

CASCADE CORP
Form 10-Q
September 10, 2007

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark
One)

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

For the Quarterly Period Ended July 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 1-12557

CASCADE CORPORATION

(Exact name of registrant as specified in its charter)

Oregon

(State or other jurisdiction of incorporation or organization)

93-0136592

(I.R.S. Employer Identification No.)

2201 N.E. 201st Ave.

Fairview, Oregon

(Address of principal executive office)

97024-9718

(Zip Code)

Registrant's telephone number, including area code: **(503) 669-6300**

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

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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 Exchange Act). Yes No

The number of shares outstanding of the registrant's common stock as of August 23, 2007 was 12,105,210.

CASCADE CORPORATION

FORM 10-Q

Quarter Ended July 31, 2007

TABLE OF CONTENTS

	Page
<u>Part I Financial Information:</u>	
<u>Item 1. Financial Statements (unaudited):</u>	
<u>Consolidated Statements of Income</u>	4
<u>Consolidated Balance Sheets</u>	5
<u>Consolidated Statement of Changes in Shareholders' Equity</u>	6
<u>Consolidated Statements of Cash Flows</u>	7
<u>Notes to Consolidated Financial Statements</u>	8
 <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	 18
 <u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	 30
 <u>Item 4. Controls and Procedures</u>	 31
 <u>Part II Other Information</u>	 32
 <u>Signatures</u>	 34
 <u>Exhibit Index</u>	 35

Forward-Looking Statements

This Form 10-Q, including Management's Discussion and Analysis of Financial Condition and Results of Operations (Item 2) contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including any projections of revenue, gross profit, expenses, earnings or losses from operations, synergies or other financial items; any statements of plans, strategies, and objectives of management for future operations; any statements regarding future economic conditions or performance; any statements of expectation or belief; and any statements of assumptions underlying any of the foregoing. The risks, uncertainties, and assumptions referred to above include, but are not limited to:

- Competitive factors in, and the cyclical nature of, the materials handling and construction equipment industries;
- Fluctuations in lift truck and construction equipment orders or deliveries;
- Availability and cost of raw materials;
- General business and economic conditions in North America, Europe, Asia Pacific and China;
- Foreign currency fluctuations;
- Pending litigation;
- Environmental matters;
- Levels of public and non-residential construction activity;
- Effectiveness of our capital expenditures and cost reduction initiatives;
- Fluctuations in interest rates;
- Actions by foreign governments;
- Assumptions relating to pension and other postretirement costs.

We undertake no obligation to publicly revise or update forward-looking statements to reflect events or circumstances that arise after the date of this report.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

CASCADE CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited in thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	July 31 2007	2006	July 31 2007	2006
Net sales	\$ 143,183	\$ 119,376	\$ 278,683	\$ 237,150
Cost of goods sold	97,897	81,023	190,168	162,108
Gross profit	45,286	38,353	88,515	75,042
Selling and administrative expenses	22,054	19,897	43,186	39,749
Loss (gain) on disposition of assets, net	(1,137)	45	(1,172)	(617)
Amortization	844	305	1,642	607
Insurance litigation recovery, net			(15,977)	
Operating income	23,525	18,106	60,836	35,303
Interest expense	922	493	1,917	1,025
Interest income	(225)	(527)	(382)	(882)
Other expense (income), net	224	(287)	302	(321)
Income before provision for income taxes	22,604	18,427	58,999	35,481
Provision for income taxes	7,460	6,504	20,059	12,524
Net income	\$ 15,144	\$ 11,923	\$ 38,940	\$ 22,957
Basic earnings per share	\$ 1.27	\$ 0.95	\$ 3.26	\$ 1.83
Diluted earnings per share	\$ 1.21	\$ 0.91	\$ 3.11	\$ 1.75
Basic weighted average shares outstanding	11,930	12,569	11,948	12,555
Diluted weighted average shares outstanding	12,479	13,074	12,513	13,133

The accompanying notes are an integral part of the consolidated financial statements.

CASCADE CORPORATION

CONSOLIDATED BALANCE SHEETS

(Unaudited - in thousands, except per share amounts)

	July 31 2007	January 31 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 22,501	\$ 36,593
Accounts receivable, less allowance for doubtful accounts of \$1,465 and \$1,515	92,065	74,992
Inventories	71,437	58,280
Deferred income taxes	3,771	4,481
Prepaid expenses and other	8,741	8,609
Total current assets	198,515	182,955
Property, plant and equipment, net	87,970	84,151
Goodwill	114,090	99,498
Deferred income taxes	8,016	11,817
Intangible assets, net	21,982	17,026
Other assets	1,920	1,985
Total assets	\$ 432,493	\$ 397,432
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Notes payable to banks	\$ 2,125	\$ 4,546
Current portion of long-term debt	12,500	12,573
Accounts payable	31,880	26,008
Accrued payroll and payroll taxes	10,157	9,391
Other accrued expenses	13,189	17,307
Total current liabilities	69,851	69,825
Long-term debt, net of current portion	36,500	34,000
Accrued environmental expenses	5,215	5,838
Deferred income taxes	3,736	2,798
Employee benefit obligations	9,717	9,719
Other liabilities	2,718	3,616
Total liabilities	127,737	125,796
Commitments and contingencies (Note 7)		
Shareholders' equity:		
Common stock, \$.50 par value, 20,000 authorized shares; 12,105 and 12,070 shares issued and outstanding	6,053	6,035
Retained earnings	274,230	253,307
Accumulated other comprehensive income	24,473	12,294
Total shareholders' equity	304,756	271,636
Total liabilities and shareholders' equity	\$ 432,493	\$ 397,432

The accompanying notes are an integral part of the consolidated financial statements.

CASCADE CORPORATION

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

(Unaudited in thousands, except per share amounts)

	Common Stock		Additional	Retained	Accumulated	Total	Year-To-Date
	Shares	Amount	Paid-In	Earnings	Other	Shareholders	Comprehensive
			Capital		Comprehensive	Equity	Income (Loss)
					Income (Loss)		
Balance at January 31, 2007	12,070	\$ 6,035	\$	\$ 253,307	\$ 12,294	\$ 271,636	
Net income				38,940		38,940	\$ 38,940
Dividends (\$ 0.34 per share)				(4,062)		(4,062)	
Common stock issued	424	212	3,632			3,844	
Excess tax benefit from exercise of share-based compensation awards			2,509			2,509	
Common stock repurchased	(389)	(194)	(8,069)	(13,955)		(22,218)	
Share-based compensation			1,928			1,928	
Minimum pension/post-retirement adjustment					52	52	52
Translation adjustment					12,127	12,127	12,127
Balance at July 31, 2007	12,105	\$ 6,053	\$	\$ 274,230	\$ 24,473	\$ 304,756	\$ 51,119

The accompanying notes are an integral part of the consolidated financial statements.

CASCADE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited - in thousands)

	Six Months Ended July 31	
	2007	2006
Cash flows from operating activities:		
Net income	\$ 38,940	\$ 22,957
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,531	7,494
Share-based compensation	1,928	1,882
Deferred income taxes	1,543	(1,363)
Gain on disposition of assets, net	(1,172)	(617)
Changes in operating assets and liabilities:		
Accounts receivable	(13,035)	(9,586)
Inventories	(9,850)	3,557
Prepaid expenses and other	637	(802)
Accounts payable and accrued expenses	2,724	(4,544)
Income taxes payable and receivable	(751)	(2,092)
Other assets and liabilities	(1,349)	(491)
Net cash provided by operating activities	28,146	16,395
Cash flows from investing activities:		
Capital expenditures	(9,106)	(6,248)
Proceeds from disposition of assets	2,497	1,607
Sales of marketable securities		7,100
Purchases of marketable securities		(6,100)
Business acquisitions	(11,529)	
Net cash used in investing activities	(18,138)	(3,641)
Cash flows from financing activities:		
Cash dividends paid	(4,062)	(3,769)
Payments on long-term debt	(57,442)	(88)
Proceeds from long-term debt	59,500	
Notes payable to banks, net	(3,400)	(530)
Common stock issued under share-based compensation plans	3,844	724
Common stock repurchased	(24,496)	
Excess tax benefit from exercise of share-based compensation awards	2,509	118
Net cash used in financing activities	(23,547)	(3,545)
Effect of exchange rate changes	(553)	(853)
Change in cash and cash equivalents	(14,092)	8,356
Cash and cash equivalents at beginning of period	36,593	35,493
Cash and cash equivalents at end of period	\$ 22,501	\$ 43,849

Supplemental disclosure of cash flow information:

See Note 9 to the consolidated financial statements

The accompanying notes are an integral part of the consolidated financial statements.

CASCADE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 Description of Business

Cascade Corporation is an international company engaged in the manufacture of materials handling products that are widely used on industrial fork lift trucks and, to a lesser extent, products that are used on construction, mining and agricultural vehicles. Accordingly, our sales are largely dependent on sales of lift trucks and on the sales of replacement parts. Our sales are made throughout the world. We are headquartered in Fairview, Oregon, employing approximately 2,300 people and maintaining operations in 15 countries outside the United States.

Note 2 Interim Financial Information

The accompanying consolidated financial statements for the interim periods ended July 31, 2007 and 2006 are unaudited. In the opinion of management, the accompanying consolidated financial statements reflect normal recurring adjustments necessary for a fair statement of the financial position, results of operations and cash flows for those interim periods. Results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year, and these financial statements do not contain the detail or footnote disclosures concerning accounting policies and other matters that would be included in full fiscal year financial statements. Therefore, these statements should be read in conjunction with our audited financial statements included in our Annual Report on Form 10-K for the fiscal year ended January 31, 2007.

Note 3 Segment Information

Our operating units have largely similar economic characteristics and attributes, including similar products, distribution patterns and classes of customers. As a result, we aggregate our operating units into four geographic operating segments related to the manufacturing, distribution and servicing of material handling load engagement products. We evaluate performance of each of our operating segments based on operating income, which is income before interest, miscellaneous income/expense and income taxes. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies contained in Note 2 of our consolidated financial statements included in our Form 10-K for the fiscal year ended January 31, 2007.

Revenues and operating results are classified according to the country of origin. Identifiable assets are attributed to the geographic location in which they are located. Net sales, operating results and identifiable assets by geographic region were as follows (in thousands):

8

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2007	Three Months Ended July 31					
	North America	Europe	Asia Pacific	China	Eliminations	Consolidation
Net sales	\$ 74,569	\$ 43,418	\$ 15,091	\$ 10,105	\$	\$ 143,183
Transfers between areas	8,594	373	28	3,890	(12,885)	
Net sales and transfers	\$ 83,163	\$ 43,791	\$ 15,119	\$ 13,995	\$ (12,885)	\$ 143,183
Gross profit	\$ 29,041	\$ 7,924	\$ 3,582	\$ 4,739		\$ 45,286
Selling and administrative	12,402	6,523	2,144	985		22,054
Loss (gain) on disposition of assets, net	(1,120)		(17)			(1,137)
Amortization	639	209		(4)		844
Operating income	\$ 17,120	\$ 1,192	\$ 1,455	\$ 3,758		\$ 23,525
Total assets	\$ 231,601	\$ 122,083	\$ 36,753	\$ 42,056		\$ 432,493
Property, plant and equipment, net	\$ 33,752	\$ 35,848	\$ 1,953	\$ 16,417		\$ 87,970
Capital expenditures	\$ 1,947	\$ 543	\$ 262	\$ 1,105		\$ 3,857
Depreciation expense	\$ 1,740	\$ 1,235	\$ 98	\$ 337		\$ 3,410

2006	Three Months Ended July 31					
	North America	Europe	Asia Pacific	China	Eliminations	Consolidation
Net sales	\$ 65,847	\$ 33,827	\$ 12,319	\$ 7,383	\$	\$ 119,376
Transfers between areas	6,510	432	76	1,704	(8,722)	
Net sales and transfers	\$ 72,357	\$ 34,259	\$ 12,395	\$ 9,087	\$ (8,722)	\$ 119,376
Gross profit	\$ 26,081	\$ 6,273	\$ 2,979	\$ 3,020		\$ 38,353
Selling and administrative	11,503	5,548	2,130	716		19,897
Loss (gain) on disposition of assets, net	5	45	(6)	1		45
Amortization	89	208		8		305
Operating income (loss)	\$ 14,484	\$ 472	\$ 855	\$ 2,295		\$ 18,106
Total assets	\$ 208,021	\$ 112,687	\$ 32,326	\$ 28,140		\$ 381,174
Property, plant and equipment, net	\$ 33,951	\$ 35,586	\$ 1,501	\$ 5,414		\$ 76,452
Capital expenditures	\$ 1,724	\$ 645	\$ 73	\$ 555		\$ 2,997
Depreciation expense	\$ 2,065	\$ 1,162	\$ 108	\$ 70		\$ 3,405

2007	Six Months Ended July 31					
	North America	Europe	Asia Pacific	China	Eliminations	Consolidation
Net sales	\$ 145,951	\$ 85,022	\$ 28,886	\$ 18,824	\$	\$ 278,683
Transfers between areas	16,903	697	98	6,559	(24,257)	
Net sales and transfers	\$ 162,854	\$ 85,719	\$ 28,984	\$ 25,383	\$ (24,257)	\$ 278,683
Gross profit	\$ 57,197	\$ 15,529	\$ 7,179	\$ 8,610		\$ 88,515
Selling and administrative	24,541	12,749	4,101	1,795		43,186
Loss (gain) on disposition of assets, net	(1,194)	8	(17)	31		(1,172)
Amortization	1,227	414		1		1,642
Insurance litigation recovery, net	(15,977)					(15,977)
Operating income	\$ 48,600	\$ 2,358	\$ 3,095	\$ 6,783		\$ 60,836
Capital expenditures	\$ 3,501	\$ 1,361	\$ 449	\$ 3,795		\$ 9,106
Depreciation expense	\$ 3,650	\$ 2,460	\$ 197	\$ 582		\$ 6,889

2006	Six Months Ended July 31					
	North America	Europe	Asia Pacific	China	Eliminations	Consolidation
Net sales	\$ 132,462	\$ 67,048	\$ 23,456	\$ 14,184	\$	\$ 237,150
Transfers between areas	12,504	837	168	3,371	(16,880)	
Net sales and transfers	\$ 144,966	\$ 67,885	\$ 23,624	\$ 17,555	\$ (16,880)	\$ 237,150
Gross profit	\$ 52,039	\$ 11,617	\$ 5,728	\$ 5,658		\$ 75,042
Selling and administrative	22,971	11,400	4,078	1,300		39,749
Loss (gain) on disposition of assets, net	9	(617)	(10)	1		(617)

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Amortization	178	415		14	607
Operating income	\$ 28,881	\$ 419	\$ 1,660	\$ 4,343	\$ 35,303
Capital expenditures	\$ 3,727	\$ 992	\$ 144	\$ 1,385	\$ 6,248
Depreciation expense	\$ 4,106	\$ 2,433	\$ 212	\$ 136	\$ 6,887

9

Note 4 Inventories

Inventories stated at the lower of average cost or market are presented below by major class (in thousands).

	July 31 2007	January 31 2007
Finished goods and components	\$ 43,806	\$ 36,716
Work in process	739	399
Raw materials	26,892	21,165
	\$ 71,437	\$ 58,280

Note 5 Goodwill

During the six months ended July 31, 2007, goodwill increased \$7.6 million due to acquisitions. The remaining difference in the amount of goodwill between July 31, 2007 and January 31, 2007 related to fluctuations in foreign currencies. We have no goodwill recorded in China. The following table provides a breakdown of goodwill by geographic region (in thousands):

	July 31 2007	January 31 2007
North America	\$ 100,011	\$ 85,903
Europe	11,100	10,598
Asia Pacific	2,979	2,997
	\$ 114,090	\$ 99,498

Note 6 Share-Based Compensation Plans

We have granted three types of share-based awards, stock appreciation rights (SARS), restricted stock and stock options under our share-based compensation plans to officers, key managers and directors. The grant prices for SARS and in the past stock options are established by our Board of Directors Compensation Committee at the time the awards are granted. We issue new common shares upon the exercise of all awards.

SARS provide the holder the right to receive an amount, payable in our common shares, equal to the excess of the market value of our common shares on the date of exercise (intrinsic value) over the base price at the time the right was granted. The base price may not be less than the market price of our common shares on the date of grant. All SARS vest ratably over a four year period and have a term of ten years.

During the second quarter of fiscal 2008, shareholders approved a proposal to amend the SARS plan to permit the issuance of restricted shares of common stock. Upon the granting of restricted stock, common shares are issued to the recipient, but the shares may not be sold, assigned, transferred, pledged, or disposed of by the recipient until vested. Regardless of vesting, restricted shares have full voting rights and any dividends declared will be paid to the restricted stock recipient. Restricted shares vest ratably over a period of three years for officers and four years for directors. The number of restricted shares issued to directors is based on the market value of our shares on the date of grant.

The amended SARS plan provides for the issuance of a maximum of 750,000 shares of common stock upon the exercise of SARS or issuance of restricted stock. As of July 31, 2007, a total of 217,000 shares of common stock have been issued under the SARS plan, which includes 42,000 shares of restricted stock, with a grant date fair market value of \$73.73 per share.

Stock options provide the holder the right to receive our common shares at an established price. We have reserved 1,400,000 shares of common stock under our stock option plan. As of July 31, 2007, a total of 1,083,000 shares have been issued upon the exercise of stock options. No additional stock options can be granted under the terms of the plan. All outstanding stock options vest ratably over a four year period and have a term of ten years.

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A summary of the plans status at July 31, 2007 together with changes during the six months then ended are presented in the following tables (in thousands, except per share amounts):

	Stock Options		Stock Appreciation Rights	
	Outstanding Awards	Weighted Average Exercise Price Per Share	Outstanding Awards	Weighted Average Exercise Price Per Share
Balance at January 31, 2007	570	\$ 13.79	1,031	\$ 31.56
Granted			66	73.73
Exercised	(276)	14.02	(170)	29.87
Forfeited	(6)	19.86	(79)	33.93
Balance at July 31, 2007	288	\$ 13.43	848	\$ 34.96

We calculate share-based compensation cost for SARS and stock options using the Black-Scholes option pricing model. The range of assumptions used to compute share-based compensation are as follows:

	Granted in Fiscal 2008		Granted Prior to Fiscal 2008
Risk-free interest rate	5.1	%	2.3 - 5.0%
Expected volatility	41	%	40 - 42%
Expected dividend yield	1.0	%	1.1 - 2.8%
Expected life (in years)	7		5 - 6
Weighted average fair value at date of grant	\$ 33.31	\$	4.16 - 17.86

We calculate share-based compensation cost for restricted stock by multiplying the fair market value of our common shares on the grant date by the number of restricted shares expected to vest. The restricted stock share-based compensation is expensed ratably over the applicable vesting period.

As of July 31, 2007, there was \$11.6 million of total unrecognized compensation cost related to nonvested share-based compensation awards granted under the Plans, which is expected to be recognized over a weighted average period of 2.7 years. The following table represents as of July 31, 2007 the share-based compensation costs to be recognized in future periods (in thousands) for awards granted to date:

Fiscal Year	Amount
2008*	\$ 2,602
2009	4,563
2010	3,057
2011	1,157
2012	198
	\$ 11,577

*Represents last six months of fiscal 2008.

Note 7 Commitments and Contingencies

Environmental Matters

We are subject to environmental laws and regulations, which include obligations to remove or mitigate environmental effects of past disposal and release of certain wastes and substances at various sites. We record liabilities for affected sites when environmental assessments indicate probable cleanup and the costs can be reasonably estimated. Other than for costs of assessments themselves, the timing and amount of these liabilities is determined based on the estimated costs of remediation activities and our commitment to a formal plan of action, such as an approved remediation plan. The reliability and precision of the loss estimates are affected by numerous factors, such as different stages of site evaluation and reevaluation of the degree of remediation required. We adjust our liabilities as new remediation requirements are defined, as information becomes available permitting reasonable estimates to be made and to reflect new and changing facts.

It is reasonably possible that changes in estimates will occur in the near term and the related adjustments to environmental liabilities may have a material impact on our net income. Unasserted claims are not currently reflected in our environmental remediation liabilities. It is also reasonably possible that these claims may also have a material impact on our net income if asserted. We cannot estimate at this time the amount of any additional loss or range of loss that is reasonably possible.

Our specific environmental matters consist of the following:

Fairview, Oregon

In 1996, the Oregon Department of Environmental Quality issued two Records of Decision affecting our Fairview, Oregon manufacturing facility. The Records of Decision required us to initiate remedial activities related to the cleanup of groundwater contamination at and near the facility. Remediation activities have been conducted since 1996 and current estimates provide for some level of activity to continue through 2019. Costs of certain remediation activities at the facility are shared with The Boeing Company, with Cascade paying 70% of these costs. The recorded liability for ongoing remediation activities at our Fairview facility was \$5.3 million and \$5.9 million at July 31, 2007 and January 31, 2007, respectively.

Springfield, Ohio

In 1994, we entered into a consent order with the Ohio Environmental Protection Agency, which required the installation of remediation systems for the cleanup of groundwater contamination at our Springfield, Ohio facility. The current estimate is that the remediation activities will continue through 2013. The recorded liability for ongoing remediation activities in Springfield was \$909,000 at July 31, 2007 and \$1.0 million at January 31, 2007.

Insurance Litigation

On April 9, 2007, we entered into a settlement agreement with Employers Reinsurance Corporation with respect to litigation to recover various expenses incurred in connection with environmental and related proceedings. The recovery from the settlement, recorded during the three months ended April 30, 2007, was \$16.0 million, net of expenses. In connection with the settlement, we released all rights we might have under insurance policies issued by Employers Reinsurance Corporation and certain related entities. This concluded all litigation against our insurance companies with regard to environmental matters.

Legal Proceedings

We are subject to legal proceedings, claims and litigation, in addition to the environmental matters previously discussed, arising in the ordinary course of business. While the outcome of these matters is currently not determinable, management does not expect the ultimate costs to be material to our consolidated financial position, result of operations, or cash flows.

Note 8 Earnings Per Share

The following table presents the calculation of basic and diluted earnings per share (in thousands, except per share amounts):

	Three Months Ended July 31		Six Months Ended July 31	
	2007	2006	2007	2006
Basic earnings per share:				
Net income	\$ 15,144	\$ 11,923	\$ 38,940	\$ 22,957
Weighted average shares of common stock outstanding	11,930	12,569	11,948	12,555
	\$ 1.27	\$ 0.95	\$ 3.26	\$ 1.83
Diluted earnings per share:				
Net income	\$ 15,144	\$ 11,923	\$ 38,940	\$ 22,957
Weighted average shares of common stock outstanding	11,930	12,569	11,948	12,555
Dilutive effect of stock options and stock appreciation rights	549	505	565	578
Diluted weighted average shares of common stock outstanding	12,479	13,074	12,513	13,133
	\$ 1.21	\$ 0.91	\$ 3.11	\$ 1.75

Basic earnings per share is based on the weighted average number of common shares outstanding for the period. Diluted weighted average common shares includes the incremental shares that would be issued upon the assumed exercise of stock options and stock appreciation rights and the amount of unvested restricted stock. Unexercised SARs totaling 66,000 awards were excluded from the fiscal 2008 three months and six months calculations of diluted earnings per share because they were antidilutive. Unvested restricted stock totaling 42,000 shares was excluded from the fiscal 2008 six months calculation of diluted earnings per share because they were antidilutive. All stock options are included in our calculation of incremental shares because they are dilutive.

Note 9 Supplemental Cash Flow Information

The following table presents information that supplements the consolidated statements of cash flow (in thousands):

	For the Six Months Ended July 31	
	2007	2006
Cash paid during the period for:		
Interest	\$ 1,915	\$ 1,016
Income taxes	\$ 16,664	\$ 15,862
Supplemental disclosure of investing activities:		
Business acquisitions:		
Accounts receivable and other assets	\$ 871	\$
Inventories	818	
Property, plant and equipment	296	
Intangible asset - customer relationships	5,400	
Intangible asset - intellectual property and other	1,900	
Goodwill	6,478	
Accounts payable and other liabilities assumed	(708)
Notes payable assumed	(931)
Deferred income tax liability	(2,659)
Net cash paid for acquisitions	\$ 11,465	\$

Note 10 Benefit Plans

The following table represents the net periodic cost related to our defined benefit plans in England and France and our postretirement health benefit plan in the United States (in thousands):

	Defined Benefit Three Months Ended July 31		Postretirement Benefit Three Months Ended July 31	
	2007	2006	2007	2006
Net periodic benefit cost:				
Service cost	\$ 15	\$ 22	\$ 30	\$ 34
Interest cost	131	128	106	114
Expected return on plan assets	(127)	(125)		
Recognized prior service cost			(19)	(19)
Recognized net actuarial loss	22	36	48	111
	\$ 41	\$ 61	\$ 165	\$ 240

	Defined Benefit Six Months Ended July 31		Postretirement Benefit Six Months Ended July 31	
	2007	2006	2007	2006
Net periodic benefit cost:				
Service cost	\$ 29	\$ 43	\$ 60	\$ 68
Interest cost	260	253	211	228
Expected return on plan assets	(252)	(248)		
Recognized prior service cost			(38)	(38)
Recognized net actuarial loss	44	71	96	222
	\$ 81	\$ 119	\$ 329	\$ 480

Note 11 Recent Accounting Pronouncements

FIN 48 - In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes.

On February 1, 2007, we adopted the provisions of FIN 48 which prescribes a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods and income tax disclosures.

As of February 1, 2007, our liability for uncertain tax positions was \$325,000. As a result of the implementation of FIN 48, we recognized no material adjustment in the liability for uncertain tax positions. Our policy is to classify tax-related interest and penalties as income tax expense.

We file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. The Internal Revenue Service is currently examining our U.S. income tax return for fiscal year 2006. As of February 1, 2007, we remained subject to examination in the following major tax jurisdictions for the tax years as indicated below:

Jurisdiction	Open Fiscal Tax Years
United States - federal	2003-2006
United States states	2002-2006
Canada	1999-2006
China	1996-2006
Germany	2002-2006
Italy	2001-2006
The Netherlands	2001-2006
United Kingdom	1999-2006

SFAS 157 - In September 2006, the FASB issued SFAS No. 157 (SFAS 157), Fair Value Measurements. SFAS 157 provides a common definition of fair value, establishes a framework for measuring fair value and expands the related disclosure requirements. Application of SFAS 157 is required for our financial statements for the fiscal year beginning February 1, 2008. We are currently evaluating the impact of SFAS 157 on our financial statements.

SFAS 158 - In September 2006, the FASB issued SFAS No. 158 (SFAS 158), Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R). This statement requires balance sheet recognition of the overfunded or underfunded status of pension and postretirement benefit plans. Under SFAS 158, actuarial gains and losses, prior service costs or credits, and any remaining transition assets or obligations that have not been recognized under previous accounting standards must be recognized in other comprehensive income, net of tax effects, until they are amortized as a component of net periodic benefit cost. In addition, the measurement date, the date at which plan assets and the benefit obligation are measured, is required to be the company's fiscal year end. Presently, we use a December 31 measurement date for the postretirement benefit plan, which will change to coincide with our January 31 fiscal year-end date. As required by SFAS 158, we adopted the balance sheet recognition provision as of January 31, 2007. The measurement date provision is effective for the fiscal year beginning February 1, 2008. We are currently evaluating the impact of the measurement date provision of SFAS 158 on our consolidated financial statements.

SFAS 159 In February 2007, the FASB issued SFAS No. 159 (SFAS 159), The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115. SFAS 159 allows companies the choice to measure many financial instruments and certain other items at fair value. Application of SFAS 159 is required for our financial statements beginning February 1, 2008. We are currently reviewing the impact of this pronouncement on our consolidated financial statements.

Note 12 Warranty Obligations

We record a liability on our consolidated balance sheet for costs related to warranties with the sales of our products. This liability is estimated through historical customer claims, product failure rates, material usage and service delivery costs incurred in correcting a product failure. Our warranty obligations, which are recorded in other accrued expenses on the consolidated balance sheets, were as follows (in thousands):

	2007	2006
Balance at January 31	\$ 1,754	\$ 1,665
Accruals for warranties issued during the period	1,179	1,385
Accruals for pre-existing warranties		(29)
Settlements during the period	(1,214)	(1,285)
Balance at July 31	\$ 1,719	\$ 1,736

Note 13 Accumulated Other Comprehensive Income (Loss)

The following table presents the changes in and the components of accumulated other comprehensive income (in thousands):

	Accumulated Other Comprehensive Income (Loss)			Total
	Translation Adjustment	Minimum Pension Liability Adjustment		
Balance at January 31, 2007	\$ 14,675	\$ (2,381)	\$	12,294
Translation adjustment	12,127	\$	\$	12,127
Minimum pension/postretirement adjustment		52	\$	52
Balance at July 31, 2007	\$ 26,802	\$ (2,329)	\$	24,473

Note 14 Gain on Sale of Assets

During the second quarter of fiscal 2008, we recognized a \$1.1 million gain on the sale of land in Fairview, Oregon.

During the first quarter of fiscal 2007, we recognized a \$715,000 gain on the sale of our manufacturing facility in Hoorn, The Netherlands. We had closed this facility in fiscal 2006.

Note 15 Acquisitions

During the second quarter of fiscal 2008, we purchased 100% of the stock of American Compaction Equipment, Inc., a manufacturer of construction attachments located in San Juan Capistrano, California. The total purchase price was approximately \$11.5 million, net of assumed liabilities. Results of operations for American Compaction Equipment, Inc. have been included in our consolidated statement of income since the acquisition date of May 1, 2007. We have not included pro forma financials as though the acquisition had occurred on February 1, 2007, due to materiality.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Our businesses globally manufacture and distribute material handling load engagement products primarily for the lift truck industry and to a lesser extent the construction industry. We operate in four geographic segments: North America, Europe, Asia Pacific and China. All references to fiscal periods are defined as the periods ended July 31, 2006 (fiscal 2007) and the periods ended July 31, 2007 (fiscal 2008).

COMPARISON OF SECOND QUARTER OF FISCAL 2008 AND FISCAL 2007**Executive Summary**

	Three Months Ended July 31		Change	Change %	
	2007	2006			
	(In thousands except per share amounts)				
Net sales	\$ 143,183	\$ 119,376	\$ 23,807	20	%
Operating income	\$ 23,525	\$ 18,106	\$ 5,419	30	%
Net income	\$ 15,144	\$ 11,923	\$ 3,221	27	%
Diluted earnings per share	\$ 1.21	\$ 0.91	\$ 0.30	33	%

Higher levels of net sales, operating income and net income in the second quarter of fiscal 2008 as compared to the second quarter of fiscal 2007 are primarily the result of the strength of lift truck markets in Europe, China and Asia Pacific as well as acquisitions in North America over the past year. Lift truck shipments globally were up 10% over the prior year. Excluding the impact of foreign currency, net sales increased 17% during the second quarter of fiscal 2008.

In addition, we realized a gain of \$1.1 million on the sale of land in Fairview, Oregon during the second quarter of fiscal 2008. The calculated diluted earnings per share, excluding the land sale gain is \$1.16 for the three months ended July 31, 2007 compared to \$0.91 in the prior year. We believe the exclusion of the land sale gain provides a more appropriate comparison with prior year results. The calculation of diluted earnings per share excluding the land sale gain is as follows (in thousands, except per share amount):

	Three months ended July 31, 2007
Net income as reported	\$ 15,144
Less: land sale gain, net of income taxes of \$424	(714)
Adjusted net income, excluding land sale gain	\$ 14,430
Diluted weighted average shares outstanding	12,479
Diluted earnings per share, excluding land sale gain	\$ 1.16

North America

	Three Months Ended July 31				Change	Change %
	2007 (In thousands)	%	2006	%		
Net sales	\$ 74,569	90 %	\$ 65,847	91 %	\$ 8,722	13 %
Transfers between areas	8,594	10 %	6,510	9 %	2,084	32 %
Net sales and transfers	83,163	100 %	72,357	100 %	10,806	15 %
Cost of goods sold	54,122	65 %	46,276	64 %	7,846	17 %
Gross profit	29,041	35 %	26,081	36 %	2,960	11 %
Selling and administrative	12,402	15 %	11,503	16 %	899	8 %
Loss (gain) on disposition of assets, net	(1,120)	(1) %	5		(1,125)	
Amortization	639		89		550	
Operating income	\$ 17,120	21 %	\$ 14,484	20 %	\$ 2,636	18 %

The following are financial highlights for North America for the second quarter of fiscal 2008:

- Higher sales are primarily the result of the acquisitions of Pacific Services & Manufacturing, Inc. and American Compaction Equipment, Inc. made in the fourth quarter of fiscal 2007 and the second quarter of fiscal 2008, respectively. Excluding sales related to our acquisitions, net sales increased 2%.
- North America lift truck industry shipments from fiscal 2007 to fiscal 2008 decreased 4%. We have found that lift truck industry statistics provide an indication of the direction of our business activity. However, changes in our net sales do not correspond directly to the percentage changes in lift truck industry shipments.
- During the second quarter of fiscal 2008 we realized a gain of \$1.1 million on the sale of land in Fairview, Oregon. Excluding the impact of the land sale gain, operating income increased 10%.
- Transfers to other Cascade geographic areas increased 32% during fiscal 2008 compared to fiscal 2007, reflecting increased customer demand globally.
- Our gross profit percentage decreased slightly from 36% in fiscal 2007 to 35% in fiscal 2008, due to product mix.
- Selling and administrative costs increased 7%, excluding currency changes, mainly due to acquisitions. As a percentage of net sales and transfers, selling and administrative costs decreased 1% in fiscal 2008 to 15%.
- Higher amortization costs in fiscal 2008 relate to the amortization of intangible assets from our acquisitions.

Europe

	Three Months Ended July 31				Change	Change %
	2007 (In thousands)	%	2006	%		
Net sales	\$ 43,418	99 %	\$ 33,827	99 %	\$ 9,591	28 %
Transfers between areas	373	1 %	432	1 %	(59)	(14) %
Net sales and transfers	43,791	100 %	34,259	100 %	9,532	28 %
Cost of goods sold	35,867	82 %	27,986	82 %	7,881	28 %
Gross profit	7,924	18 %	6,273	18 %	1,651	26 %

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Selling and administrative	6,523	15	%	5,548	16	%	975	18	%
Loss on disposition of assets, net				45			(45)	
Amortization	209			208	1	%	1		
Operating income	\$ 1,192	3	%	\$ 472	1	%	\$ 720	153	%

19

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The following are financial highlights for Europe for the second quarter of fiscal 2008:

- Net sales increased 21%, excluding currency changes, reflecting a strong European lift truck market.
- European lift truck industry shipments increased 20% compared to the prior year.
- Our gross profit percentage remained consistent at 18% during fiscal 2008 and fiscal 2007. We were able to offset material cost increases with better fixed cost absorption due to higher sales and production levels.
- Excluding the impact of currency changes, selling and administrative expenses increased 11% in Europe, due to higher selling costs with the increased sales volume and increased marketing activities. As a percentage of net sales and transfers, selling and administrative costs decreased from 16% in fiscal 2007 to 15% for fiscal 2008.

Asia Pacific

	Three Months Ended July 31		2006		Change	Change %
	2007	%		%		
	(In thousands)					
Net sales	\$ 15,091	100 %	\$ 12,319	99 %	\$ 2,772	23 %
Transfers between areas	28		76	1	(48)	(63)%
Net sales and transfers	15,119	100 %	12,395	100 %	2,724	22 %
Cost of goods sold	11,537	76 %	9,416	76 %	2,121	23 %
Gross profit	3,582	24 %	2,979	24 %	603	20 %
Selling and administrative	2,144	14 %	2,130	17 %	14	1 %
Gain on disposition of assets, net	(17)		(6)		(11)	
Operating income	\$ 1,455	10 %	\$ 855	7 %	\$ 600	70 %

The following are financial highlights for Asia Pacific for the second quarter of fiscal 2008:

- Excluding currency changes, net sales increased 22% during fiscal 2008 compared to the prior year, reflecting increases in all locations throughout the region.
- Lift truck industry shipments in Asia Pacific increased 6% in fiscal 2008.
- Selling and administrative costs decreased 1% in fiscal 2008, excluding the impact of currency changes, due to general cost decreases in the current year.

China

	Three Months Ended July 31		2006		Change	Change %
	2007	%		%		
	(In thousands)					
Net sales	\$ 10,105	72 %	\$ 7,383	81 %	\$ 2,722	37 %
Transfers between areas	3,890	28 %	1,704	19 %	2,186	128 %
Net sales and transfers	13,995	100 %	9,087	100 %	4,908	54 %
Cost of goods sold	9,256	66 %	6,067	67 %	3,189	53 %
Gross profit	4,739	34 %	3,020	33 %	1,719	57 %
Selling and administrative	985	7 %	716	8 %	269	38 %
Loss on disposition of assets, net			1		(1)	

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Amortization	(4)	8	(12)							
Operating income	\$	3,758	27	%	\$	2,295	25	%	\$	1,463	64	%

20

The following are financial highlights for China for the second quarter of fiscal 2008:

- Net sales increased 32%, excluding the impact of currency changes. Our recent capital expansion plan in China has increased our capabilities to manufacture a larger volume of products. We are currently seeing the benefits of this effort with our increased sales activity.
- Lift truck shipments in China increased 17% in fiscal 2008 compared to fiscal 2007.
- Transfers to other Cascade geographic areas increased 128% during fiscal 2008 compared to fiscal 2007 due to the recent expansion of operations in China. Transfers were shipped to Asia Pacific and Europe.
- Current year gross profit percentage increased to 34% from 33% in the prior year. This increase primarily reflects the benefit of sourcing certain raw materials and components from within China, which is offset by lower margins due to product and customer mix.
- Excluding the impact of currency changes, selling and administrative costs increased 33% due to additional costs to support our expanded operations in China. As a percentage of net sales and transfers, selling and administration costs decreased from 8% in fiscal 2007 to 7% for fiscal 2008.

Non-Operating Items

The effective tax rate decreased 2% in the second quarter of fiscal 2008 from 35% in the prior year to 33% in the current year. The change was primarily related to proportionally higher levels of income in the current year from China, which has a lower tax rate compared to other Cascade locations.

Lift Truck Market Outlook

Based on our review of preliminary industry data we believe the general lift truck market outlook for the remainder of fiscal 2008 is as follows:

- The market in North America will continue to be down compared to the prior year.
- Europe will continue to grow but at a more modest rate than experienced for the second quarter.
- The market in Asia Pacific will remain at the current levels through the remainder of the year.
- The market in China will continue to experience robust growth through the remainder of the year.

COMPARISON OF THE FIRST SIX MONTHS OF FISCAL 2008 AND FISCAL 2007

Executive Summary

	Six Months Ended July 31		Change	Change %	
	2007	2006			
	(In thousands except per share amounts)				
Net sales	\$ 278,683	\$ 237,150	\$ 41,533	18	%
Operating income	\$ 60,836	\$ 35,303	\$ 25,533	72	%
Net income	\$ 38,940	\$ 22,957	\$ 15,983	70	%
Diluted earnings per share	\$ 3.11	\$ 1.75	\$ 1.36	78	%

Higher levels of net sales, operating income and net income in the first six months of fiscal 2008 as compared to the first six months of fiscal 2007 are primarily the result of the strength of lift truck markets in Europe, China and Asia Pacific, as well as acquisitions in North America over the past year. Lift truck shipments globally were up 9% over the prior year.

In addition, we settled an insurance litigation matter during the first quarter of fiscal 2008 which accounted for a \$16 million increase to operating income compared to the prior year. The calculated diluted earnings per share, excluding the insurance litigation recovery is \$2.31 for the six months ended July 31, 2007 compared to \$1.75 in the prior year. We believe the exclusion of the insurance litigation recovery provides a more appropriate comparison with prior year results. The calculation of diluted earnings per share excluding the insurance recovery is as follows (in thousands, except per share amount):

	Six months ended July 31, 2007
Net income as reported	\$ 38,940
Less: insurance litigation recovery, net of income taxes of \$5,951	(10,026)
Adjusted net income, excluding insurance litigation recovery	\$ 28,914
Diluted weighted average shares outstanding	12,513
Diluted earnings per share, excluding insurance litigation recovery	\$ 2.31

North America

	Six Months Ended July 31				Change		Change %	
	2007	%	2006	%				
	(In thousands)							
Net sales	\$ 145,951	90 %	\$ 132,462	91 %	\$ 13,489	10 %		
Transfers between areas	16,903	10 %	12,504	9 %	4,399	35 %		
Net sales and transfers	162,854	100 %	144,966	100 %	17,888	12 %		
Cost of goods sold	105,657	65 %	92,927	64 %	12,730	14 %		
Gross profit	57,197	35 %	52,039	36 %	5,158	10 %		
Selling and administrative	24,541	15 %	22,971	16 %	1,570	7 %		
Loss (gain) on disposition of assets, net	(1,194)		9		(1,203)			
Amortization	1,227		178		1,049			
Insurance litigation recovery, net	(15,977)	(10)%			(15,977)			
Operating income	\$ 48,600	30 %	\$ 28,881	20 %	\$ 19,719	68 %		

The following are financial highlights for North America for the first six months of fiscal 2008:

- Higher sales in fiscal 2008 are primarily the result of the acquisitions made in the fourth quarter of fiscal 2007 and the second quarter of fiscal 2008. Excluding net sales from acquisitions, net sales increased 1%.
- North America lift truck industry shipments from 2007 to 2008 decreased 6%. We have found that lift truck industry statistics provide an indication of the direction of our business activity. However, changes in our net sales do not correspond directly to the percentage changes in lift truck industry shipments.
- Transfers to other Cascade geographic areas increased 35% during fiscal 2008 compared to fiscal 2007 due to increased customer demand globally.
- Our gross profit percentage decreased 1% during fiscal 2008 compared to fiscal 2007, due to product mix.
- Selling and administrative costs increased 7%, excluding currency changes, mainly due to acquisitions. As a percentage of net sales and transfers, selling and administrative costs decreased from 16% in fiscal 2007 to 15% for fiscal 2008.
- During the second quarter of fiscal 2008 we realized a gain of \$1.1 million on the sale of land in Fairview, Oregon.
- Higher amortization costs in fiscal 2008 relate to the amortization of intangible assets from our acquisitions.
- During the first quarter of fiscal 2008, we entered into a settlement agreement with Employers Reinsurance Corporation with respect to litigation to recover various expenses incurred in connection with environmental and related proceedings. The recovery from this settlement was \$16.0 million, net of expenses.

Europe

	Six Months Ended July 31			2006			Change		Change %	
	2007	%			%			%		
	(In thousands)									
Net sales	\$ 85,022	99	%	\$ 67,048	99	%	\$ 17,974	27	%	
Transfers between areas	697	1	%	837	1	%	(140)	(17)%
Net sales and transfers	85,719	100	%	67,885						