSIDIARIES Notes to Consolidated Financial Statements

facilities. The purchase price exceeded the estimated fair market value of the assets acquired resulting in Goodwill of \$2.2 million. The Goodwill recorded will not be deductible for income tax purposes. The estimated fair market value of the assets acquired and liabilities assumed as of the date of acquisition are as follows:

(All amounts in thousands)	Amount
Current assets	\$ 1,383
Property, plant & equipment	177
Other assets	493
Goodwill	2,238

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

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

In May 2006, the Company acquired substantially all of the assets of Carolina Archery Products which manufactures and distributes archery accessories. This acquisition expands the Company's product offerings in archery accessories and provides the Company with valuable technology rights that will be used to enhance its competitive position in the market place. The operating results from this acquisition have been included in the Sporting Goods business segment

Edgar Filing: ESCALADE INC - Form 10-K

results since the date of acquisition. The total purchase price of \$18.9 million was paid in cash and financed through the Company's current debt facilities. The estimated fair market value of the assets acquired and liabilities assumed as of the date of acquisition are as follows:

(All amounts in thousands)	Amount
Current assets	\$ 3,358
Property, plant & equipment	67
Patent & other intangibles	15,447

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

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

(In Thousands Except Per Share Amounts)	Year ended	
	December 30, 2006	December 31, 2005
	-----	-----
Net revenue:		
Net revenue excluding Carolina Archery Products acquisition	\$ 183,426	\$
Net revenue of Carolina Archery Products	10,491	
Consolidation adjustment	--	
	-----	-----
Pro forma net revenues	\$ 193,917	\$
	=====	=====
Net income:		
Net income excluding Carolina Archery Products acquisition	\$ 7,679	\$
Net income of Carolina Archery Products	2,558	
Consolidation adjustment	(940)	
	-----	-----
Pro forma net income	\$ 9,297	\$
	=====	=====
Basic earning per share:		
Excluding Carolina Archery Products acquisition	\$ 0.59	\$
Carolina Archery Products	0.20	
Consolidation adjustment	(0.07)	
	-----	-----
Pro forma basic earnings per share	\$ 0.71	\$
	=====	=====

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

Edgar Filing: ESCALADE INC - Form 10-K

2005

On February 28, 2005, Escalade Sports acquired substantially all of the assets of ChildLife, Inc., a manufacturer of premium residential play systems. The total purchase price was \$3,272 thousand and included inventory, a consulting agreement, machinery and tooling, customer lists, and a noncompete agreement. The customer lists and non-compete agreement are being amortized over a five year period, and the consulting agreement is being amortized over a one year period.

2004

On October 25, 2004, Escalade Sports acquired substantially all of the assets of Lemont Industries, Inc., a manufacturer of tractor wheel weights. The total purchase price was \$632 thousand in cash. The assets acquired included machinery, tooling, inventory and a non-compete agreement. The manufacturing process utilizes the same blow-molding technology currently employed by the Company in the production of vinyl weight sets and will increase the productivity of that product group through higher production levels.

Note 18 -- Commitments and Contingencies

At December 30, 2006, the Company had standby letters of credit issued by a bank in the amount of \$500 thousand.

Additionally, the Company has obtained a letter of credit for the benefit of a certain mortgage holder. At December 30, 2006, the balance of the letter of credit was \$2,734 thousand. It is to be used in the event of a default in either interest or principal payments.

The Company is involved in litigation arising in the normal course of its business. The Company does not believe that the disposition or ultimate resolution of existing claims or lawsuits will have a material adverse effect on the business or financial condition of the Company.

The Company has entered into various agreements whereby it is required to make royalty and license payments. At December 30, 2006, the Company had future estimated minimum non-cancelable royalty and license payments as follows:

In Thousands	Amount

2007	\$ 562
2008	462
2012 and beyond	100

	\$ 1,124
	=====

56

ESCALADE, INCORPORATED AND SUBSIDIARIES Notes to Consolidated Financial Statements

Note 19 -- Subsequent Events

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

Edgar Filing: ESCALADE INC - Form 10-K

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 addition \$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
	=====

57

Signatures

Pursuant to the requirements of Section 13 or 15(d) 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

By:

/s/ DANIEL A. MESSMER

March 9, 2007

Daniel A. Messmer
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ ROBERT E. GRIFFIN	Chairman and Director	March 9, 2007
-----------------------	-----------------------	---------------

Robert E. Griffin

/s/ BLAINE E. MATTHEWS, JR.	Director	March 9, 2007
-----------------------------	----------	---------------

Blaine E. Matthews, Jr.

/s/ EDWARD E. WILLIAMS	Director	March 9, 2007
------------------------	----------	---------------

Edward E. Williams

/s/ RICHARD D. WHITE	Director	March 9, 2007
----------------------	----------	---------------

Richard D. White

Edgar Filing: ESCALADE INC - Form 10-K

/s/ GEORGE SAVITSKY ----- George Savitsky	Director	March 9, 2007
/s/ RICHARD BAALMANN ----- Richard Baalmann	Director	March 9, 2007
/s/ DANIEL A. MESSMER ----- Daniel A. Messmer	President and Chief Executive Officer (Principal Executive Officer)	March 9, 2007
/s/ TERRY FRANDSEN ----- Terry Frandsen	Chief Financial Officer, Secretary and Treasurer (Principal Financial and Accounting Officer)	March 9, 2007