

ESCALADE INC
Form 10-K
March 27, 2009

**United States
Securities and Exchange Commission
Washington, D.C. 20549**

Form 10-K

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

For the Fiscal Year Ended December 27, 2008

Or

**o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

For the transition period from _____ to _____

Commission File Number 0-6966

ESCALADE, INCORPORATED

(Exact name of registrant as specified in its charter)

Indiana
(State of incorporation)

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

817 Maxwell Ave, Evansville, Indiana
(Address of Principal Executive Office)

47711
(Zip Code)

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

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

Common Stock, No Par Value
(Title of Class)

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

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

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

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 o No x

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

Yes No

Aggregate market value of common stock held by nonaffiliates of the registrant as of July 12, 2008 based on the closing sale price as reported on the NASDAQ Global Market: \$41,257,654

The number of shares of Registrant's common stock (no par value) outstanding as of February 20, 2009: 12,616,042

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 24, 2009 are incorporated by reference into Part III of this Report.

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Escalade, Incorporated and Subsidiaries

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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:

	2008	2007	2006
Sporting goods	66%	70%	71%
Office Products	34%	30%	29%
Total net sales	100%	100%	100%

For additional segment information, see Note 13 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. Some of the Company's most recognized brands include:

Product Segment	Brand Names
Table Tennis	Ping-Pong®, STIGA®
Pool Tables and Accessories	Mizerak®, Mosconi®
Basketball Backboards and Goals	Goalrilla®, Goalith®, Silverback
Game Tables (Hockey and Soccer)	Harvard Game®, Rhino®, Atomic
Archery	Trophy Ridge®, Bear Archery®
Fitness	The STEP®, USWeight
Play Systems	Woodplay®, Oasis

Sears historically was one of Escalade Sports largest customers and accounted for 18% and 19% of total consolidated revenues in 2007 and 2006 respectively. In 2008, sales to Sears accounted for 6% of total consolidated revenues, representing a decline of 12% from 2007. Although Escalade had been a preferred supplier of sporting goods products to Sears for more than 30 years and had won numerous awards from Sears for delivering outstanding products and services, the Company never had a long-term supplier contract with Sears. In 2008, the Company was unable to negotiate satisfactory terms for continued sales of table tennis and billiard tables, which products represented approximately 50% of total sales to Sears in 2007.

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

Office Products

Operating as Martin Yale, the office products business has a worldwide presence with manufacturing facilities in North America and Europe. Besides the sales offices located at each manufacturing plant, Martin Yale has sales offices in the United Kingdom, France, Spain, China, Italy, South Africa and Sweden.

Martin Yale products include: data shredders, paper trimmers, paper folding machines, paper drills, collators, bursting machines, letter openers, and office related products such as keyboard drawers and paper hole punches. Martin Yale brands include Martin Yale, Premier®, Master, Mead Hatcher, Intimus®, and Paper Monster®.

Martin Yale products are sold throughout office products retailers, wholesalers and catalog distributors. No single Martin Yale customer accounted for more than 10% of Office Product sales during 2008.

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 \$2.3 million, \$2.3 million and \$2.2 million in 2008, 2007 and 2006, 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

The Company 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® for the United States and Canada. The company also owns several registered trademarks and brand names including but not limited to Ping-Pong®, Fred Bear®, Goalrilla™, The Step®, and Wood Play® which are used in the Sporting Goods business segment and Premier® and Intimus® which are used in the Office Products business segment.

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 seasonal and driven by holiday season demand. Over the past three years approximately 58% of sporting goods sales came 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.

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Employees

The number of employees at December 27, 2008 and December 29, 2007 for each business segment were as follows:

	2008	2007
Sporting Goods		
USA	277	475
Mexico	214	149
	491	624
Office Products		
USA	106	111
Europe	134	115
Asia	8	14
	248	240
Total	739	864

The I.U.E./C.W.A. (United Electrical Communication Workers of America, AFL-CIO) represent hourly rated employees at the Escalade Sports Evansville, Indiana distribution center; approximately 30 employees at December 27, 2008. 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 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>).

ITEM 1A RISK FACTORS

Sales declined in 2008 and could continue to decline in 2009.

Overall sales in both sporting goods and office products declined in 2008 due to a variety of factors, including consumer uncertainty generated by the poor economy in the United States and globally and lower than expected sell through on game room products such as table tennis and billiards. Sales may further decline in 2009. Recovering or replacing these declining or lost sales will be a significant challenge. The Company cannot provide any assurance that it will be able to recover or replace all or any portion of these declining or lost sales.

Sales to Escalade Sports largest customer declined significantly in 2008 and sales to this customer will continue to decline in 2009.

Sears historically was one of Escalade Sports largest customers and accounted for 18% and 19% of total consolidated revenues in 2007 and 2006 respectively. In 2008, sales to Sears accounted for 6% of total consolidated revenues, representing a decline of 12% from 2007. Although Escalade Sports had been a preferred supplier of sporting goods products to Sears for more than 30 years and had won numerous awards from Sears for delivering outstanding products and services, the Company never had a long-term supplier contract with Sears. In 2008, Escalade Sports was unable to negotiate satisfactory terms for continued sales of table tennis and billiard tables, which products represented approximately 50% of total sales to Sears in 2007. The Company stopped supplying those products to Sears in the second half of 2008, and does not expect to resume sales of those products to Sears in 2009. In addition, the Company cannot provide any assurance that it will continue to supply any other products to Sears and, therefore, sales to Sears will decline further in 2009 and in the future. Although the Company has achieved placement with other large mass-retail customers that will partially offset this lost business, it cannot provide any assurance that the Company will be able to recover or replace all or any portion of these declining or lost sales to Sears.

Markets are highly competitive and the Company may not continue to compete successfully.

The market for sporting goods and office products is highly fragmented and intensely competitive. Escalade competes with a variety of regional, national and international manufacturers for customers, employees, products, services and other important aspects of the business. In sporting goods, the Company has historically sold a large percentage of our sporting goods products to mass merchandisers, and has increasingly attempted to expand sales to specialty retail and dealer markets. Similarly, the Company has traditionally sold office products to office products retailers and specialty machine dealers. In addition to competition for sales into those distribution channels, vendors also must compete in sporting goods with large format sporting goods stores, traditional sporting goods stores and chains, and warehouse clubs, discount stores and department stores, and in office products with office supply superstores, computer and electronics superstores, contract stationers, and others. Some of the current and potential competitors are larger than Escalade and have substantially greater financial resources that may be devoted to sourcing, promoting and selling their products, and may discount prices more heavily than the Company can afford.

If the Company is unable to predict or react to changes in consumer demand, it may lose customers and sales may decline.

Success depends in part on the ability to anticipate and respond in a timely manner to changing consumer demand and preferences regarding sporting goods and office products. Products must appeal to a broad range of consumers whose preferences cannot be predicted with certainty and are subject to change. The Company often makes commitments to manufacture products months in advance of the proposed delivery to customers. If Escalade misjudges the market for products, sales may decline significantly. The Company may have to take significant inventory markdowns on unpopular products that are overproduced and/or miss opportunities for other products that may rise in popularity, both of which could have a negative impact on profitability. A major shift in consumer demand away from sporting goods or office products could also have a material adverse effect on business, results of operations and financial condition.

Business is seasonal and annual results are dependent on the success of second half sales.

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 2008, the holiday selling season was substantially slower than in recent years and approximately 52% of sporting goods sales came in the second half of the year. Any decrease in second half sales, whether because of a slow holiday selling season, the general deterioration of the economy or otherwise, could have a material adverse effect on business, financial condition and operating results for the entire fiscal year.

Quarterly operating results are subject to fluctuation.

Operating results have fluctuated from quarter to quarter in the past, and the Company expects that they will continue to do so in the future. 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 products; demographic changes; changes in consumer preferences; popularity of particular designs, categories of products and sports; seasonal demand for products; the size, timing and mix of purchases of products; fluctuations and difficulty in forecasting operating results; ability to sustain, manage or forecast growth and inventories; new product development and introduction; ability to secure and protect trademarks, patents and other intellectual property; performance and reliability of products; customer service; the loss of significant customers or suppliers; dependence on distributors; business disruptions; increased costs of freight and transportation to meet delivery deadlines; changes in business strategy or development plans; general risks associated with doing business outside the United States, including, without limitation: exchange rates, import duties, tariffs, quotas and political and economic instability; changes in government regulations; any liability and other claims asserted against the Company; 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.

The Company is currently in default of certain financial covenants in its Credit Agreement with JPMorgan Chase Bank, N.A. and is in the process of restructuring the terms of the Credit Agreement.

As of the end of Escalade's 2008 fiscal second, third and fourth quarters, the Company was out of compliance with certain financial covenants (leverage ratio and debt service ratio) set forth in our \$30,000,000 credit facility (the "Credit Agreement") with JPMorgan Chase Bank, N.A. ("Chase"). On January 15, 2009 a letter was received from Chase, which notified Escalade that Chase considers the Company's failure to comply with each of the leverage ratio covenant and the debt service covenant to be an "Existing Default" under the Credit Agreement. Chase is not currently exercising its rights upon a default, but reserved its right to exercise any and all of its rights and remedies with respect to the Existing Defaults and has not waived any such rights and remedies.

Effective March 24, 2009 the Company entered into a commitment letter with JP Morgan Chase Bank, N.A (Chase) that provides for a secured, senior revolving credit facility in the maximum amount up to \$50,000,000 and, through Chase's London branch, a secured, senior revolving credit facility in the maximum amount of up to 3,000,000 Euros upon certain terms and conditions. The new credit facility is expected to have a maturity date of May 17, 2010. A portion of the credit facility not in excess of \$3,500,000 will be available for the issuance of commercial or standby letters of credit to be issued by Chase. While this commitment letter does not waive the current financial covenant defaults, it provides that such defaults will be waived upon execution of the definitive new credit agreement documents. The Company anticipates finalizing the new credit agreement by April 15, 2009, although there can be no assurances that such agreement will be entered into or, if completed, that it will be executed by that date.

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

In general, sales depend on discretionary spending by consumers. A deterioration of current economic conditions such as the deterioration experienced in both the United States and the global economy in 2008 adversely impacted sales in 2008 and continuing economic downturn could result in further declines in revenues and impair growth in 2009. Severely negative economic conditions could greatly impair the ability and willingness of consumers to buy products. Operating results are directly impacted by the health of the North American, European and Asian economies. 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.

If the national and global financial crisis intensifies, potential disruptions in the credit markets may adversely affect business, including the availability and cost of short-term funds for liquidity requirements and ability to meet long-term commitments, which could adversely affect results of operations, cash flows and financial condition.

If internal funds are not available from operations we may be required to rely on the banking credit and equity markets to meet financial commitments and short-term liquidity needs. Even if the Company is able to successfully restructure the credit facility as discussed above, disruptions in the capital and credit markets, as experienced during 2008, could adversely affect its ability to borrow pursuant to the Credit Agreement with Chase or to borrow from other financial institutions. Access to funds under the Credit Agreement or pursuant to arrangements with other financial institutions is dependent on Chase's or other financial institutions' ability to meet funding commitments. Financial institutions, including Chase, may not be able to meet their funding commitments if they experience shortages of capital and liquidity or if they experience high volumes of borrowing requests from other borrowers within a short period of time.

Longer term disruptions in the capital and credit markets as a result of uncertainty, changing or increased regulation, reduced alternatives or failures of significant financial institutions could adversely affect access to the liquidity needed for business. Any disruption could require the Company to take measures to conserve cash until the markets stabilize or until alternative credit arrangements or other funding for our business needs can be arranged. Such measures could include deferring capital expenditures and reducing or eliminating future share repurchases, dividend payments or other discretionary uses of cash.

The current financial crisis in the United States and globally may have significant effects on customers and suppliers that would result in material adverse effects on business, operating results and stock price.

The current financial crisis in the United States and globally and the concern that the worldwide economy may enter into a prolonged recessionary period may materially adversely affect customers' access to capital or willingness to spend capital on products and/or their levels of cash liquidity with which to pay for products that they will order or have already ordered from the Company. In addition, the current financial crisis may materially adversely affect suppliers' access to capital and liquidity with which to maintain their inventories, production levels and/or product quality, could cause them to raise prices, lower production levels or result in their ceasing operations. Continuing adverse economic conditions in our markets would also likely negatively impact business, which could result in: (1) reduced demand for products; (2) increased price competition for products; (3) increased risk of excess or obsolete inventories; (4) increased risk of collectability of cash from customers; (5) increased risk in potential reserves for doubtful accounts and write-offs of accounts receivable; (6) reduced revenues and (7) higher operating costs as a percentage of revenues.

All of the foregoing potential consequences of the current financial crisis are difficult to forecast and mitigate. As a consequence, operating results for a particular period are difficult to predict, and, therefore, prior results are not necessarily indicative of future results to be expected in future periods. Any of the foregoing effects could have a material adverse effect on business, results of operations and financial condition and could adversely affect stock price.

Negative economic conditions could prevent us from accurately forecasting demand for our products which could adversely affect our operating results or market share.

The current negative economic conditions and market instability in the United States and globally makes it increasingly difficult for the Company, customers and suppliers to accurately forecast future product demand trends, which could cause the Company to produce excess products that can increase inventory carrying costs and result in obsolete inventory. Alternatively, this forecasting difficulty could cause a shortage of products, or materials used in products, that could result in an inability to satisfy demand for products and a loss of market share.

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

The Company has grown in part over the years, through acquisitions of complementary companies or businesses, which have been part of the strategic plan and may continue to pursue acquisitions in the future from time to time. Acquisitions may result in difficulties in assimilating acquired companies, and may result in the diversion of capital and management's attention from other business issues and opportunities. The Company may not be able to successfully integrate operations that it acquires, including their personnel, financial systems, distribution, and operating procedures. If the Company fails to successfully integrate acquisitions, business could suffer. In addition, the integration of any acquired business, and their financial results, may adversely affect operating results. Escalade will consider acquisitions in the future, but we currently do not have any agreements with respect to any such acquisitions.

Growth may strain resources, which could adversely affect business and financial performance.

Both the sporting goods and office products businesses have grown over the past several years through strategic acquisitions. Growth places additional demands on management and operational systems. If the Company is not successful in continuing to support operational and financial systems, expanding the management team and increasing and effectively managing customers and suppliers, growth may result in operational inefficiencies and ineffective management of the business, which could adversely affect the business and financial performance.

Ability to expand business will be dependent upon the availability of adequate capital.

The rate of expansion will also depend on the availability of adequate capital, which in turn will depend in large part on cash flow generated by the business and the availability of equity and debt capital. Escalade can make no assurances that it will be able to obtain equity or debt capital on acceptable terms or at all, especially considering the current disruptions in the credit markets.

Failure to improve operational efficiency and reduce administrative costs could have a material adverse effect on liquidity, financial position and results of operations.

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

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

The raw materials that the Company purchases for manufacturing operations and many of the products that it sells are sourced from a wide variety of third-party suppliers. The Company cannot control the supply, design, function or cost of many of the products that are offered 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 sales and result in customer dissatisfaction. In addition, global sourcing of many of the products sold is an important factor in our financial performance. The ability to find qualified suppliers and to 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 the Company's control.

Historically, instability in the political and economic environments of the countries in which the Company or its suppliers obtain products and raw materials has not had a material adverse effect on operations. However, the Company cannot predict the effect that future changes in economic or political conditions in such foreign countries may have on 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 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 currently purchased abroad.

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

Access to materials, parts and supplies is dependent upon close relationships with suppliers and the ability to purchase products from the principal suppliers on competitive terms. The Company does not enter into long-term supply contracts with these suppliers, and has no current plans to do so in the future. These suppliers are not required to sell to the Company and are free to change the prices and other terms. Any deterioration or change in the relationships with, or in the financial condition of our significant suppliers, could have an adverse impact on the ability to procure materials and parts necessary to produce products for sale and distribution. If any of the significant suppliers terminated or significantly curtailed its relationship with the Company or ceased operations, the Company would be forced to expand relationships with other suppliers, seek out new relationships with new 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 the Company with their products could have an adverse impact on liquidity, financial position and results of operations.

Escalade may be subject to product liability claims and the Company's insurance may not be sufficient to cover damages related to those claims.

The Company may be subject to lawsuits resulting from injuries associated with the use of sporting goods equipment and office products that it sells. The Company 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, the Company may be unable to retain adequate liability insurance in the future. In addition, the Company is subject to regulation by the Consumer Product Safety Commission and similar state regulatory agencies. If the Company fails to comply with government and industry safety standards, it 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.

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

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

The Company is subject to risks associated with laws and regulations related to health, safety and environmental protection.

Products, and the production and distribution of products, are subject to a variety of laws and regulations relating to health, safety and environmental protection. Laws and regulations relating to health, safety and environmental protection have been passed in several jurisdictions in which the Company operates in the United States and abroad. Although the Company does not anticipate any material adverse effects based on the nature of operations and the thrust of such laws, there is no assurance such existing laws or future laws will not have a material adverse effect on business, results of operations and financial condition.

International operations expose the Company to the unique risks inherent in foreign operations.

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

The Company could be adversely affected by changes in currency exchange rates and/or the value of the United States dollar.

The Company is exposed to risks related to the effects of changes in foreign currency exchange rates and the value of the United States dollar. Changes in currency exchange rates and the value of the United States dollar can have a significant impact on earnings from international operations. While the Company carefully watches and attempts to manage exposure to fluctuation in currency exchange rates, these types of changes can have material adverse effects on business, results of operations and financial condition.

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

Management is responsible for establishing and maintaining adequate internal controls over financial reporting for the Company to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles. Management cannot be certain that weaknesses and deficiencies in internal controls 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 reported financial information, which could adversely affect the trading price of the Company's common stock.

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, does 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.

Failure to effectively implement the global integrated information system (SURGE) could cause incorrect information or delays in getting information which could adversely affect the performance of the Company.

The Company began an integrated information systems evaluation process in the fourth quarter of 2007 which resulted in the selection of Oracle as its vendor. In 2008, the Company spent \$6.6 million establishing the foundation and network for a system wide-roll out. The project experienced some delays and the system went live in the North American Office Products and one business entity within Sporting Goods in the beginning of 2009. Thus far in 2009 the Company has spent an additional \$0.8 million dollars. For the remainder of 2009, the Company will not expand the new system to the other operational business entities and the decision of when to recommence the integrated system implementation has not been made. There can be no assurance the Company will have the necessary funds (estimated to be in excess of \$2.0 million) or the staff to fully avail itself of the control features inherent in the system design. Without such utility, the Company management is faced with cumbersome and time consuming effort to manually consolidate information. Such inefficiencies and delays could cause sales and profit to decline and or could affect relationships with key customers and/or suppliers.

The preparation of financial statements requires the use of estimates that may vary from actual results.

The preparation of consolidated financial statements in conformity with generally accepted accounting principles in the United States and the other countries in which the Company does business requires Management to make significant estimates that may affect financial statements. Due to the inherent nature of making estimates, actual results may vary substantially from such estimates, which could materially adversely affect out business, financial condition, and results of operations. For more information on our critical accounting estimates, please see the Critical Accounting Estimates section of this Form 10-K.

Changes in accounting standards could impact reported earnings and financial condition.

The accounting standard setters, including the Financial Accounting Standards Board, the International Accounting Standards Board, the Securities & Exchange Commission and the Public Company Accounting Oversight Board, periodically change the financial accounting and reporting standards that govern the preparation of our consolidated financial statements. These changes can be hard to predict and apply and can materially affect how the Company records and reports its financial condition and results of operations. In some cases, the Company could be required to apply a new or revised standard retrospectively, which may result in the restatement of prior period financial statements.

Effective tax rate may fluctuate.

We are a multi-national, multi-channel provider of sporting goods and office products. As a result, the Company's effective tax rate is derived from a combination of applicable tax rates in the various countries, states and other jurisdictions in which the Company operates. The effective tax rate may be lower or higher than our tax rates have been in the past due to numerous factors, including the sources of income, any agreement with taxing authorities in various jurisdictions, the tax filing positions taken in various jurisdictions and changes in the political environment in the jurisdictions in which the Company operates. We base estimates of an effective tax rate at any given point in time upon a calculated mix of the tax rates applicable to the Company and to estimates of the amount of business likely to be done in any given jurisdiction. The loss of one or more agreements with taxing jurisdictions, a change in the mix of business from year to year and from country to country, changes in rules related to accounting for income taxes, changes in tax laws and any of the multiple jurisdictions in which the Company operates, or adverse outcomes from tax audits that the Company may be subject to in any of the jurisdictions in which the Company operates, could result in an unfavorable change in the effective tax rate which could have an adverse effect on business and results of our operations.

The Company is currently not in compliance with NASDAQ requirements for continued listing of common stock.

The Company's common stock is currently not in compliance with NASDAQ rules for continued listing on the NASDAQ Global Market and is at risk of being delisted. The Company's common stock has not maintained a minimum \$1.00 per share bid price for the prior 30 consecutive business days as required by NASDAQ Marketplace Rule 4450(a)(5). Additionally, the Company's common stock is currently at risk of not complying with NASDAQ Marketplace Rule 4450(a)(2) relating to continued listing on the NASDAQ Global Market. In accordance with Marketplace Rule 4450(a), companies must, among other requirements, maintain a market value of publicly held shares of at least \$5,000,000. Although the market value of the Company's publicly held shares currently exceeds \$5,000,000, the Company cannot provide any assurance it will be able to meet this requirement in the future.

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However, NASDAQ has suspended enforcement of the bid price and market value of publicly held shares requirements through July 20, 2009. If NASDAQ had not suspended enforcement of these requirements the Company likely would have received a notice of failure to comply with Marketplace Rule 4450(a)(5) and would have 180 days to regain compliance. If and when the suspension of the enforcement of the bid price or market value requirement is lifted by NASDAQ, there is no guarantee that the Company will be able to meet this bid price or market value of publicly held shares requirement. This may subject the Company to the risk of being delisted and would result in decreased liquidity of common stock.

The Company is considering the potential for voluntary delisting of its common stock with NASDAQ if the Company remains eligible for suspending its SEC reporting obligations under the Securities Exchange Act of 1934, as amended.

The Company has been subject to the periodic reporting obligations imposed by the Securities Exchange Act of 1934, as amended, since it went public in 1972. In complying with those reporting obligations and the additional requirements imposed upon public companies pursuant to the Sarbanes-Oxley Act of 2002, the Company incurs significant annual out-of-pocket costs. In addition, the time and attention required of management to comply with all such requirements is substantial. As a small public company, particularly in light of recent economic conditions, the Company has not been able to take full advantage of the potential benefits of being public yet must continue to satisfy all of the requirements to remain a public company. The rules and regulations of the SEC allow a public reporting company to suspend its public company reporting obligations if the company has no securities listed on a national stock exchange, has 300 or fewer stockholders of record and meets certain other requirements. If the Company were to delist its common stock from NASDAQ, whether voluntarily or involuntarily, the Company believes that it then would be eligible to suspend its reporting obligations under the Securities Exchange Act of 1934, as amended, because the Company currently has less than 300 stockholders of record. The Company's Board of Directors and management are in the process of exploring the advantages and disadvantages to the Company and its stockholders if the Company would no longer be a public reporting company. No final decisions have been made in this regard, but such actions would have a material impact on stockholders if taken.

The market price of common stock is likely to be highly volatile as the stock market in general can be highly volatile.

The public trading of common stock is based on many factors, which could cause fluctuation in the Company's stock price. These factors may include, among other things:

General economic and market conditions;

Actual or anticipated variations in quarterly operating results;

Lack of research coverage by securities analysts;

If securities analysts provide coverage, our inability to meet or exceed securities analysts' estimates or expectations;

Conditions or trends in our industry;

Changes in the market valuations of other companies in our industry;

Announcements by us or our competitors of significant acquisitions, strategic partnerships, divestitures, joint ventures or other strategic initiatives;

Capital commitments;

Additional or departures of key personnel;

Sales and repurchases of our common stock; and

The potential delisting of the Company's common stock from NASDAQ and the potential to cease being a public reporting company as discussed in the two risk factors set forth immediately above this risk factor.

Many of these factors are beyond the Company's control. These factors may cause the market price of the Company's common stock to decline, regardless of operating performance.

Information security may be compromised.

Through sales and marketing activities, the Company collects and stores certain information that customers provide to purchase products or services or otherwise communicate and interact with the Company. Despite instituted safeguards for the protection of such information, we cannot be certain that all of the systems are entirely free from vulnerability to attack. Computer hackers may attempt to penetrate the network security and, if successful, misappropriate confidential customer or business information. In addition, an employee, a contractor or other third party with whom we do business may attempt to circumvent the Company's security measures in order to obtain such information or inadvertently cause a breach involving such information. Loss of customer or business information could disrupt operations, damage the Company's reputation, and expose the Company to claims from customers, financial institutions, payment card associations and other persons, any of which could have an adverse effect on business, financial condition and results of operations. In addition, compliance with tougher privacy and information security laws and standards may result in significant expense due to increased investment in technology and the development of new operational processes.

Terrorist attacks or acts of war may seriously harm business.

Among the chief uncertainties facing the nation and the world and, as a result, business is the instability and conflict in the Middle East. Obviously, no one can predict with certainty what the overall economic impact will be as a result of these circumstances. Terrorist attacks may cause damage or disruption to the Company, employees, facilities and customers, which could significantly impact net sales, costs and expenses and financial condition. The potential for future terrorist attacks, the national and international responses to terrorist attacks, and other acts of war and hostility may cause greater uncertainty and cause business to suffer in ways the Company currently cannot predict.

These risks are not exhaustive.

Other sections of this Form 10-K may include additional factors which could adversely impact business and financial performance. Moreover, the Company operates in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all risk factors, nor can the Company assess the impact of all factors on 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.

ITEM 2 PROPERTIES

At December 27, 2008, the Company operated from the following locations:

Location	Square Footage	Owned or Leased	Use
<u>Sporting Goods</u>			
Evansville, Indiana, USA	359,000	Owned	Distribution; sales and marketing; administration
Evansville, Indiana, USA	82,500	Leased	Warehousing
Olney, Illinois, USA	108,500	Leased	Manufacturing and distribution
Gainesville, Florida, USA	154,000	Owned	Manufacturing and distribution
Rosarito, Mexico	66,500	Owned	Manufacturing and distribution
Rosarito, Mexico	108,200	Leased	Manufacturing
Reynosa, Mexico	126,800	Owned	Manufacturing and distribution
Raleigh, N. Carolina, USA	69,800	Leased	Manufacturing and distribution
Jacksonville, Florida, USA	18,000	Leased	Sales and marketing
<u>Office Products</u>			
Wabash, Indiana, USA	141,000	Owned	Manufacturing and distribution; sales and marketing; administration
Sanford, N. Carolina, USA	2,100	Leased	Sales and marketing
Markdorf, Germany	70,300	Owned	Manufacturing and distribution; sales and marketing; administration
Paris, France	1,335	Leased	Distribution; sales and marketing
Crawley, UK	8,300	Leased	Sales and marketing
Barcelona, Spain	8,600	Leased	Distribution; sales and marketing
Johannesburg, South Africa	4,800	Leased	Distribution; sales and marketing

At the end of 2008, the Company did not have any idle facilities. The Company made the decision to consolidate the Mexican production facilities into the Rosarito, Mexico location. The Reynosa facility is on the market to be sold and has been classified as held for sale in the Company's financial statements. The Company believes that its facilities are in satisfactory 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.

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
2008		
Fourth quarter ended December 27, 2008	\$ 2.54	\$ 0.48
Third quarter ended October 4, 2008	5.40	2.51
Second quarter ended July 12, 2008	9.14	4.80
First quarter ended March 22, 2008	9.39	8.00
2007		
Fourth quarter ended December 29, 2007	\$ 9.90	\$ 8.78
Third quarter ended October 6, 2007	9.95	8.06
Second quarter ended July 14, 2007	10.01	8.85
First quarter ended March 24, 2007	10.78	8.98

The closing market price on February 20, 2009 was \$0.40 per share.

Depending on profitability and cash flows from operations, the Board of Directors issues annual dividends. Based on the Company's 2008 performance, the Board has not declared a dividend in 2009. Dividends issued/declared during 2008 and 2007 are as follows:

Record Date	Payment Date	Amount per Common Share
March 9, 2007	March 16, 2007	\$ 0.22
March 14, 2008	March 21, 2008	\$ 0.25

There were approximately 218 holders of record of the Company's Common Stock at February 20, 2009. The approximate number of stockholders, including those held by depository companies for certain beneficial owners, was 652.

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 27, 2008. The following information is based on an investment of \$100, on January 1, 2003, 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