

FISERV INC
Form 10-Q
May 03, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2007

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 0-14948

FISERV, INC.

(Exact Name of Registrant as Specified in Its Charter)

WISCONSIN
(State or Other Jurisdiction of
Incorporation or Organization)

39-1506125
(I. R. S. Employer
Identification No.)

255 FISERV DRIVE, BROOKFIELD, WI
(Address of Principal Executive Offices)

(262) 879-5000

53045
(Zip Code)

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(Registrant's Telephone Number, Including Area Code)

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

As of April 30, 2007, there were 168,189,951 shares of common stock, \$.01 par value, of the Registrant outstanding.

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FISERV, INC. AND SUBSIDIARIES

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM I. FINANCIAL STATEMENTS****FISERV, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended March 31,	
	2007	2006
Revenues:		
Processing and services	\$ 779,165	\$ 761,044
Product	440,254	335,624
Total revenues	1,219,419	1,096,668
Expenses:		
Cost of processing and services	498,815	485,968
Cost of product	369,810	272,094
Selling, general and administrative	157,425	145,653
Total expenses	1,026,050	903,715
Operating income	193,369	192,953
Interest expense, net	(8,388)	(6,106)
Income before income taxes	184,981	186,847
Income tax provision	71,418	70,636
Net income	\$ 113,563	\$ 116,211
Net income per share:		
Basic	\$ 0.67	\$ 0.65
Diluted	\$ 0.66	\$ 0.64
Shares used in computing net income per share:		
Basic	170,026	179,351
Diluted	172,637	181,783

See notes to condensed consolidated financial statements.

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FISERV, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

(Unaudited)

	March 31, 2007	December 31, 2006
ASSETS		
Cash and cash equivalents	\$ 200,795	\$ 185,328
Trade accounts receivable, net	598,976	601,226
Prepaid expenses and other assets	176,160	176,236
Investments	2,120,344	2,019,197
Property and equipment, net	246,033	248,040
Intangible assets, net	623,999	614,818
Goodwill	2,396,799	2,363,078
Total assets	\$ 6,363,106	\$ 6,207,923
LIABILITIES AND SHAREHOLDERS EQUITY		
Trade accounts payable	\$ 223,023	\$ 229,025
Accrued expenses	305,500	374,978
Accrued income taxes	79,763	9,365
Deferred revenues	271,950	263,236
Customer funds held and retirement account deposits	2,075,453	1,986,315
Deferred income taxes	155,768	172,126
Long-term debt	821,904	747,256
Total liabilities	3,933,361	3,782,301
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS EQUITY		
Preferred stock, no par value: 25,000,000 shares authorized; none issued		
Common stock, \$0.01 par value: 450,000,000 shares authorized; 197,919,924 and 197,791,218 shares issued	1,979	1,978
Additional paid-in capital	703,095	700,103
Accumulated other comprehensive loss	(414)	(131)
Accumulated earnings	3,000,454	2,886,891
Treasury stock, at cost, 28,703,164 and 26,699,943 shares	(1,275,369)	(1,163,219)
Total shareholders equity	2,429,745	2,425,622
Total liabilities and shareholders equity	\$ 6,363,106	\$ 6,207,923

See notes to condensed consolidated financial statements.

Table of Contents**FISERV, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2007	2006
Cash flows from operating activities:		
Net income	\$ 113,563	\$ 116,211
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes	(4,790)	9,527
Share-based compensation	10,988	13,794
Excess tax benefit from exercise of options	(3,249)	(1,923)
Depreciation and amortization	50,263	47,366
Changes in assets and liabilities, net of effects from acquisitions and dispositions of businesses:		
Trade accounts receivable	4,024	5,215
Prepaid expenses and other assets	590	(10,150)
Trade accounts payable and accrued expenses	(76,267)	(48,539)
Deferred revenues	7,301	5
Accrued income taxes	68,028	58,961
Net cash provided by operating activities	170,451	190,467
Cash flows from investing activities:		
Capital expenditures, including capitalization of software costs for external customers	(48,910)	(47,172)
Payment for acquisitions of businesses, net of cash acquired	(43,424)	(61,975)
Expenses paid related to sale of businesses		(1,246)
Investments	(101,094)	28,487
Net cash used in investing activities	(193,428)	(81,906)
Cash flows from financing activities:		
Proceeds from long-term debt, net	74,267	162,364
Issuance of common stock and treasury stock	13,593	11,127
Purchases of treasury stock	(141,803)	(228,882)
Excess tax benefit from exercise of options	3,249	1,923
Customer funds held and retirement account deposits	89,138	(34,789)
Net cash provided by (used in) financing activities	38,444	(88,257)
Change in cash and cash equivalents	15,467	20,304
Beginning balance	185,328	184,471
Ending balance	\$ 200,795	\$ 204,775

See notes to condensed consolidated financial statements.

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FISERV, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Principles of Consolidation

The condensed consolidated financial statements for the three-month periods ended March 31, 2007 and 2006 are unaudited. In the opinion of management, all adjustments necessary for a fair presentation of the condensed consolidated financial statements have been included. Such adjustments consisted of normal recurring items. Interim results are not necessarily indicative of results for a full year. The condensed consolidated financial statements and notes are presented as permitted by Form 10-Q and do not contain certain information included in the annual consolidated financial statements and accompanying notes of Fiserv, Inc. and subsidiaries (the "Company"). These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006. Certain amounts reported in prior periods have been reclassified to conform to the current presentation.

The condensed consolidated financial statements include the accounts of Fiserv, Inc. and all majority owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

2. Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 permits entities to choose to measure many financial assets and financial liabilities at fair value. Both SFAS 157 and SFAS 159 are effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact that the adoption of SFAS 157 and SFAS 159 will have on its financial statements.

3. Share-Based Compensation

The Company recognized \$11.0 million and \$13.8 million of share-based compensation during the three months ended March 31, 2007 and 2006, respectively. The Company's annual grant of share-based awards generally occurs in the first quarter. During the three months ended March 31, 2007, the Company granted 905,000 stock options and 129,000 shares of restricted stock at weighted-average estimated fair values of \$20.87 and \$54.20, respectively. During the three months ended March 31, 2006, the Company granted 1,421,000 stock options and 265,000 shares of restricted stock at weighted-average estimated fair values of \$13.65 and \$39.66, respectively.

4. Income Taxes

Effective January 1, 2007, the Company adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" an interpretation of FASB Statement No. 109 ("FIN 48"), which 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, and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The adoption of FIN 48 did not result in a cumulative adjustment to the Company's accumulated earnings. The Company classifies interest and penalties related to income taxes as components of the income tax provision.

As of January 1, 2007, gross unrecognized tax benefits, which include interest and penalties, totaled approximately \$29 million. Of this total, approximately \$14 million (net of federal and state benefits) would affect the effective tax rate if recognized. Accrued interest and penalties of approximately \$6 million were recorded in accrued income taxes as of January 1, 2007. There are no significant tax positions for which it is reasonably possible that the related unrecognized tax benefits will significantly change during the next twelve months. The Company's federal tax returns for 2004 through 2006 and tax returns in certain states and foreign jurisdictions for 2000 through 2006 remain subject to examination by taxing authorities.

Table of Contents**5. Shares Used in Computing Net Income Per Share**

The following table reconciles basic weighted-average outstanding shares to diluted weighted-average outstanding shares used in calculating net income per share:

		Three months ended	
		March 31,	
<i>(In thousands)</i>		2007	2006
Weighted-average outstanding shares	Basic	170,026	179,351
	Common stock equivalents	2,611	2,432
Weighted-average outstanding shares	Diluted	172,637	181,783

For the three months ended March 31, 2007 and 2006, stock options for 0.2 million shares and 1.8 million shares, respectively, were excluded from the calculation of diluted weighted-average outstanding shares because their impact was anti-dilutive.

6. Comprehensive Income

Comprehensive income is comprised of net income, unrealized gains and losses on available-for-sale investments, fair market value adjustments on cash flow hedges, foreign currency translation, and pension actuarial gains and losses and is as follows:

		Three months ended	
		March 31,	
<i>(In thousands)</i>		2007	2006
Net income		\$ 113,563	\$ 116,211
Components of other comprehensive (loss) income, net		(283)	2,146
Comprehensive income		\$ 113,280	\$ 118,357

7. Litigation and Contingencies

In February 2007, a class was certified by the United States District Court for the Central District of California in a lawsuit that was filed in 2005 against the Fiserv Trust Company ("Fiserv Trust"). The suit alleges that Fiserv Trust, which serves as a custodian and administrator of investment accounts, knew or should have known that third parties were perpetrating an alleged Ponzi scheme and that it breached its contractual and common law duties and aided and abetted the scheme by not advising the plaintiffs to avoid investing in the alleged scheme. The lawsuit was brought on behalf of a class of investors who maintained self-directed individual retirement accounts administered by Fiserv Trust and others who invested in the alleged scheme, including investors that were never customers of Fiserv Trust, and seeks compensatory damages of \$120 million and punitive damages. Fiserv Trust has filed a petition for permission to appeal the class certification order. There is a related action in California Superior Court in San Diego, California seeking compensatory damages of \$7 million and punitive damages. The Company believes that the suits are without merit and intends to contest them vigorously. Nevertheless, the Company is unable to estimate or predict the ultimate outcome of these matters or to determine whether these matters will have a material adverse impact on the Investment Support Services segment results or the Company's condensed consolidated financial statements. Accordingly, no amounts have been accrued in the condensed consolidated financial statements for the outcome of these matters.

Table of Contents**8. Segment Information**

Revenues and operating income for the Company's reportable segments were as follows for the three months ended March 31, 2007 and 2006:

<i>(In thousands)</i>	Financial	Insurance	Investment	Total
2007				
Processing and services revenue	\$ 590,408	\$ 154,319	\$ 34,438	\$ 779,165
Product revenue	176,842	263,412		440,254
Total revenues	\$ 767,250	\$ 417,731	\$ 34,438	\$ 1,219,419
Operating income	\$ 159,940	\$ 27,905	\$ 5,524	\$ 193,369
2006				
Processing and services revenue	\$ 554,200	\$ 172,495	\$ 34,349	\$ 761,044
Product revenue	145,658	189,966		335,624
Total revenues	\$ 699,858	\$ 362,461	\$ 34,349	\$ 1,096,668
Operating income	\$ 130,176	\$ 56,746	\$ 6,031	\$ 192,953

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**Overview**

We provide integrated information management systems and services, including transaction processing, business process outsourcing, document distribution services, and software and systems solutions. Our operations are primarily in the United States and consist of three business segments: Financial Institution Services (Financial); Insurance Services (Insurance); and Investment Support Services (Investment). The Financial segment provides account and transaction processing systems and services to financial institutions and other financial intermediaries. The Insurance segment provides a wide range of services to insurance carriers, agents, distributors, third-party administrators, and self-insured employers. The Investment segment provides administrative, custodial and processing services to individual investors, retirement plan and pension administrators, financial planners and investment advisors.

Management's discussion and analysis of financial condition and results of operations is provided as a supplement to the accompanying unaudited condensed consolidated financial statements and accompanying notes to help provide an understanding of our results of operations, our financial condition and the changes in our financial condition. Our discussion is organized as follows:

Recent accounting pronouncements. This section provides a discussion of recent accounting pronouncements that may impact our results of operations and financial condition in the future.

Non-GAAP financial measures. This section provides a discussion of non-GAAP financial measures which we use in this report.

Results of operations. In this section, we provide an analysis of the results of operations presented in the accompanying unaudited condensed consolidated statements of income by comparing the results for the three-month period ended March 31, 2007 to the results for the three-month period ended March 31, 2006.

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Liquidity and capital resources. In this section, we provide an analysis of our cash flows and outstanding debt as of March 31, 2007.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 permits entities to choose to measure many financial assets and financial liabilities at fair value. Both SFAS 157 and SFAS 159 are effective future officers, as disclosed in this Proxy Statement, including the Compensation Discussion and Analysis, compensation tables and narrative discussion is hereby approved.

This vote is not intended to address any specific item of compensation, but rather the overall compensation that is paid to our named executive officers resulting from our compensation objectives, policies and practices as described in this proxy statement.

The Board of Directors unanimously recommends that you vote “FOR” Proposal 4 relating to the non-binding vote on compensation of named executive officers.

BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

To the best of the Company's knowledge, all of the Company's directors, officers and 10% or more stockholders have timely filed with the Securities and Exchange Commission all reports required to be so filed pursuant to Section 16 of the Securities Exchange Act of 1934 for fiscal 2016, except for one Form 4 reporting the grant of restricted stock units to Mr. Glazer that was inadvertently not transmitted until the day following the due date.

BOARD OF DIRECTORS, ITS COMMITTEES, MEETINGS, AND FUNCTIONS

The Board of Directors of the Company currently consists of seven members. There are five independent members on the Board (Edward E. Williams, Richard D. White, George Savitsky, Richard F. Baalman, Jr. and Walter P. Glazer, Jr.), and two members who currently serve as executive officers of the Company (David L. Fetherman and Patrick J. Griffin).

During 2016, all directors attended 100% of all regular meetings of the Board of Directors and the committees on which they served. The Board of Directors had seven meetings and the independent directors held regular executive sessions in conjunction with four of the Board meetings. The Chairman of the Board, who is an independent director, has been designated a lead or presiding director to chair executive sessions.

Stockholders may communicate directly with the Board of Directors in writing by sending a letter to the Board at: Escalade, Incorporated, 817 Maxwell Avenue, Evansville, Indiana 47711. All communications directed to the Board will be received and processed by the Company's office of the Chief Financial Officer and will be transmitted to the Chairman of the Audit Committee without any editing or screening by such office.

Board Leadership Structure

The Board has placed responsibilities on the Chairman of the Board separate from President and CEO as it believes this provides better accountability between the Board and the management team. The Board believes it is better to have a separate Chairman, whose responsibility is to lead the Board members as they provide leadership to the executive team. This responsibility includes facilitating communication among the directors; setting the Board meeting agendas in consultation with the President and CEO; and presiding at Board meetings and stockholder meetings. This delineation of duties allows the President and CEO to focus his attention on managing the day-to-day business of the Company. The Board believes this structure provides strong leadership for the Board, while positioning the President and CEO as the leader of the Company in the eyes of customers, employees and stockholders.

Mr. Richard White serves as the Chairman of the Board. Given the small size of the Board, the independent directors have a clear voice and direct access to both the Chairman of the Board and the President and CEO. The independent directors meet in executive session on a regular basis, with the discussions being led by the independent director who raises the specific topic(s) being considered in such executive sessions.

Risk Oversight of the Company

The Audit Committee is primarily responsible for overseeing the Company's risk management processes on behalf of the full Board by monitoring company processes for management's identification and control of key business, financial and regulatory risks. The Audit Committee receives a report from management annually regarding the Company's assessment of risks and meets in executive session with the Chief Financial Officer each quarter. In addition, the Audit Committee reports regularly to the full Board, which also considers the Company's risk profile. The Audit Committee and the full Board focus on the most significant risks facing the Company and review the Company's risk appetite. Management is responsible for the day-to-day risk management processes. The Company has structured the reporting relationship through the Chief Financial Officer who reports functionally to the Audit Committee. The Board believes this division of responsibilities is the most effective approach for addressing the risks facing the Company and the Board leadership structure supports this approach.

Code of Ethics

The Board of Directors has adopted the Escalade, Incorporated Code of Business Conduct and Ethics ("Code") which may be found on the Company's website at: www.escaladeinc.com/Code_of_Conduct.html. All employees, including executive officers, and directors of the Company are subject to compliance with the Code.

Committees

The Company has two standing committees, each composed entirely of independent directors. As discussed above, the Board of Directors has no nominating committee. Current committee assignments are detailed in the following table.

Name	Audit Committee	Compensation Committee
Edward E. Williams	Member(1)	Chairman
George Savitsky	Chairman(1)	Member
Richard D. White		Member
Richard F. Baalman, Jr.	Member(1)	Member
Walter P. Glazer, Jr.	Member(1)	

(1) Determined by the Board to be audit committee financial experts.

Audit Committee

The Audit Committee as a whole held four meetings in 2016. The Committee met with the independent auditors and management at the four meetings to review the interim financial information contained in each quarterly earnings announcement and the annual results. The main functions performed by the Audit Committee are to (1) review with the independent auditors their observations on internal controls of the Company and the competency of financial accounting personnel, (2) review with the chief financial officer and independent auditors, the accounting for specific items or transactions as well as alternative accounting treatments and their effects on earnings, (3) engage the firm of independent certified public accountants to be hired by the Company and review that firm's independence, and (4) approve all audit and non-audit services performed by the Company's independent auditors. The Board of Directors has adopted a written charter for the Audit Committee which can be found on the Company's website at: www.escaladeinc.com/Audit_Committee_Charter.pdf.

Compensation Committee

The Compensation Committee held four meetings in 2016 and held several informal sessions to review salaries and compensation levels within the Company. The Compensation Committee is also responsible for awards of stock options and restricted stock units. The Board of Directors has adopted a written charter for the Compensation Committee which can be found on the Company's website at: www.escaladeinc.com/Compensation_Committee_Charter.pdf.

Director Compensation

During 2016, each non-employee director of Escalade, Incorporated received an annual retainer of \$36,000. The Chairman of the Board received an additional annual fee of \$45,000. Each member of the Audit Committee received an additional annual fee of \$5,000, except for the Audit Committee Chairman who received \$15,000. Each member of the Compensation Committee received an additional annual fee of \$3,000, except for the Compensation Committee Chairman who received \$15,000 and except for the Chairman of the Board who receives no additional compensation for his service on the Compensation Committee. Independent directors receive an additional fee of \$1,000 per board meeting attended in excess of eight meetings per year. Members of the Audit Committee and Compensation Committee receive additional fees of \$1,000 per committee meeting attended in excess of six and four meetings, respectively. From time to time, a committee may request that a director who is not a member of that committee participate in additional meetings held for special purposes. Under these circumstances the non-committee member director is compensated similarly to the committee member directors. Each non-employee board member received 2,650 restricted stock units in 2016. Directors are reimbursed for their reasonable out-of-pocket expenses incurred in connection with attendance at Board and committee meetings.

Under the terms of the Escalade, Incorporated 2007 Incentive Plan, directors can elect to receive some or all of the fees earned in shares of the Company's common stock. In 2016, there were 13,112 shares of common stock issued pursuant to the plan. In 2016, directors Glazer and Williams opted to receive 100% of the fees they were entitled to in the form of common stock. Directors White and Baalman received a combination of cash and common stock. Director Savitsky received his fees in cash.

2016 Director Compensation

The following table summarizes the compensation earned by or awarded to each director who served on the Board of Directors during 2016. Compensation for Mr. Fetherman and Mr. Griffin is reflected in the “Executive Compensation - Summary Compensation Table.”

Name	Fees Earned or Paid in Cash \$(1)	Equity Awards (\$) (2)(3)	All Other Compensation (\$)	Total (\$)
Richard D. White	81,000	33,152	0	114,152
George Savitsky	54,000	33,152	0	87,152
Edward E. Williams	56,000	33,152	0	89,152
Richard F. Baalman, Jr.	46,000	33,152	0	79,152
Walter P. Glazer, Jr.	43,000	33,152	0	76,152

(1) This column includes the fair value of common stock issued in lieu of cash compensation pursuant to the Escalade, Incorporated 2007 Incentive Plan. For Director Savitsky, all fees were paid in cash. For Director Glazer and Director Williams, all fees were paid in shares of common stock. For Director White, \$40,500 was paid in cash, and \$40,500 was paid in shares of common stock. For Director Baalman, \$41,400 was paid in cash, and \$4,600 was paid in shares of common stock. Director Glazer and Director Baalman each received fees of \$2,000 for participation in a special audit subcommittee.

(2) The amount recorded in this column is the compensation cost of restricted stock units granted by the Company during the fiscal year under ASC Topic 718, Stock Compensation. The fair value of each grant is estimated on the date of grant using the closing price of the Company’s common stock on the date of grant.

(3) As of December 31, 2016, each of the independent directors had 3,650 restricted stock units outstanding and each of Messrs. Savitsky, Williams, and Baalman had 5,000 stock options outstanding.

2017 Director Compensation

In 2017, the Compensation Committee reviewed the compensation of the non-employee directors and recommended the annual retainer be set at \$39,000 and the annual fee for the Chairman of the Board be set at \$50,000 effective at the Annual Meeting. Each non-employee board member will receive 2,850 restricted stock unit grants in 2017 as compared to the 2,650 in 2016. The restricted stock units granted vest over two years (one-half one year from grant date and one-half two years from grant date), provided that the director is still with the Company. All other elements of compensation for the non-employee directors remain the same as in 2016.

REPORT OF THE AUDIT COMMITTEE

In accordance with its written charter as adopted by the Board of Directors (“Board”), the Audit Committee of the Board (“Committee”) assists the Board in fulfilling its responsibility for oversight of the quality and integrity of the accounting, auditing and financial reporting practices of Escalade. All of the Committee members are independent directors as defined under NASDAQ rules. During fiscal year 2016, the Committee met four times to discuss the interim financial information contained in each quarterly earnings announcement and the annual results with the Chief Financial Officer and independent auditors prior to public release.

In discharging its oversight responsibility as to the audit process, the Committee obtained from the independent auditors a formal written statement describing all relationships between the auditors and the Company that might bear on the auditors’ independence as required by the applicable requirements of the Public Company Accounting Oversight Board regarding BKD, LLP’s communications with the Audit Committee concerning independence, discussed with the auditors any relationships that may impact their objectivity and independence and satisfied itself as to the auditors’ independence. The Audit Committee also discussed and considered whether the provision of non-audit services by the Company’s auditors is consistent with the auditors’ independence. The Audit Committee has determined that the provisions of such services are consistent with the auditors’ independence. The Committee also discussed with management, and the independent auditors the quality and adequacy of Escalade’s internal controls. The Committee reviewed with the independent auditors their audit plan, audit scope and identification of audit risks.

The Committee discussed and reviewed with the independent auditors all communications required by auditing standards generally accepted in the United States of America, including those described in Auditing Standard No. 1301, as amended, “Communications with Audit Committees,” and, as adopted by the Public Company Accounting Oversight Board with and without management present, discussed and reviewed the results of the independent auditors’ examination of the financial statements.

The Committee reviewed the audited financial statements of Escalade as of and for the year ended December 31, 2016, with management and the independent auditors. Management has the responsibility for the preparation of financial statements and the independent auditors have the responsibility for the examination of those statements.

Based on the above-mentioned review and discussions with management and the independent auditors, the Committee recommended to the Board that Escalade’s audited financial statements be included in its Annual Report on Form 10-K for the year ended December 31, 2016, for filing with the Securities and Exchange Commission.

George Savitsky, Chairman Walter P. Glazer, Jr. Edward E. Williams Richard F. Baalman, Jr.

REPORT OF THE COMPENSATION COMMITTEE

The Compensation Committee has reviewed and discussed with the Company's management the Compensation Discussion and Analysis ("CD&A") as well as the accompanying tables set forth below. Based on that discussion, the Committee recommended to the Board of Directors that the CD&A be included in this proxy statement and incorporated into the Company's Annual Report on Form 10-K for the Company's fiscal year ended December 31, 2016.

Edward E. Williams, Chairman Richard F. Baalman, Jr. George Savitsky Richard D.
White

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

In 2016, all members of the Compensation Committee were independent directors and served the full year. No other director or executive officer of the Company serves on any board of directors or compensation committee of any entity that compensates any of Messrs. Williams, Baalman, Savitsky, and White.

COMPENSATION DISCUSSION AND ANALYSIS (CD&A)

Compensation Philosophy

The Company's philosophy in setting compensation policies for its named executive officers is to align pay with performance, while at the same time providing competitive compensation that allows the Company to retain and attract executive talent. The Compensation Committee, composed entirely of independent directors, establishes, approves and evaluates the Company's compensation policies applicable to the named executive officers.

Throughout this proxy statement, all references to the "named executive officers" means David L. Fetherman, Stephen R. Wawrin and Patrick J. Griffin, the individuals identified under "EXECUTIVE COMPENSATION – Summary Compensation Table." In 2016, Mr. Fetherman served as the Company's Chief Executive Officer and President, Mr. Wawrin served as the Company's Chief Financial Officer and Vice President Finance, and Mr. Griffin served as Vice President, Corporate Development and Investor Relations.

The Compensation Committee strongly believes that executive compensation should be directly linked to continuous improvements in corporate performance and increases in stockholder value. Consequently the Compensation Committee has adopted the following guidelines for use in evaluating executive compensation:

- Provide a competitive total compensation package that enables the Company to attract and retain key executive talent;
- Align all pay programs with the Company's annual and long-term business strategies and objectives; and
- Provide a mix of base and performance-leveraged variable compensation that directly links executive compensation to the performance of the Company and stockholder return.

Compensation Program; Mix of Pay Components

Consistent with the above philosophy, the Compensation Committee currently utilizes the following components of compensation for the Company's named executive officers:

- Base salary;
- Annual incentive cash bonuses;
- Long-term equity incentives, historically in the form of stock options and/or restricted stock units; and
- Health, welfare and other benefits

Executive compensation is based on a pay-for-performance philosophy. Consequently, a significant portion of annual and long-term compensation for the named executive officers is at-risk. This provides additional upside potential and downside risk for the Company's named executive officers, including the Chief Executive Officer and Chief Financial Officer, recognizing that the individuals serving in these roles have greater influence on the performance of the Company.

To ensure that the Company's incentive programs for its executives do not provide incentives to take excessive risks that could have a material adverse impact on the Company, the Board of Directors adopted a Policy for Recovery of Incentive Compensation in February, 2014. Pursuant to the claw back rights established by that policy, the Company's Compensation Committee has the right to recover from any director or officer receiving incentive based compensation in excess of what would have been awarded or paid in certain events to the extent legally possible. If the Company's financial statements are required to be restated due to material noncompliance with any financial reporting requirement under the federal securities laws (other than a restatement due to a change in accounting rules) and such restatement results in a restatement of the performance measures material to the award or that the Committee determines would have merited a lower payment based upon the restated financial results, then the Committee will recover the excess amount. The Committee also has the right to recover incentive based compensation from any director or officer who engaged in misconduct while serving in such role. Misconduct includes: convictions or indictments for any felony or misdemeanor under the federal securities laws or involving moral turpitude; any fraud, embezzlement, theft, dishonesty, willful misconduct or gross negligence causing material harm to the Company; and any willful breach of the person's duties or responsibilities or of any willful violation of Company policies or procedures that result in material harm to the Company. These claw back rights apply to the three year period preceding the Board's or Committee's conclusion that a restatement of financial statements is required or the three year period prior to the date of the misconduct. Each director and officer who receives incentive based compensation is required to certify in writing that he or she agrees to comply with the Company's claw back policy.

Other than employees working under a collective bargaining agreement, all employees of the Company, including the named executive officers, are employed at will.

The Role of the Compensation Committee and Method of Determining Amount of Total Compensation

The Compensation Committee is responsible for the approval and administration of compensation programs for the named executive officers. The Committee focuses on the attraction and retention of key executives and, when making decisions, considers the Company's compensation philosophy, the achievement of business goals set by the Company, the competitive environment in which the Company competes for talent, how the Company is positioned for the future, and recommendations made by the Company's Chairman and Chief Executive Officer. While the Committee primarily focuses on compensation for the named executive officers, the Committee also reviews the compensation of certain other key employees, such as the subsidiary and division heads, and the appropriateness and fairness of the allocation of annual incentive compensation among the participants in such plans at the subsidiary level.

For 2016, the Committee reviewed all compensation components for the Company's named executive officers and together with the Board of Directors, reviewed and evaluated the level of performance of the Company and of each executive officer, including the Chief Executive Officer and Chief Financial Officer, in order to determine current and future appropriate compensation levels. In addition, the Committee conducted an annual review of the Company's compensation philosophy to ensure that it remains appropriate given the Company's strategic objectives.

Role of Executive Officers in Compensation Decisions

Consistent with the Committee's past practices, Mr. Fetherman, as the Company's Chief Executive Officer, will make recommendations regarding the compensation for the Company's Chief Financial Officer and the Vice President, Corporate Development and Investor Relations, but will not make recommendations for himself. Although the Committee considers recommendations by Mr. Fetherman, the Committee retains full discretion to set all compensation for the Company's named executive officers.

Base Salary

The Compensation Committee seeks to compensate the named executive officers competitively within the industry while at the same time designing compensation components that base a significant portion of total compensation on performance. In general, base salary levels are set at the beginning of each year at levels believed by the Compensation Committee to be sufficient to attract and retain qualified executives when considered with the other components of the Company's compensation structure. In establishing the base salaries, consideration is given to local market wage rates, cost of living adjustments, performance of the Company and the individual, and other factors, including any changes in level of responsibility. The Compensation Committee also subjectively reviews the individual performance of each named executive officer, based on the performance of the Company and the individual's level of contribution towards that performance.

Accordingly, for fiscal 2016 the Compensation Committee established base salaries for the Company's key executives with the intent to motivate performance by providing significant upside potential through incentive compensation and less on guaranteed compensation in the form of salaries. The Compensation Committee does not target any specific benchmark for base salary levels for its key executives compared to comparable companies within the Company's industries. The Compensation Committee considered the scope of and accountability associated with each executive officer's position in addition to such factors as the performance and experience of each executive officer when setting base salary levels for fiscal 2016.

On December 7, 2015, Mr. Fetherman was appointed Escalade's Chief Executive Officer and the Compensation Committee determined that his base salary would be \$275,000 for the fiscal year 2016. In 2016, the Compensation Committee determined that base salaries for Mr. Wawrin, the Company's Chief Financial Officer and Mr. Griffin, Vice President, Corporate Development and Investor Relations, would increase to \$200,000 and \$150,000, respectively.

For 2017, the Compensation Committee has determined that base salaries for Mr. Fetherman, Mr. Wawrin and Mr. Griffin will increase to \$300,000, \$212,000 and \$154,500 respectively.

Annual Cash Incentive Bonus

The Compensation Committee has established a profit incentive plan that provides for the payment of cash bonuses if certain performance targets are achieved. Under the plan, the Compensation Committee establishes target performance levels early in each fiscal year, subject to potential changes that the Committee may determine appropriate. In conjunction with the completion of the Company's annual audited financial statements, the bonus pool is finalized based on actual results achieved relative to the performance levels established by the Committee. Allocation of the

bonus pool to individual executive officers is determined by the Compensation Committee based upon quantitative and qualitative assessments of the overall Company's performance relative to the stated objectives, the Company's strategic position, and the individual executive officer's performance. There are no pre-defined formulas for allocating the bonus pool to any of the Company's executive officers, and the Company's claw back policy applies to all awards to officers under this plan.

For 2016, the business results exceeded the minimum threshold for generating a bonus pool. The Compensation Committee evaluated financial, strategic and operational objectives and accomplishments for Mr. Fetherman and approved a performance bonus of \$254,600. After consultation with Mr. Fetherman, the Compensation Committee evaluated financial, strategic and operational objectives and accomplishments for the Chief Financial Officer and the Vice President, Corporate Development and Investor Relations. The Committee approved a performance bonus of \$120,000 for Mr. Wawrin and \$70,000 for Mr. Griffin.

Long Term Equity Incentives

Each year, the Compensation Committee determines the amount and character of any long term equity incentive grants to the Company's executive officers and other eligible employees. The Committee considers equity grants to be an effective incentive to encourage stock ownership by officers and key employees increasing their proprietary interest in the success of the Company, while at the same time discouraging excessive risk through the implementation of the Company's claw back policy. At the 2007 Annual Meeting, stockholders approved the Escalade, Incorporated 2007 Incentive Plan ("2007 Incentive Plan") which provides a broader array of long-term incentive awards for grant to the Company's employees, including the Chief Executive Officer and Chief Financial Officer. Accordingly, in February 2016, the Compensation Committee approved restricted stock units for Mr. Fetherman, Mr. Wawrin, and Mr. Griffin as part of the Compensation Committee's annual consideration of appropriate incentive equity awards. The Company granted, as of February 26, 2016, 6,800 restricted stock units to Mr. Fetherman, 4,100 restricted stock units to Mr. Wawrin, and 1,700 restricted stock units to Mr. Griffin. These restricted stock units granted vest over four years (one-third two years from grant date, one-third three years from grant date and one-third four years from grant date) provided that the named executive is still employed by the Company and that the performance criteria related to the market price of the Company's stock is satisfied. The criteria is for any 30 consecutive trading days on the NASDAQ Stock Market (or such other principal securities exchange on which the Company's shares of common stock are then traded) during the period beginning on the grant date and ending on the fourth anniversary thereof, the cumulative average Volume Weighted Average Price per share is at least 15% higher than the closing price per share on the grant date plus any incremental dividends paid above the then quarterly dividend rate of \$0.11 per share by the Company during such four year period. The Compensation Committee also granted Mr. Fetherman 20,000 stock options as of February 26, 2016, which options will vest over five years (one-third three years from the grant date, one-third four years from the grant date and one-third five years from grant date) and will expire on February 26, 2022. Consistent with the above performance criteria, the stock options have an exercise price of \$14.39, which is 15% higher than the closing price of a share of Escalade common stock on the grant date.

In March 2017, the Compensation Committee approved restricted stock units for Mr. Fetherman, Mr. Wawrin, and Mr. Griffin as part of the Compensation Committee's annual consideration of appropriate incentive equity awards. The Company granted, as of March 2, 2017, 7,000 restricted stock units to Mr. Fetherman, 4,100 restricted stock units to Mr. Wawrin, and 1,700 restricted stock units to Mr. Griffin. These restricted stock units granted vest over four years (one-third two years from grant date, one-third three years from grant date and one-third four years from grant date) provided that the named executive is still employed by the Company and that the performance criteria related to the market price of the Company's stock is satisfied. The criteria is for any 30 consecutive trading days on the NASDAQ Stock Market (or such other principal securities exchange on which the Company's shares of common stock are then traded) during the period beginning on the grant date and ending on the fourth anniversary thereof, the cumulative average Volume Weighted Average Price per share is at least 15% higher than the closing price per share on the grant date plus any incremental dividends paid above the current quarterly dividend rate of \$0.115 per share by the Company during such four year period.

Health, Welfare and Other Benefits

The Company provides medical, life, 401(k) plan and similar benefits to all of its salaried employees, including the named executive officers. In addition, Mr. Griffin received in 2016 and 2014 tax equalization reimbursements related to his employment with the company in Germany through August 2012. None of these benefits discriminate in scope, terms or operation in favor of the named executive officers.

Tax and Accounting Considerations

As necessary, the Compensation Committee reviews accounting and tax laws, rules and regulations that may affect the Company's compensation plans. However, tax and accounting considerations have not significantly impacted the compensation programs offered to the Company's executives. Section 162(m) of the Internal Revenue Code generally provides that certain compensation in excess of \$1 million per year paid to a company's chief executive officer and any of its four other highest paid executive officers is not deductible by a company unless the compensation qualifies for an exception. Based on the Compensation Committee's past compensation practices, the Committee does not currently believe that Section 162 (m) will adversely affect the Company's ability to obtain a tax deduction for compensation paid to its named executive officers.

EXECUTIVE OFFICERS OF THE REGISTRANT

The table presented below lists the names and ages of all of the current executive officers of the Company indicating all positions and offices held by each such person as of the date of this proxy statement.

Name	Age as of March 15, 2017	Offices and Positions Held	First Elected as an Executive Officer
David L. Fetherman	58	CEO and President	12/2015
Stephen R. Wawrin	43	V.P. Finance, CFO & Secretary	12/2014
Patrick J. Griffin	47	V.P., Corporate Development & Investor Relations	02/2011

Mr. Fetherman joined the Company as Vice President of Sales and Marketing of Escalade's Sporting Goods business in 2007. Since 2012, Mr. Fetherman has served as President of Escalade Sports. Prior to that, he served as Vice President of Sales and Marketing of WM Barr from 1997 to 2007. Effective December 7, 2015, Mr. Fetherman was appointed the Company's President and Chief Executive Officer.

Mr. Wawrin joined the Company as Corporate Controller in April 2005. Since 2008, Mr. Wawrin has served as Vice President –Finance and Administration for Escalade's Sporting Goods business. Prior to that, he practiced public accounting with BKD, LLP (1999–2005) in the Evansville area. Effective as of the first day of the Company's 2015 fiscal year, Mr. Wawrin was promoted to become the Company's Chief Financial Officer, Vice President Finance, and Secretary.

Mr. Griffin joined the Company in 2002. He was also employed with the Company from 1993 – 1995. Since 2002, Mr. Griffin has advanced in the organization, serving in successive product management roles at Escalade Sports until 2006, when he became Vice President Sales and Marketing for Martin Yale International. He was named President of Martin Yale Group in 2009. In August 2012, he accepted the position of Vice President, Corporate Development and Investor Relations of the Company.

All such persons have been elected to serve until the next annual election of officers, or until their earlier resignation or removal.

EXECUTIVE COMPENSATION**Summary Compensation Table**

The following table sets forth information regarding compensation of the named executive officers of the Company for 2016, 2015 and 2014:

Name and Principal Position	Year	Salary (\$)	Cash Bonuses (\$)	Stock Awards (\$)	Option Awards (\$)	Restricted Stock Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension		Total Compensation (\$)
								Value and Other Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)
David L. Fetherman President & Chief Executive Officer	2016	275,000	-	-	50,356	72,012	254,600	-	14,245	666,213
	2015	189,226	-	-	-	90,804	220,000	-	11,702	511,732
Stephen R. Wawrin Chief Financial Officer, Vice President Finance and Secretary	2016	200,000	-	-	-	43,419	120,000	-	12,768	376,187
	2015	160,000	-	-	-	40,467	120,000	-	10,435	330,902
Patrick J. Griffin Vice President, Corporate Development & Investor Relations	2016	150,000	-	-	-	18,003	70,000	-	92,457	330,460
	2015	129,500	-	-	-	12,502	70,000	-	8,570	220,572
	2014	126,500	-	-	-	13,113	70,000	-	180,633	390,246

Column (c) - Salary

Amounts recorded in this column reflect the annual salary paid during the year noted in column (b).

Column (d) – Cash Bonuses

Amounts recorded in this column reflect cash bonuses paid in addition to amounts paid in connection with the annual cash incentive program noted in column (h).

Column (e) – Stock Awards

Amounts recorded in this column reflect shares of stock paid as compensation.

Column (f) – Option Awards

The amount recorded in this column is the compensation cost granted by the Company during the fiscal year indicated in column (b) under ASC Topic 718, Stock Compensation. The fair value of each grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions for the years indicated:

	2016	2015	2014
Risk-free interest rate	1.055%	--	--
Dividend yield	2.728%	--	--
Expected volatility	35.60%	--	--
Weighted average-fair value per share	\$2.52	--	--

Column (g) – Restricted Stock Awards

The amount recorded in this column is the compensation cost granted by the Company during the fiscal year indicated in column (b) under ASC Topic 718, Stock Compensation. The fair value of each grant is estimated on the date of grant using Monte Carlo techniques where vesting is dependent on market conditions and on the closing price of the Company's common stock on the date of grant if vesting is based solely on time. The fair value of restricted stock units granted is detailed below for the years associated with the costs recorded in the table:

	2016	2015	2014
Weighted average market closing price on date of grant for restricted stock units where vesting is time based.	--	--	--
Weighted average fair market value of restricted stock units where vesting is contingent on market factors	\$10.59	\$13.16	\$10.49

Column (h) – Non-Equity Incentive Plan Compensation

See “CD&A – Annual Cash Incentive Bonus” on page 23 for a description of the Incentive Compensation Plan. Amounts shown for 2014 were paid to the named executive officers in March, 2015. Amounts shown for 2015 were paid to the named executive officers in March, 2016. Amounts shown for 2016 were paid to the named executive officers in February, 2017.

Column (i) - Change in Pension Value and Nonqualified Deferred Compensation Earnings

See “Nonqualified Deferred Compensation” on page 28.

Column (j) – All Other Compensation

All other compensation includes the following:

Name	401(k) Matching Contribution	Life Insurance and Supplemental Long Term Disability	German Tax Equalization	Total All Other Compensation
<u>2016</u>				
David L. Fetherman	13,278	967	--	14,245
Stephen R. Wawrin	12,064	704	--	12,768
Patrick J. Griffin	8,357	528	83,572	92,457
<u>2015</u>				
David L. Fetherman	11,044	658	--	11,702
Stephen R. Wawrin	9,860	575	--	10,435
Patrick J. Griffin	8,100	470	--	8,570
<u>2014</u>				
Patrick J. Griffin	7,632	445	172,556	180,633

Grants of Plan Based Awards

The following table sets forth certain information concerning grants of plan-based awards to each of our named executive officers during 2016. Actual cash incentive awards are disclosed under column (h) of the Summary Compensation Table, page 26. The material terms of these awards and the material plan provisions relevant to these awards are described in the footnotes to the table below.

Name	Grant Date	All Other Stock Awards:	Grant Date Fair Value	Grant Date Fair Value
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		Number of Shares of Stock or Units (#) (1)	of Stock Awards (\$) (2)	of Option Awards (\$) (3)
David L. Fetherman	02/26/16	26,800	\$72,012	\$50,356
Stephen R. Wawrin	02/26/16	4,100	\$43,419	--
Patrick J. Griffin	02/26/16	1,700	\$18,003	--

(1) The amounts disclosed in this column represent stock awards, stock compensation, and Restricted Stock Units (“RSU”) issued under the Escalade, Incorporated 2007 Incentive Plan.

The amounts disclosed in this column are calculated based on the provision of ASC Topic 718 Stock
(2) Compensation. The fair value of each grant is estimated on the date of grant using the using Monte Carlo technique.

The amounts disclosed in this column are calculated based on the provision of ASC Topic 718 Stock
(3) Compensation. The fair value of each grant is estimated on the date of grant using the Black-Scholes option-pricing model.

Outstanding Equity Awards at Fiscal Year End

The following table outlines outstanding long-term equity-based incentive compensation awards for the Company's named executive officers as of December 31, 2016.

Name	Option Awards				Stock Awards	
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Exercised Options (#) Unexercisable	Option Exercise Price (\$/Share) (1)	Option Expiration Date	Number of Shares or Units of Stock that Have Not Vested (#)	Market Value of Shares or Units of Stock that Have Not Vested (\$) (2)
David L. Fetherman	-	4,000	(3) \$ 5.85	3/01/2018	-	-
	-	20,000	(4) \$ 14.39	2/26/2022	-	-
					19,700	260,040
Stephen R. Wawrin	3,500	-	\$ 5.28	3/02/2017	-	-
	2,000	1,000	(3) \$ 5.85	3/01/2018	-	-
					8,508	112,306
Patrick J. Griffin	-	1,000	(3) \$ 5.85	3/01/2018	-	-
					3,483	45,976

(1) The option exercise price is equal to the closing market price on the date the options were granted.

(2) The amounts set forth in this column equal the number of unvested restricted stock units multiplied by the closing market price of the underlying common stock (\$13.20) on December 31, 2016.

(3) Options granted were to vest 25% per year for four years, beginning March 1, 2014.

(4) Options granted were to vest 33.3% per year for three years, beginning February 26, 2019.

Option Exercises and Stock Vested

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The following table shows all stock options exercised and the value realized upon exercise as well as number of shares acquired on vesting and value realized upon vesting by the named executive officers during 2016:

Name	Stock Awards		Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)(2)
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)(1)		
David L. Fetherman	9,750	\$ 58,268	3,000	\$ 37,800
Stephen R. Wawrin	1,500	9,795	667	8,404
Patrick J. Griffin	11,000	65,720	417	5,254

(1) Value realized reflects the market price of common stock on date of exercise, less the option exercise price.

(2) Value realized reflects the market price of common stock on date of vesting.

Nonqualified Deferred Compensation

The Company does not currently maintain any nonqualified deferred compensation plans.

Potential Payments upon Termination or Change in Control

Mr. Fetherman has an agreement with the Company which provides that if the Company would terminate Mr. Fetherman's employment without cause, or if Mr. Fetherman would resign for good reason, then Mr. Fetherman would receive a payment equal to one year of his base salary. The Company also would be obligated to pay Mr. Fetherman a proportionate amount of any incentive compensation payable to Mr. Fetherman for the year in which such severance occurred, determined at the end of such year if the incentive criteria are achieved. Other than the agreement with Mr. Fetherman and other than benefits that are generally available to all other salaried employees of the Company, the named executive officers have no agreements that would provide them with any cash payments upon termination of employment with the Company.

Upon a change in control of the Company, as defined in the Escalade, Incorporated 2007 Incentive Plan (approved by the Company’s stockholders at the 2007 annual meeting), the vesting of all outstanding, unvested stock options and restricted stock unit awards would be accelerated if not assumed or substituted for by the resulting company. This is true for all stock option recipients, not just the named executive officers. Based upon the closing stock price of the Company’s common stock as of December 31, 2016 (\$13.20), Mr. Fetherman, Mr. Wawrin, and Mr. Griffin would potentially receive value for unvested stock options and awards of approximately \$462,422. Mr. Fetherman’s options and awards have a value of \$289,440, Mr. Wawrin’s options and awards have a value of \$119,656, and Mr. Griffin’s options and awards have a value of \$53,326. All options expire on or before February 26, 2022. The potential value of unexercised stock options is computed as the difference between the exercise price and the closing stock price multiplied by the number of shares. Options with exercise prices higher than the closing market price are not included in the calculation. The potential value of unvested stock awards is computed as the closing stock price multiplied by the number of shares.

INDEPENDENT PUBLIC ACCOUNTING FIRM

The independent public accounting firm of BKD, LLP (the “Auditors”) was engaged by the Company’s Audit Committee to audit the Company’s consolidated financial statements for the year ended December 31, 2016. BKD, LLP has served as independent auditors for the Company since 1977. Audit services performed by BKD, LLP during the fiscal year most recently completed included examinations of the financial statements of the Company, services related to filings with the Securities and Exchange Commission and consultations on matters related to accounting. Representatives of BKD, LLP are expected to be present at the 2017 Annual Meeting and will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

PRINCIPAL ACCOUNTING FIRM FEES

The following table sets forth the aggregate fees billed to Escalade, Incorporated for the fiscal years ended December 31, 2016 and December 26, 2015 by the Company’s principal accounting firm, BKD, LLP.

	2016	2015
Audit Fees	\$312,632	\$324,083
Audit-Related Fees	9,000	9,000
Tax Fees	--	--
All Other Fees	--	--
Total	\$321,632	\$333,083

Audit Fees. Fees for audit services consist of:

- Audit of the Company's annual financial statements.

Audit services associated with Rule 404 of the Sarbanes-Oxley Act of 2002, which requires the independent registered accounting firm to audit Management's evaluation of internal controls over financial reporting as of the end of the fiscal year. The auditor's unqualified opinion is contained in the 2016 Annual Report.

- Reviews of the Company's quarterly financial statements.

- Statutory and regulatory audits, consents and other services related to SEC matters.

Audit-Related Fees. Fees for audit-related services consist of financial accounting and reporting consultation. The Company has not employed BKD, LLP for any audit-related services in 2016 or 2015 other than for the audit of the Company's 401(k) Plan.

Tax Fees. Fees for tax services consist of professional services rendered by BKD, LLP related to corporate income tax return preparation, compliance and advice. The Company does not employ BKD, LLP to perform tax compliance services.

The Audit Committee is responsible for pre-approving all auditing services and permitted non-audit services to be performed by its independent auditors, except as described below. Pre-approval shall not be required for the provision of non-audit services if (1) the aggregate amount of all such non-audit services constitute no more than 5% of the total amount of revenues paid by the Company to the auditors during the fiscal year in which the non-audit services are provided, (2) such services were not recognized by the Company at the time of engagement to be non-audit services, and (3) such services are promptly brought to the attention of the Audit Committee and approved prior to the completion of the audit. No services were provided by BKD, LLP pursuant to these exceptions.

CERTAIN RELATIONSHIPS AND RELATED PERSON TRANSACTIONS

The Audit Committee of the Board of Directors is charged with the responsibility to review and pre-approve all related party or affiliate transactions between the Company and its directors, executive officers, employees and/or their affiliates or in which any such persons directly or indirectly is interested or may benefit. The Company currently has no agreements, arrangements, transaction or similar relationship with any of its directors or executive officers.

OTHER SECURITIES FILINGS

The information contained in this Proxy Statement under the headings "Report of Compensation Committee" and "Report of the Audit Committee" are not, and should not be deemed to be, incorporated by reference into any prior filings by the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934 that purport to incorporate future filings or portions thereof by reference (including this proxy statement).

STOCKHOLDER PROPOSALS FOR THE 2018 ANNUAL MEETING

In order to be included in the Company's proxy materials for the 2018 Annual Meeting of Stockholders, a stockholder proposal must be in writing and received by the Company's Secretary at the principal executive offices in Evansville, Indiana by the close of business on November 28, 2017. Submission of a proposal before the deadline does not guarantee its inclusion in the proxy materials.

Under the Company's Bylaws, director nominations and other business may be brought at an annual meeting of stockholders only by or at the direction of the Board of Directors or by a stockholder entitled to vote who has submitted a proposal in accordance with the requirements of the Company's Bylaws as in effect from time to time. To be timely under the Bylaws as now in effect, a stockholder notice must be delivered or mailed to the Secretary at the principal executive offices not less than ninety (90) days prior to the first anniversary of the preceding year's annual meeting of stockholders. Stockholder proposals for the 2018 Annual Meeting must be received by February 16, 2018. However, in the event that the date of the annual meeting is advanced more than thirty (30) days prior to such anniversary date or delayed more than sixty (60) days after such anniversary date, then to be timely such notice must be received no later than the later of ninety (90) days prior to the date of the meeting or the tenth day following the day on which public announcement of the date of the meeting was made. Please refer to the full text of the Company's advance notice Bylaw provisions for additional information and requirements.

OTHER BUSINESS

The Company is not aware of any matters that will be presented at the 2017 Annual Meeting other than the election of directors, ratification of auditors, approval, by non-binding vote, of the compensation of the Company's named executive officers and approval of the Escalade, Incorporated 2017 Incentive Plan. No other matters have been presented to the Company in accordance with the Company's Bylaws. However, if any other proposal that requires a vote would be properly presented at the 2017 Annual Meeting, the persons named in the Company's proxy for the 2017 Annual Meeting will be allowed to exercise their discretionary authority to vote upon such proposal without the matter having been discussed in this proxy statement. Only such proposals as are (1) required by Securities and Exchange Commission Rules, and are (2) permissible stockholder motions under the General Corporation Law of the State of Indiana and the Company's Bylaws will be included on the Company's annual meeting docket. If any matters properly come before the 2017 Annual Meeting, it is intended that the persons named in the accompanying Proxy will vote thereon according to their best judgment and interest of the Company.

By order of the Board of Directors

/s/ Stephen R. Wawrin

VP Finance, CFO & Secretary

Annex 1

ESCALADE, INCORPORATED

2017 INCENTIVE PLAN

Escalade, Incorporated (the “Company”), an Indiana corporation, hereby establishes and adopts the following 2017 Incentive Plan (the “Plan”). If approved by the Company’s stockholders (the “Effective Date”), the Plan will replace the Company’s 2007 Incentive Plan and no new awards will be made under the 2007 Incentive Plan. Awards made under the 2007 Incentive Plan prior to the Effective Date will continue to be governed by the terms of the 2007 Incentive Plan.

1. PURPOSE OF THE PLAN

The purpose of the Plan is to assist the Company and its Subsidiaries in attracting and retaining selected individuals to serve as employees, directors, consultants and/or advisors of the Company and its Subsidiaries who are expected to contribute to the Company’s success and to achieve long-term objectives which will inure to the benefit of all stockholders of the Company through the additional incentives inherent in the Awards hereunder.

2.

DEFINITIONS

2.1. “*Award*” shall mean any Option, Stock Appreciation Right, Restricted Stock Award, Other Stock Unit Award, Performance Award or any other right, interest or option relating to Shares or other property (including cash) granted pursuant to the provisions of the Plan.

2.2. “*Award Agreement*” shall mean any written agreement, contract or other instrument or document evidencing any Award hereunder, including through an electronic medium.

2.3. “*Board*” shall mean the board of directors of the Company.

2.4. “*Code*” shall mean the Internal Revenue Code of 1986, as amended from time to time.

2.5. “*Committee*” shall mean the Compensation Committee of the Board or a subcommittee thereof formed by the Compensation Committee to act as the Committee hereunder. The Committee shall consist of no fewer than two Directors, each of whom is (i) a “Non-Employee Director” within the meaning of Rule 16b-3 of the Exchange Act, (ii) an “outside director” within the meaning of Section 162(m) of the Code, and (iii) an “independent director” for purpose of the rules and regulations of the NASDAQ Stock Market (or such other principal securities exchange on which the Shares are traded).

2.6. “*Covered Employee*” shall mean an employee of the Company or its subsidiaries who is a “covered employee” within the meaning of Section 162(m) of the Code.

2.7. “*Director*” shall mean a non-employee member of the Board.

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2.8. “*Disability*” shall mean that the Participant is unable to engage in substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months. The Committee may require such proof of Disability as the Committee in its sole and absolute discretion deems appropriate and the Committee's determination as to whether the Participant is disabled shall be final and binding on all parties concerned.

2.9. “*Dividend Equivalents*” shall have the meaning set forth in Section 12.5.

2.10. “*Employee*” shall mean any employee of the Company or any Subsidiary and any prospective employee conditioned upon, and effective not earlier than, such person becoming an employee of the Company or any Subsidiary. Solely for purposes of the Plan, an Employee shall also mean any consultant or advisor who is a natural person and who provides services to the Company or any Subsidiary, so long as such person (i) renders bona fide services that are not in connection with the offer and sale of the Company's securities in a capital-raising transaction and (ii) does not directly or indirectly promote or maintain a market for the Company's securities.

2.11. “*Exchange Act*” shall mean the Securities Exchange Act of 1934, as amended.

2.12. “*Fair Market Value*” shall mean, with respect to any property other than Shares, the market value of such property determined by such methods or procedures as shall be established from time to time by the Committee. The Fair Market Value of Shares as of any date shall be the per Share closing price of the Shares as reported on the NASDAQ Stock Market on that date (or if there were no reported prices on such date, on the next following date on which the prices are reported) or, if the Company is not then listed on the NASDAQ Stock Market, on such other principal securities exchange on which the Shares are traded, and if the Company is not listed on any securities exchange, the Fair Market Value of Shares shall be determined by the Committee in its sole discretion using appropriate criteria.

2.13. “*Limitations*” shall have the meaning set forth in Section 10.5.

2.14. “*Option*” shall mean any right granted to a Participant under the Plan allowing such Participant to purchase Shares at such price or prices and during such period or periods as the Committee shall determine.

2.15. “*Other Share-Based Award*” shall have the meaning set forth in Section 8.1.

2.16. “*Participant*” shall mean an Employee or Director who is selected by the Committee to receive an Award under the Plan.

2.17. “*Payee*” shall have the meaning set forth in Section 13.1.

2.18. “*Performance Award*” shall mean any Award of Performance Cash, Performance Shares or Performance Units granted pursuant to Article 9.

2.19. “*Performance Cash*” shall mean any cash incentives granted pursuant to Article 9 which will be paid to the Participant upon the achievement of such performance goals as the Committee shall establish.

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2.20. “*Performance Period*” shall mean the period established by the Committee during which any performance goals specified by the Committee with respect to such Award are to be measured.

2.21. “*Performance Share*” shall mean any grant pursuant to Article 9 of a unit valued by reference to a designated number of Shares, which value will be paid to the Participant upon achievement of such performance goals as the Committee shall establish.

2.22. “*Performance Unit*” shall mean any grant pursuant to Section 9 of a unit valued by reference to a designated amount of property other than Shares (or cash), which value will be paid to the Participant upon achievement of such performance goals during the Performance Period as the Committee shall establish.

2.23. “*Permitted Assignee*” shall have the meaning set forth in Section 12.3.

2.24. “*Prior Plan*” shall mean the Company’s 2007 Incentive Plan.

2.25. “*Restricted Stock*” shall mean any Share issued with the restriction that the holder may not sell, transfer, pledge or assign such Share and with such other restrictions as the Committee, in its sole discretion, may impose (including any restriction on the right to vote such Share and the right to receive any dividends or Dividend Equivalents), which restrictions may lapse separately or in combination at such time or times, in installments or otherwise, as the Committee may deem appropriate.

2.26. “*Restricted Stock Award*” shall have the meaning set forth in Section 7.1.

2.27. “*Restricted Stock Unit*” means an Award that is valued by reference to a Share, which value may be paid to the Participant by delivery of such property as the Committee shall determine, including without limitation, cash or Shares, or any combination thereof, and that has such restrictions as the Committee, in its sole discretion, may impose, including without limitation, any restriction on the right to retain such Awards, to sell, transfer, pledge or assign such Awards, and/or to receive any dividends or Dividend Equivalents with respect to such Awards, which restrictions may lapse separately or in combination at such time or times, in installments or otherwise, as the Committee may deem appropriate,

- 2.28.** “*Restricted Stock Unit Award*” shall have the meaning set forth in Section 7.1
- 2.29.** “*Shares*” shall mean the shares of common stock of the Company, no par value per share.
- 2.30.** “*Stock Appreciation Right*” shall mean the right granted to a Participant pursuant to Section 6.
- 2.31.** “*Subsidiary*” shall mean any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if, at the relevant time each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in the chain.

2.32. *Substitute Awards*” shall mean Awards granted or Shares issued by the Company in assumption of, or in substitution or exchange for, awards previously granted, or the right or obligation to make future awards, in each case by a company acquired by the Company or any Subsidiary or with which the Company or any Subsidiary combines.

2.33. *“Vesting Minimum Period”* shall mean a vesting period of not less than one year.

3.SHARES SUBJECT TO THE PLAN

3.1 *Number of Shares.* (a) Subject to the terms of, and to adjustment as provided in this Section 3.1 and Section 12.2, the number of Shares that may be issued under the Plan is 1,500,000. Of the Shares available for issuance under the Plan, no more than 90% may be available for Awards granted in any form provided for under the Plan other than Options or Stock Appreciation Rights.

(b) If any Shares subject to an outstanding Award made under the Plan on or after the Effective Date, or subject to an award under the Prior Plan outstanding as of the Effective Date, are forfeited, expire or otherwise terminate without issuance of such Shares, such Shares shall, to the extent of such forfeiture, expiration, termination, or non-issuance, again be available for issuance under the Plan.

(c) In the event that (i) any Option or other Award granted hereunder is exercised through the tendering of Shares (either actually or by attestation), by the withholding of Shares by the Company, or payable or settled in cash or that otherwise does not result in the issuance of Shares upon exercise, or (ii) withholding tax liabilities arising from such Option or other Award are satisfied by the tendering of Shares (either actually or by attestation) or by the withholding of Shares by the Company, then the Shares so tendered or withheld shall not be available for issuance under the Plan.

(d) Shares reacquired by the Company in the open market using the proceeds of amounts received upon the exercise of Options or other awards under the Plan shall not again be available for any Awards under the Plan.

(e) Substitute Awards shall not reduce the Shares authorized for grant under the Plan or authorized for grant to a Participant in any calendar year. Additionally, in the event that a company acquired by the Company or any Subsidiary or with which the Company or any Subsidiary combines has shares available under a pre-existing plan approved by shareholders and not adopted in contemplation of such acquisition or combination, the shares available for grant pursuant to the terms of such pre-existing plan (as adjusted, to the extent appropriate, using the exchange ratio or other adjustment or valuation ratio or formula used in such acquisition or combination to determine the consideration payable to the holders of common stock of the entities party to such acquisition or combination) may be

used for Awards under the Plan and shall not reduce the Shares authorized for grant under the Plan; provided that Awards using such available shares shall not be made after the date awards or grants could have been made under the terms of the pre-existing plan, absent the acquisition or combination, and shall only be made to individuals who were not Employees or Directors of the Company prior to such acquisition or combination.

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3.2. *Character of Shares.* Any Shares issued hereunder may consist, in whole or in part, of authorized and unissued shares, treasury shares or shares purchased in the open market or otherwise.

4. ELIGIBILITY AND ADMINISTRATION

4.1. *Eligibility.* Any Employee or Director shall be eligible to be selected as a Participant.

4.2. *Administration.* (a) The Plan shall be administered by the Committee. The Committee shall have full power and authority, subject to and not inconsistent with the provisions of the Plan and subject to such orders or resolutions not inconsistent with the provisions of the Plan as may from time to time be adopted by the Board, to: (i) select the Employees and Directors to whom Awards may from time to time be granted hereunder; (ii) determine the type or types of Awards to be granted to each Participant hereunder; (iii) determine the number of Shares to be covered by each Award granted hereunder; (iv) determine the terms and conditions of any Award granted hereunder; (v) determine whether, to what extent and under what circumstances Awards may be settled in cash, Shares or other property; (vi) determine whether, to what extent, and under what circumstances cash, Shares, other property and other amounts payable with respect to an Award made under the Plan shall be deferred either automatically or at the election of the Participant; (vii) determine whether, to what extent and under what circumstances any Award shall be canceled or suspended; (viii) interpret and administer the Plan and any instrument or agreement entered into under or in connection with the Plan, including any Award Agreement; (ix) correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award in the manner and to the extent that the Committee shall deem desirable to carry it into effect; (x) establish such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; (xi) determine whether any Award will be entitled to dividends or Dividend Equivalents; and (xii) make any other determination and take any other action that the Committee deems necessary or desirable for administration of the Plan. Notwithstanding any provision of the Plan that may be construed to the contrary, the Committee (A) shall not accelerate the vesting of an Award except in the case of a Participant's death or Disability, the occurrence of a Change in Control, or as otherwise required by the Company's contractual obligations entered into prior to the Effective Date, and (B) shall not grant any Award unless such Award upon grant requires at least the Vesting Minimum Period, provided, however, the Committee may grant Awards that do not satisfy the Vesting Minimum Period relating to an aggregate of five percent (5%) or less of the aggregate number of Shares authorized for issuance under the Plan (which limitation shall be subject to adjustment as provided in Section 12.2) or that are granted to Directors who elect to receive Shares in lieu of cash compensation otherwise payable to Directors.

(b) Decisions of the Committee shall be final, conclusive and binding on all persons or entities, including the Company, any Participant, and any Subsidiary. A majority of the members of the Committee may determine its actions, including fixing the time and place of its meetings.

(c) To the extent not inconsistent with applicable law, including Section 162(m) of the Code, or the rules and regulations of the NASDAQ Stock Market (or such other principal securities exchange on which the Shares are traded), the Committee may delegate to (i) a committee of one or more Directors of the Company any of the authority of the Committee under the Plan, including the right to grant, cancel or suspend Awards and (ii) to the extent permitted by law, to one or more executive officers or a committee of executive officers the right to grant Awards to Employees who are not Directors or executive officers of the Company and the authority to take action on behalf of the Committee pursuant to the Plan to cancel or suspend Awards to Employees who are not Directors or executive officers of the Company.

5. OPTIONS

5.1. Grant of Options. Options may be granted hereunder to Participants either alone or in addition to other Awards granted under the Plan. Any Option shall be subject to the terms and conditions of this Article and to such additional terms and conditions, not inconsistent with the provisions of the Plan, as the Committee shall deem desirable.

5.2. Award Agreements. All Options granted pursuant to this Article shall be evidenced by a written Award Agreement in such form and containing such terms and conditions as the Committee shall determine which are not inconsistent with the provisions of the Plan. The terms of Options need not be the same with respect to each Participant. Granting an Option pursuant to the Plan shall impose no obligation on the recipient to exercise such Option. Any individual who is granted an Option pursuant to this Article may hold more than one Option granted pursuant to the Plan at the same time.

5.3. Option Price. Other than in connection with Substitute Awards, the option price per each Share purchasable under any Option granted pursuant to this Article shall not be less than 100% of the Fair Market Value of one Share on the date of grant of such Option. Other than pursuant to Section 12.2, the Committee shall not without the approval of the Company's stockholders (a) lower the option price per Share of an Option after it is granted, (b) cancel an Option in exchange for cash or another Award (other than in connection with Substitute Awards), and (c) take any other action with respect to an Option that would be treated as a repricing under the rules and regulations of the principal securities exchange on which the Shares are traded.

5.4. Option Term. The term of each Option shall be fixed by the Committee in its sole discretion; provided that no Option shall be exercisable after the expiration of ten (10) years from the date the Option is granted, except in the event of death or Disability.

5.5. *Exercise of Options.* (a) Vested Options granted under the Plan shall be exercised by the Participant or by a Permitted Assignee thereof (or by the Participant's executors, administrators, guardian or legal representative, as may be provided in an Award Agreement) as to all or part of the Shares covered thereby, by giving notice of exercise to the Company or its designated agent, specifying the number of Shares to be purchased. The notice of exercise shall be in such form, made in such manner, and in compliance with such other requirements consistent with the provisions of the Plan as the Committee may prescribe from time to time.

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(b) Unless otherwise provided in an Award Agreement, full payment of such purchase price shall be made at the time of exercise and shall be made (i) in cash or cash equivalents (including certified check or bank check or wire transfer of immediately available funds), (ii) by tendering previously acquired Shares (either actually or by attestation, valued at their then Fair Market Value), (iii) with the consent of the Committee, by delivery of other consideration (including, where permitted by law and the Committee, other Awards) having a Fair Market Value on the exercise date equal to the total purchase price, (iv) with the consent of the Committee, by withholding Shares otherwise issuable in connection with the exercise of the Option, (v) through any other method specified in an Award Agreement, or (vi) any combination of any of the foregoing. The notice of exercise, accompanied by such payment, shall be delivered to the Company at its principal business office or such other office as the Committee may from time to time direct, and shall be in such form, containing such further provisions consistent with the provisions of the Plan, as the Committee may from time to time prescribe. In no event may any Option granted hereunder be exercised for a fraction of a Share. No adjustment shall be made for cash dividends or other rights for which the record date is prior to the date of such issuance.

5.6. *Form of Settlement.* In its sole discretion, the Committee may provide that the Shares to be issued upon an Option's exercise shall be in the form of Restricted Stock or other similar securities.

5.7. *Incentive Stock Options.* The Committee may grant Options intended to qualify as “incentive stock options” as defined in Section 422 of the Code, to any employee of the Company or any Subsidiary, subject to the requirements of Section 422 of the Code. Solely for purposes of determining whether Shares are available for the grant of “incentive stock options” under the Plan, the maximum aggregate number of Shares that may be issued pursuant to “incentive stock options” granted under the Plan shall be 1,500,000 Shares, subject to adjustments provided in Section 12.2.

6. STOCK APPRECIATION RIGHTS

6.1. *Grant and Exercise.* The Committee may provide Stock Appreciation Rights (a) in conjunction with all or part of any Option granted under the Plan or at any subsequent time during the term of such Option, (b) in conjunction with all or part of any Award (other than an Option) granted under the Plan or at any subsequent time during the term of such Award, or (c) without regard to any Option or other Award in each case upon such terms and conditions as the Committee may establish in its sole discretion.

6.2. *Terms and Conditions.* Stock Appreciation Rights shall be subject to such terms and conditions, not inconsistent with the provisions of the Plan, as shall be determined from time to time by the Committee, including the following:

- (a) Upon the exercise of a Stock Appreciation Right, the holder shall have the right to receive the excess of (i) the Fair Market Value of one Share on the date of exercise (or such amount less than such Fair Market Value as the Committee shall so determine at any time during a specified period before the date of exercise) over (ii) the grant price of the right on the date of grant, which, except in the case of Substitute Awards or in connection with an adjustment provided in Section 12.2, shall not be less than the Fair Market Value of one Share on such date of grant of the right.
- (b) Upon the exercise of a Stock Appreciation Right, the Committee shall determine in its sole discretion whether payment shall be made in cash, in whole Shares or other property, or any combination thereof.
- (c) The provisions of Stock Appreciation Rights need not be the same with respect to each recipient.
- (d) The Committee may impose such other conditions or restrictions on the terms of exercise and the grant price of any Stock Appreciation Right, as it shall deem appropriate. A Stock Appreciation Right shall have (i) a grant price not less than Fair Market Value on the date of grant (subject to the requirements of Section 409A of the Code with respect to a Stock Appreciation Right granted in conjunction with, but subsequent to, an Option), and (ii) a term not greater than ten (10) years.
- (e) Without the approval of the Company's stockholders, other than pursuant to Section 12.2, the Committee shall not (i) reduce the grant price of any Stock Appreciation Right after the date of grant (ii) cancel any Stock Appreciation Right when the grant price per Share exceeds the Fair Market Value of the underlying Shares in exchange for cash or another Award (other than in connection with Substitute Awards), and (iii) take any other action with respect to a Stock Appreciation Right that would be treated as a repricing under the rules and regulations of the principal securities market on which the Shares are traded.
- (f) The Committee may impose such terms and conditions on Stock Appreciation Rights granted in conjunction with any Award (other than an Option) as the Committee shall determine in its sole discretion.

7. RESTRICTED STOCK AND RESTRICTED STOCK UNITS

7.1. Grants. Awards of Restricted Stock and of Restricted Stock Units may be issued hereunder to Participants either alone or in addition to other Awards granted under the Plan (a "Restricted Stock Award" or "Restricted Stock Unit Award" respectively), and such Restricted Stock Awards and Restricted Stock Unit Awards shall also be available as a form of payment of Performance Awards and other earned cash-based incentive compensation. A Restricted Stock Award or Restricted Stock Unit Award shall be subject to vesting restrictions imposed by the Committee covering a

period of time specified by the Committee, which vesting period shall be equal to or longer than the Vesting Minimum Period except as permitted by Section 4.2. The Committee has absolute discretion to determine whether any consideration (other than services) is to be received by the Company or any Subsidiary as a condition precedent to the issuance of Restricted Stock or Restricted Stock Units.

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7.2. *Award Agreements.* The terms of any Restricted Stock Award or Restricted Stock Unit Award granted under the Plan shall be set forth in a written Award Agreement which shall contain provisions determined by the Committee and not inconsistent with the Plan. The terms of Restricted Stock Awards and Restricted Stock Unit Awards need not be the same with respect to each Participant

7.3. *Rights of Holders of Restricted Stock and Restricted Stock Units.* Unless otherwise provided in the Award Agreement, beginning on the date of grant of the Restricted Stock Award and subject to execution of the Award Agreement, the Participant shall become a shareholder of the Company with respect to all Shares subject to the Award Agreement and shall have all of the rights of a shareholder, including the right to vote such Shares and, to the extent such Restricted Stock Award has vested, the right to receive dividends, Dividend Equivalents, or other distributions made with respect to such Shares. A Participant receiving a Restricted Stock Unit Award shall not possess voting rights with respect to such Award and shall not have the right to receive dividends, Dividend Equivalents, or other distributions made with respect to such Shares except to the extent such Award has vested if permitted by the Committee and specified in the Award Agreement. Except as otherwise provided in an Award Agreement any Shares or any other property (other than cash) distributed as a dividend or otherwise with respect to any Restricted Stock Award or Restricted Stock Unit Award as to which the restrictions have not yet lapsed shall be subject to the same restrictions as such Restricted Stock Award or Restricted Stock Unit Award.

8. OTHER SHARE-BASED AWARDS

8.1. *Grants.* Other Awards of Shares and other Awards that are valued in whole or in part by reference to, or are otherwise based on, Shares or other property (“Other Share-Based Awards”) may be granted hereunder to Participants either alone or in addition to other Awards granted under the Plan. Other Share-Based Awards shall also be available as a form of payment of other Awards granted under the Plan and other earned cash-based incentive compensation. Other Share-Based Awards shall be subject to vesting restrictions imposed by the Committee covering a period of time specified by the Committee, which vesting period shall be equal to or longer than the Vesting Minimum Period except as permitted by Section 4.2.

8.2. *Award Agreements.* The terms of Other Share-Based Award granted under the Plan shall be set forth in a written Award Agreement which shall contain provisions determined by the Committee and not inconsistent with the Plan. The terms of such Awards need not be the same with respect to each Participant.

8.3. *Payment.* Except as may be provided in an Award Agreement, Other Share-Based Awards may be paid in cash, Shares, other property, or any combination thereof, in the sole discretion of the Committee. Other Share-Based Awards may be paid in a lump sum or in installments or, in accordance with procedures established by the Committee, on a deferred basis subject to the requirements of Section 409A of the Code.

9. PERFORMANCE AWARDS

9.1. *Grants.* Performance Awards in the form of Performance Cash, Performance Shares or Performance Units, as determined by the Committee in its sole discretion, may be granted hereunder to Participants, for no consideration or for such minimum consideration as may be required by applicable law, either alone or in addition to other Awards granted under the Plan. The performance goals to be achieved for each Performance Period shall be conclusively determined by the Committee and may be based upon the criteria set forth in Section 10.2.

9.2. *Award Agreements.* The terms of any Performance Award granted under the Plan shall be set forth in a written Award Agreement which shall contain provisions determined by the Committee and not inconsistent with the Plan, including whether such Awards shall have Dividend Equivalents to the extent such Award may have vested. The terms of Performance Awards need not be the same with respect to each Participant.

9.3. *Terms and Conditions.* The performance criteria to be achieved during any Performance Period and the length of the Performance Period shall be determined by the Committee upon the grant of each Performance Award. The amount of the Award to be distributed shall be conclusively determined by the Committee.

9.4. *Payment.* Except as provided in Article 11 or as may be provided in an Award Agreement, Performance Awards will be distributed only after the end of the relevant Performance Period. Performance Awards may be paid in cash, Shares, other property, or any combination thereof, in the sole discretion of the Committee. Performance Awards may be paid in a lump sum or in installments following the close of the Performance Period or, in accordance with procedures established by the Committee, on a deferred basis subject to the requirements of Section 409A of the Code.

10. CODE SECTION 162(m) PROVISIONS

10.1. *Covered Employees.* Notwithstanding any other provision of the Plan, if the Committee determines at the time a Restricted Stock Award, a Restricted Stock Unit Award, a Performance Award or an Other Share-Based Award is granted to a Participant who is, or is likely to be, as of the end of the tax year in which the Company would claim a tax deduction in connection with such Award, a Covered Employee, then the Committee may provide that this Article 10 is applicable to such Award.

10.2. *Performance Criteria.* If the Committee determines that a Restricted Stock Award, a Restricted Stock Unit, a Performance Award or an Other Share-Based Award is intended to be subject to this Article 10, the lapsing of restrictions thereon and the distribution of cash, Shares or other property pursuant thereto, as applicable, shall be subject to the achievement of one or more objective performance goals established by the Committee, which shall be based on the attainment of specified levels of one or any combination of the following: net sales; revenue; revenue growth or product revenue growth; operating income (before or after taxes); pre- or after-tax income (before or after allocation of corporate overhead and bonus); earnings per share; net income (before or after taxes); return on equity; total shareholder return; return on assets or net assets; appreciation in and/or maintenance of the price of the Shares or any other publicly-traded securities of the Company; market share; gross profits; earnings (including earnings before taxes, earnings before interest and taxes, earnings before interest, taxes and amortization, or earnings before interest, taxes, depreciation and amortization); economic value-added models or equivalent metrics; comparisons with various stock market indices; reductions in costs; cash flow or cash flow per share (before or after dividends); return on capital (including return on total capital or return on invested capital); cash flow return on investment; improvement in or attainment of expense levels or working capital levels; operating margins, gross margins or cash margin; year-end cash; debt reductions; shareholder equity; market share; regulatory achievements; and implementation, completion or attainment of measurable objectives with respect to research, development, products or projects, production volume levels, acquisitions and divestitures and recruiting and maintaining personnel. Such performance goals also may be based solely by reference to the Company's performance or the performance of a Subsidiary, division, business segment or business unit of the Company, or based upon the relative performance of other companies or upon comparisons of any of the indicators of performance relative to other companies. The Committee may also include adjustments to include or exclude the effects of certain events, including without limitation (a) changes in accounting standards or principles, tax law, or other such laws or provisions affecting reported results, significant acquisitions or divestitures, discontinued operations, judgments or settlements relating to litigation, arbitration or other disputed claims, (b) other unusual, infrequently occurring or unplanned items such as restructuring expenses, acquisition or divestiture expenses (including expenses relating to goodwill and other intangible assets), stock offerings, and stock repurchases, (c) an event either not directly related to the operations of the Company or not within the reasonable control of the Company's management, or (d) the cumulative effects of tax or accounting changes in accordance with U.S. generally accepted accounting principles. Such performance goals shall be set by the Committee within the time period prescribed by, and shall otherwise comply with the requirements of, Section 162(m) of the Code, and the regulations thereunder.

10.3. *Adjustments.* Notwithstanding any provision of the Plan (other than Article 11), with respect to any Restricted Stock Award, Restricted Stock Unit Award, Performance Award or Other Share-Based Award that is subject to this Section 10, the Committee may adjust downwards, but not upwards, the amount payable pursuant to such Award, and the Committee may not waive the achievement of the applicable performance goals, except in the case of the death or Disability of the Participant or as otherwise determined by the Committee in special circumstances.

10.4. Restrictions. The Committee shall have the power to impose such other restrictions on Awards subject to this Article as it may deem necessary or appropriate to ensure that such Awards satisfy all requirements for “performance-based compensation” within the meaning of Section 162(m) of the Code.

10.5. Limitations on Grants to Individual Participants. Subject to adjustment as provided in Section 12.2, no Participant may be granted (i) Options or Stock Appreciation Rights during any 36-month period with respect to more than 200,000 Shares or (ii) Restricted Stock Awards, Restricted Stock Unit Awards, Performance Awards and/or Other Share-Based Awards in any 36-month period that are intended to comply with the performance-based exception under Code Section 162(m) and are denominated in Shares with respect to more than 200,000 Shares (the “Limitations”). In addition to the foregoing, the maximum dollar value that may be earned by any Participant in any 12-month period with respect to Performance Awards that are intended to comply with the performance-based exception under Code Section 162(m) and are denominated in cash is \$2,000,000. If an Award is cancelled, the cancelled Award shall continue to be counted toward the applicable Limitations.

11. CHANGE IN CONTROL PROVISIONS

11.1. Impact on Certain Awards. Award Agreements may provide that in the event of a Change in Control of the Company (as defined in Section 11.3): (i) Options and Stock Appreciation Rights outstanding as of the date of the Change in Control shall be cancelled and terminated without payment therefore if the Fair Market Value of one Share as of the date of the Change in Control is less than the per Share Option exercise price or Stock Appreciation Right grant price, and (ii) all Performance Awards shall be considered to be earned and payable to the extent of the greater of (A) a pro rata portion of the target amount of such Performance Award based on the portion of Performance Period completed as of the date of the Change in Control, and (B) as determined by the Committee, the extent to which the performance criteria applicable to such Performance Award have been met during the applicable Performance Period up to and including the effective date of the Change in Control, and any deferral or other restriction shall lapse and such Performance Awards shall be immediately settled or distributed.

11.2. Assumption or Substitution of Certain Awards. (a) Unless otherwise provided in an Award Agreement, in the event of a Change in Control of the Company in which the successor company assumes or substitutes for an Option, Stock Appreciation Right, Restricted Stock Award, Restricted Stock Unit Award or Other Share-Based Award, if a Participant’s employment with such successor company (or a subsidiary thereof) terminates within 24 months following such Change in Control (or such other period set forth in the Award Agreement, including prior thereto if applicable) and under the circumstances specified in the Award Agreement: (i) Options and Stock Appreciation Rights outstanding as of the date of such termination of employment will immediately vest, become fully exercisable, and may thereafter be exercised for 24 months (or the period of time set forth in the Award Agreement), (ii) restrictions and deferral limitations on Restricted Stock and Restricted Stock Units shall lapse and the Restricted Stock and Restricted Stock Units shall become free of all restrictions and limitations and become fully vested, and (iii) the restrictions and deferral limitations and other conditions applicable to any Other Share-Based Awards or any other Awards shall lapse, and such Other Share-Based Awards or such other Awards shall become free of all restrictions, limitations or conditions and become fully vested and transferable to the full extent of the original grant. For the

purposes of this Section 11.1, an Option, Stock Appreciation Right, Restricted Stock Award, Restricted Stock Unit Award or Other Share-Based Award shall be considered assumed or substituted for if following the Change in Control the Award confers the right to purchase or receive, for each Share subject to the Option, Stock Appreciation Right, Restricted Stock Award, Restricted Stock Unit Award or Other Share-Based Award immediately prior to the Change in Control, the consideration (whether stock, cash or other securities or property) received in the transaction constituting a Change in Control by holders of Shares for each Share held on the effective date of such transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding shares); provided, however, that if such consideration received in the transaction constituting a Change in Control is not solely common stock of the successor company, the Committee may, with the consent of the successor company, provide that the consideration to be received upon the exercise or vesting of an Option, Stock Appreciation Right, Restricted Stock Award, Restricted Stock Unit Award or Other Share-Based Award, for each Share subject thereto, will be solely common stock of the successor company substantially equal in fair market value to the per share consideration received by holders of Shares in the transaction constituting a Change in Control. The determination of such substantial equality of value of consideration shall be made by the Committee in its sole discretion and its determination shall be conclusive and binding.

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(b) Unless otherwise provided in an Award Agreement, in the event of a Change in Control of the Company to the extent the successor company does not assume or substitute for an Option, Stock Appreciation Right, Restricted Stock Award, Restricted Stock Unit Award or Other Share-Based Award: (i) those Options and Stock Appreciation Rights outstanding as of the date of the Change in Control that are not assumed or substituted for shall immediately vest and become fully exercisable, (ii) restrictions and deferral limitations on Restricted Stock and Restricted Stock Units that are not assumed or substituted for shall lapse and the Restricted Stock and Restricted Stock Units shall become free of all restrictions and limitations and become fully vested, and (iii) the restrictions and deferral limitations and other conditions applicable to any Other Share-Based Awards or any other Awards that are not assumed or substituted for shall lapse, and such Other Share-Based Awards or such other Awards shall become free of all restrictions, limitations or conditions and become fully vested and transferable to the full extent of the original grant.

(c) The Committee, in its discretion, may determine that, upon the occurrence of a Change in Control of the Company, each Option and Stock Appreciation Right outstanding shall terminate within a specified number of days after notice to the Participant, and/or that each Participant shall receive, with respect to each Share subject to such Option or Stock Appreciation Right, an amount equal to the excess of the Fair Market Value of such Share immediately prior to the occurrence of such Change in Control over the exercise price per share of such Option and/or Stock Appreciation Right; such amount to be payable in cash, in one or more kinds of stock or property (including the stock or property, if any, payable in the transaction) or in a combination thereof, as the Committee, in its discretion, shall determine.

11.3. *Change in Control.* For purposes of the Plan, unless otherwise provided in an Award Agreement, Change in Control means the occurrence of any one of the following events:

(a) During any twenty-four (24) month period, individuals who, as of the beginning of such period, constitute the Board (the “Incumbent Directors”) cease for any reason to constitute at least a majority of the Board, provided that any person becoming a director subsequent to the beginning of such period whose election or nomination for election was approved by a vote of at least a majority of the Incumbent Directors then on the Board (either by a specific vote or by approval of the proxy statement of the Company in which such person is named as a nominee for director, without written objection to such nomination) shall be an Incumbent Director; provided, however, that no individual initially elected or nominated as a director of the Company as a result of an actual or threatened election contest with respect to directors or as a result of any other actual or threatened solicitation of proxies by or on behalf of any person other than the Board shall be deemed to be an Incumbent Director;

(b) Any “person” (as such term is defined in the Exchange Act and as used in Sections 13(d)(3) and 14(d)(2) of the Exchange Act) is or becomes a “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 40% or more of the combined voting power of the Company’s then outstanding securities eligible to vote for the election of the Board (the “Company Voting Securities”); provided, however, that the event described in this paragraph (b) shall not be deemed to be a Change in Control by virtue of any of the following acquisitions: (i) by the Company or any subsidiary, (ii) by any employee benefit plan (or related trust) sponsored or maintained by the Company or any subsidiary, (iii) by any underwriter temporarily holding securities pursuant to an offering of such securities, (iv) pursuant to a Non-Qualifying Transaction, as defined in paragraph (c), or (v) by any person of Voting Securities from the Company, if a majority of the Incumbent Board approves in advance the acquisition of beneficial ownership of 40% or more of Company Voting Securities by such person;

(c) The consummation of a merger, consolidation, statutory share exchange or similar form of corporate transaction involving the Company or any of its subsidiaries that requires the approval of the Company’s stockholders, whether for such transaction or the issuance of securities in the transaction (a “Business Combination”), unless immediately following such Business Combination: (i) at least 60% of the total voting power of (A) the corporation resulting from such Business Combination (the “Surviving Corporation”), or (B) if applicable, the ultimate parent corporation that directly or indirectly has beneficial ownership of 100% of the voting securities eligible to elect directors of the Surviving Corporation (the “Parent Corporation”), is represented by Company Voting Securities that were outstanding immediately prior to such Business Combination (or, if applicable, is represented by shares into which such Company Voting Securities were converted pursuant to such Business Combination), and such voting power among the holders thereof is in substantially the same proportion as the voting power of such Company Voting Securities among the holders thereof immediately prior to the Business Combination, (ii) no person (other than any employee benefit plan (or related trust) sponsored or maintained by the Surviving Corporation or the Parent Corporation), is or becomes the beneficial owner, directly or indirectly, of 40% or more of the total voting power of the outstanding voting securities eligible to elect directors of the Parent Corporation (or, if there is no Parent Corporation, the Surviving Corporation) and (iii) at least a majority of the members of the board of directors of the Parent Corporation (or, if there is no Parent Corporation, the Surviving Corporation) following the consummation of the Business Combination were Incumbent Directors at the time of the Board’s approval of the execution of the initial agreement providing for such Business Combination (any Business Combination which satisfies all of the criteria specified in (i), (ii) and (iii) above shall be deemed to be a “Non-Qualifying Transaction”);

(d) The stockholders of the Company approve a plan of complete liquidation or dissolution of the Company or the consummation of a sale of all or substantially all of the Company's assets; or

(e) The occurrence of any other event that the Board determines by a duly approved resolution constitutes a Change in Control.

Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because any person acquires beneficial ownership of more than 40% of the Company Voting Securities as a result of the acquisition of Company Voting Securities by the Company which reduces the number of Company Voting Securities outstanding; provided, that if after such acquisition by the Company such person becomes the beneficial owner of additional Company Voting Securities that increases the percentage of outstanding Company Voting Securities beneficially owned by such person, a Change in Control of the Company shall then occur.

12. GENERALLY APPLICABLE PROVISIONS

12.1. *Amendment and Termination of the Plan.* The Board may, from time to time, alter, amend, suspend or terminate the Plan as it shall deem advisable, subject to any requirement for stockholder approval imposed by applicable law, including the rules and regulations of the principal securities market on which the Shares are traded; provided that the Board may not amend the Plan in any manner that would result in noncompliance with Rule 16b-3 of the Exchange Act; and further provided that the Board may not, without the approval of the Company's stockholders, amend the Plan to (a) increase the number of Shares that may be the subject of Awards under the Plan (except for adjustments pursuant to Section 12.2), (b) expand the types of awards available under the Plan, (c) materially expand the class of persons eligible to participate in the Plan, (d) amend any provision of Section 5.3, (e) increase the maximum permissible term of any Option specified by Section 5.4 or the maximum permissible term of a Stock Appreciation Right specified by Section 6.2(d), or (f) amend any provision of Section 10.5. The Board may not, without the approval of the Company's shareholders, take any other action with respect to an Option or Stock Appreciation Right that may be treated as a repricing under the rules and regulations of the principal securities market on which the Shares are traded, including a reduction of the exercise price of an Option or the grant price of a Stock Appreciation Right or the exchange of an Option or Stock Appreciation Right for cash or another Award. In addition, no amendments to, or termination of, the Plan shall in any way impair the rights of a Participant under any Award previously granted without such Participant's consent.

12.2. *Adjustments.* In the event of any merger, reorganization, consolidation, recapitalization, dividend or distribution (whether in cash, shares or other property, other than a regular cash dividend), stock split, reverse stock split, spin-off or similar transaction or other change in corporate structure affecting the Shares or the value thereof, such adjustments and other substitutions shall be made to the Plan and to Awards as the Committee, in its sole discretion, deems equitable or appropriate taking into consideration the accounting and tax consequences, including such adjustments in the aggregate number, class and kind of securities that may be delivered under the Plan, the

Limitations, the maximum number of Shares that may be issued as incentive stock options and, in the aggregate or to any one Participant, in the number, class, kind and option or exercise price of securities subject to outstanding Awards granted under the Plan (including, if the Committee deems appropriate, the substitution of similar options to purchase the shares of, or other awards denominated in the shares of, another company) as the Committee may determine to be appropriate in its sole discretion; provided, however, that the number of Shares subject to any Award shall always be a whole number.

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12.3. *Transferability of Awards.* Except as provided below, no Award and no Shares subject to Awards described in Article 8 that have not been issued or as to which any applicable restriction, performance or deferral period has not lapsed, may be sold, assigned, transferred, pledged or otherwise encumbered, other than by will or the laws of descent and distribution, and such Award may be exercised during the life of the Participant only by the Participant or the Participant's guardian or legal representative. To the extent and under such terms and conditions as determined by the Committee, a Participant may assign or transfer an Award (each transferee thereof, a "Permitted Assignee") to (i) the Participant's spouse, children or grandchildren (including any adopted and step children or grandchildren), parents, grandparents or siblings, (ii) to a trust for the benefit of one or more if the Participant or the Persons referred to in clause (i), (iii) to a partnership, limited liability company or corporation in which the participant or the Persons referred to in clause (i) are the only partners, members or shareholders or (iv) for charitable donations; provided that such Permitted Assignee shall be bound by and subject to all of the terms and conditions of the Plan and the Award Agreement relating to the transferred Award and shall execute an agreement satisfactory to the Company evidencing such obligations; and provided further that such Participant shall remain bound by the terms and conditions of the Plan. The Company shall cooperate with any Permitted Assignee and the Company's transfer agent in effectuating any transfer permitted under this Section.

12.4. *Termination of Employment.* The Committee shall determine and set forth in each Award Agreement whether any Awards granted in such Award Agreement will continue to be exercisable, and the terms of such exercise, on and after the date that a Participant ceases to be employed by or to provide services to the Company or any Subsidiary (including as a Director), whether by reason of death, Disability, voluntary or involuntary termination of employment or services, or otherwise. The date of termination of a Participant's employment or services will be determined by the Committee, which determination will be final.

12.5. *Deferral; Dividend Equivalents.* The Committee shall be authorized to establish procedures pursuant to which the payment of any Award may be deferred. Subject to the provisions of the Plan and any Award Agreement, the recipient of an Award (including any deferred Award) may, if so determined by the Committee, be entitled to receive, currently or on a deferred basis, cash, stock or other property dividends, or cash payments in amounts equivalent to cash, stock or other property dividends on Shares ("Dividend Equivalents") with respect to the number of Shares covered by the Award, as determined by the Committee, in its sole discretion. The Committee may provide that such amounts and Dividend Equivalents (if any) shall be deemed to have been reinvested in additional Shares or otherwise reinvested and may provide that such amounts and Dividend Equivalents are subject to the same vesting or performance conditions as the underlying Award.

13. MISCELLANEOUS

13.1. Tax Withholding. The Company shall have the right to make all payments or distributions pursuant to the Plan to a Participant (or a Permitted Assignee thereof) (any such person, a “Payee”) net of any applicable federal, state and local taxes required to be paid or withheld as a result of (a) the grant of any Award, (b) the exercise of an Option or Stock Appreciation Right, (c) the delivery of Shares or cash, (d) the lapse of any restrictions in connection with any Award or (e) any other event occurring pursuant to the Plan. The Company or any Subsidiary shall have the right to withhold from wages or other amounts otherwise payable to such Payee such withholding taxes as may be required by law, or to otherwise require the Payee to pay such withholding taxes. If the Payee shall fail to make such tax payments as are required, the Company or its Subsidiaries shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to such Payee or to take such other action as may be necessary to satisfy such withholding obligations. The Committee shall be authorized to establish procedures for election by Participants to satisfy such obligation for the payment of such taxes by tendering previously acquired Shares (either actually or by attestation, valued at their then Fair Market Value), or by directing the Company to retain Shares (up to the Participant’s minimum required tax withholding rate or such other rate that will not trigger a negative accounting impact) otherwise deliverable in connection with the Award.

13.2. Right of Discharge Reserved; Claims to Awards. Nothing in the Plan nor the grant of an Award hereunder shall confer upon any Employee or Director the right to continue in the employment or service of the Company or any Subsidiary or affect any right that the Company or any Subsidiary may have to terminate the employment or service of (or to demote or to exclude from future Awards under the Plan) any such Employee or Director at any time for any reason. Except as specifically provided by the Committee, the Company shall not be liable for the loss of existing or potential profit from an Award granted in the event of termination of an employment or other relationship. No Employee or Participant shall have any claim to be granted any Award under the Plan, and there is no obligation for uniformity of treatment of Employees or Participants under the Plan.

13.3. Prospective Recipient. The prospective recipient of any Award under the Plan shall not, with respect to such Award, be deemed to have become a Participant, or to have any rights with respect to such Award, until and unless such recipient shall have executed an agreement or other instrument evidencing the Award and delivered a copy thereof to the Company, and otherwise complied with the then applicable terms and conditions of the Plan and the Award Agreement.

13.4. Substitute Awards. Notwithstanding any other provision of the Plan, the terms of Substitute Awards may vary from the terms set forth in the Plan to the extent the Committee deems appropriate to conform, in whole or in part, to the provisions of the awards in substitution for which they are granted.

13.5. Cancellation of Award. Notwithstanding anything to the contrary contained herein, an Award Agreement may provide that the Award shall be canceled if the Participant, without the consent of the Company, while employed

by the Company or any Subsidiary or after termination of such employment or service, establishes a relationship with a competitor of the Company or any Subsidiary or engages in activity that is in conflict with or adverse to the interest of the Company or any Subsidiary, as determined by the Committee in its sole discretion. The Committee may provide in an Award Agreement that if within the time period specified in the Agreement the Participant establishes a relationship with a competitor or engages in an activity referred to in the preceding sentence, the Participant will forfeit any gain realized on the vesting or exercise of the Award and must repay such gain to the Company.

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13.6. *Stop Transfer Orders.* All certificates for Shares delivered under the Plan pursuant to any Award shall be subject to such stop-transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Shares are then listed, and any applicable federal or state securities law, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

13.7. *Nature of Payments.* All Awards made pursuant to the Plan are in consideration of services performed or to be performed for the Company or any Subsidiary, division or business unit of the Company. Any income or gain realized pursuant to Awards under the Plan constitute a special incentive payment to the Participant and shall not be taken into account, to the extent permissible under applicable law, as compensation for purposes of any of the employee benefit plans of the Company or any Subsidiary except as may be determined by the Committee or by the Board or board of directors of the applicable Subsidiary.

13.8. *Other Plans.* Nothing contained in the Plan shall prevent the Board from adopting other or additional compensation arrangements, subject to stockholder approval if such approval is required; and such arrangements may be either generally applicable or applicable only in specific cases.

13.9. *Severability.* If any provision of the Plan shall be held unlawful or otherwise invalid or unenforceable in whole or in part by a court of competent jurisdiction, such provision shall (a) be deemed limited to the extent that such court of competent jurisdiction deems it lawful, valid and/or enforceable and as so limited shall remain in full force and effect, and (b) not affect any other provision of the Plan or part thereof, each of which shall remain in full force and effect. If the making of any payment or the provision of any other benefit required under the Plan shall be held unlawful or otherwise invalid or unenforceable by a court of competent jurisdiction, such unlawfulness, invalidity or unenforceability shall not prevent any other payment or benefit from being made or provided under the Plan, and if the making of any payment in full or the provision of any other benefit required under the Plan in full would be unlawful or otherwise invalid or unenforceable, then such unlawfulness, invalidity or unenforceability shall not prevent such payment or benefit from being made or provided in part, to the extent that it would not be unlawful, invalid or unenforceable, and the maximum payment or benefit that would not be unlawful, invalid or unenforceable shall be made or provided under the Plan.

13.10. *Construction.* As used in the Plan, the words “include” and “including,” and variations thereof, shall not be deemed to be terms of limitation, but rather shall be deemed to be followed by the words “without limitation.”

13.11. *Unfunded Status of the Plan.* The Plan is intended to constitute an “unfunded” plan for incentive compensation. With respect to any payments not yet made to a Participant by the Company, nothing contained herein shall give any such Participant any rights that are greater than those of a general creditor of the Company. In its sole discretion, the Committee may authorize the creation of trusts or other arrangements to meet the obligations created

under the Plan to deliver the Shares or payments in lieu of or with respect to Awards hereunder; provided, however, that the existence of such trusts or other arrangements is consistent with the unfunded status of the Plan.

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13.12. *Governing Law.* The Plan and all determinations made and actions taken thereunder, to the extent not otherwise governed by the Code or the laws of the United States, shall be governed by the laws of the State of Indiana, without reference to principles of conflict of laws, and construed accordingly.

13.13. *Effective Date of Plan; Termination of Plan.* The Plan shall be effective on the date of the approval of the Plan by the holders of the shares entitled to vote at a duly constituted meeting of the stockholders of the Company. The Plan shall be null and void and of no effect if the foregoing condition is not fulfilled and in such event each Award shall, notwithstanding any of the preceding provisions of the Plan, be null and void and of no effect. Awards may be granted under the Plan at any time and from time to time on or prior to the tenth anniversary of the effective date of the Plan, on which date the Plan will expire except as to Awards then outstanding under the Plan. Such outstanding Awards shall remain in effect until they have been exercised or terminated, or have expired.

13.14. *Foreign Employees.* Awards may be granted to Participants who are foreign nationals or employed outside the United States, or both, on such terms and conditions different from those applicable to Awards to Employees employed in the United States as may, in the judgment of the Committee, be necessary or desirable in order to recognize differences in local law or tax policy. The Committee also may impose conditions on the exercise or vesting of Awards in order to minimize the Company's obligation with respect to tax equalization for Employees on assignments outside their home country.

13.15. *Compliance with Section 409A of the Code.* The Plan is intended to comply and shall be administered in a manner that is intended to comply with Section 409A of the Code and shall be construed and interpreted in accordance with such intent. To the extent that an Award or the payment, settlement or deferral thereof is subject to Section 409A of the Code, the Award shall be granted, paid, settled or deferred in a manner that will comply with Section 409A of the Code, including regulations or other guidance issued with respect thereto, except as otherwise determined by the Committee. Any provision of the Plan that would cause the grant of an Award or the payment, settlement or deferral thereof to fail to satisfy Section 409A of the Code shall be amended to comply with Section 409A of the Code on a timely basis, which may be made on a retroactive basis, in accordance with regulations and other guidance issued under Section 409A of the Code. Notwithstanding the foregoing, in no event shall the Company be liable for all or any portion of any taxes, penalties, interest, or other expense incurred by a Participant on account of non-compliance with Section 409A of the Code.

13.16. *Captions.* The captions in the Plan are for convenience of reference only, and are not intended to narrow, limit or affect the substance or interpretation of the provisions contained herein.

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED. KEEP THIS PORTION FOR YOUR RECORDS DETACH AND RETURN THIS PORTION ONLY TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS: Signature [PLEASE SIGN WITHIN BOX] Date Signature (Joint Owners) Date To withhold authority to vote for any individual nominee(s), mark "For All Except" and write the number(s) of the nominee(s) on the line below. 0 0 0 0 0 0 0 0 0 0 0 0 0000314968_1 R1.0.1.15 For Withhold For All All All Except The Board of Directors recommends you vote FOR the following: 1. Election of Directors Nominees 01 George Savitsky 02 Richard D. White 03 Edward E. Williams 04 Richard F. Baalman, Jr 05 David L. Fetherman 06 Patrick J. Griffin 07 Walter P. Glazer, Jr. ESCALADE, INCORPORATED C/O BROADRIDGE P.O. BOX 1342 BRENTWOOD, NY 11717 VOTE BY INTERNET - www.proxyvote.com Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form. ELECTRONIC DELIVERY OF FUTURE PROXY MATERIALS If you would like to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years. VOTE BY PHONE - 1-800-690-6903 Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you call and then follow the instructions. VOTE BY MAIL Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717. The Board of Directors recommends you vote FOR proposals 2, 3 and 4. For Against Abstain 2. Ratify the appointment of BKD, LLP, as the independent registered public accounting firm for Escalade, Incorporated for 2017. 3. To approve the proposal to adopt the Escalade, Incorporated 2017 Incentive Plan, including the issuance of shares of common stock authorized thereunder. 4. To approve, by non-binding vote, the compensation of our named executive officers. NOTE: Such other business as may properly come before the meeting or any adjournment thereof. Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name, by authorized officer. For address change/comments, mark here. (see reverse for instructions)

0000314968_2 R1.0.1.15 Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting: The Annual Report, Notice & Proxy Statement is/ are available at www.proxyvote.com ESCALADE, INCORPORATED Annual Meeting of Stockholders May 17, 2017 This proxy is solicited by the Board of Directors The undersigned hereby appoints Richard D. White and Edward E. Williams, and each of them, with power to act without the other and with power of substitution, as proxies and attorneys-in-fact and hereby authorizes them to represent and vote, as provided on the other side, all the shares of Escalade, Incorporated Common Stock which the undersigned is entitled to vote and, in their discretion, to vote upon such other business as may properly come before the Annual Meeting of Stockholders of the Company to be held May 17, 2017 or any adjournment thereof, with all powers which the undersigned would possess if present at the Meeting. THIS PROXY CARD, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER DIRECTED HEREIN BY THE UNDERSIGNED. IF NO DIRECTION IS MADE BUT THE CARD IS SIGNED, THIS PROXY CARD WILL BE VOTED FOR THE ELECTION OF ALL NOMINEES UNDER PROPOSAL 1, FOR PROPOSAL 2, FOR PROPOSAL 3, FOR PROPOSAL 4, AND IN THE DISCRETION OF THE PROXIES WITH RESPECT TO SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE MEETING. (If you noted any Address Changes and/or Comments above, please mark corresponding box on the reverse side.) Address change/comments: Continued and to be signed on reverse side