

CASCADE CORP
Form 10-Q
September 08, 2009
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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, 2009

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**
For the transition period from to

Commission file number 1-12557

CASCADE CORPORATION

(Exact name of registrant as specified in its charter)

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Oregon
(State or other jurisdiction of
incorporation or organization)

2201 N.E. 201st Ave.
Fairview, Oregon
(Address of principal executive office)

93-0136592
(I.R.S. Employer
Identification No.)

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 to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
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 19, 2009 was 10,883,224.

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CASCADE CORPORATION

FORM 10-Q

Quarter Ended July 31, 2009

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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:

General business and economic conditions globally, in particular North America, Europe, Asia Pacific and China;

Competitive factors and the cyclical nature of the materials handling industry and lift truck orders;

Effectiveness of our cost reduction initiatives and reorganization plans;

Ability to comply with debt covenants;

Risks and complexities associated with international operations;

Impact of tax law changes;

Foreign currency fluctuations;

Cost and availability of raw materials;

Assumptions relating to pension and other postretirement costs;

Fluctuations in interest rates;

Levels of construction activity;

Environmental matters;

Impact of acquisitions.

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. See Risk Factors (Item 1A) for additional information on risk factors with the potential to impact our business.

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****CASCADE CORPORATION****CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited in thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	July 31		July 31	
	2009	2008	2009	2008
Net sales	\$ 76,643	\$ 150,103	\$ 152,959	\$ 299,970
Cost of goods sold	58,110	107,386	119,957	214,905
Gross profit	18,533	42,717	33,002	85,065
Selling and administrative expenses	17,450	23,378	36,006	46,864
Loss on disposition of assets, net	13	30	34	145
Amortization	119	667	233	1,342
European restructuring costs	11,589	128	16,366	448
Operating income (loss)	(10,638)	18,514	(19,637)	36,266
Interest expense	371	1,110	797	2,241
Interest income	(57)	(160)	(170)	(267)
Foreign currency loss, net	151	506	151	627
Income (loss) before provision for income taxes	(11,103)	17,058	(20,415)	33,665
Provision for income taxes	1,200	6,563	3,961	12,312
Net income (loss)	\$ (12,303)	\$ 10,495	\$ (24,376)	\$ 21,353
Basic earnings (loss) per share	\$ (1.14)	\$ 0.97	\$ (2.26)	\$ 1.98
Diluted earnings (loss) per share	\$ (1.14)	\$ 0.94	\$ (2.26)	\$ 1.92
Basic weighted average shares outstanding	10,814	10,793	10,807	10,788
Diluted weighted average shares outstanding	10,814	11,109	10,807	11,109

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

Table of Contents**CASCADE CORPORATION****CONSOLIDATED BALANCE SHEETS****(Unaudited in thousands, except per share amounts)**

	July 31 2009	January 31 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 17,827	\$ 31,185
Accounts receivable, less allowance for doubtful accounts of \$1,388 and \$1,441	50,537	64,568
Inventories	75,018	90,806
Deferred income taxes	4,722	4,712
Prepaid expenses and other	9,666	13,603
Total current assets	157,770	204,874
Property, plant and equipment, net	88,744	93,826
Goodwill	83,931	74,387
Deferred income taxes	22,674	21,347
Intangible assets, net	933	1,151
Other assets	2,205	1,998
Total assets	\$ 356,257	\$ 397,583
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Notes payable to banks	\$ 1,057	\$ 2,255
Current portion of long-term debt	476	501
Accounts payable	13,556	19,704
Accrued payroll and payroll taxes	9,086	7,992
Accrued restructuring costs	8,506	699
Other accrued expenses	11,988	12,005
Total current liabilities	44,669	43,156
Long-term debt, net of current portion	63,567	100,007
Accrued environmental expenses	3,430	3,748
Deferred income taxes	2,186	2,337
Employee benefit obligations	7,400	7,413
Other liabilities	3,901	3,955
Total liabilities	125,153	160,616
Commitments and contingencies (Note 7)		
Shareholders' equity:		
Common stock, \$.50 par value, 40,000 authorized shares; 10,883 and 10,852 shares issued and outstanding	5,442	5,426
Additional paid-in capital	5,701	3,574
Retained earnings	194,237	219,700
Accumulated other comprehensive income	25,724	8,267
Total shareholders' equity	231,104	236,967

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Total liabilities and shareholders' equity	\$ 356,257	\$ 397,583
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The accompanying notes are an integral part of the consolidated financial statements.

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CASCADE CORPORATION

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited in thousands, except per share amounts)

	Common Stock		Additional	Retained Earnings	Accumulated		Year-To-Date Comprehensive Income (Loss)
	Shares	Amount	Paid-In Capital		Other Comprehensive Income (Loss)	Total Shareholders' Equity	
	Balance at January 31, 2009	10,852	\$ 5,426		\$ 3,574	\$ 219,700	
Net loss				(24,376)		(24,376)	\$ (24,376)
Dividends (\$ 0.10 per share)				(1,087)		(1,087)	
Common stock issued	31	16	(16)				
Share-based compensation			2,143			2,143	
Currency translation adjustment					17,457	17,457	17,457
Balance at July 31, 2009	10,883	\$ 5,442	\$ 5,701	\$ 194,237	\$ 25,724	\$ 231,104	\$ (6,919)

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

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CASCADE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited in thousands)

	Six Months Ended July 31	
	2009	2008
Cash flows from operating activities:		
Net income (loss)	\$ (24,376)	\$ 21,353
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Fixed asset write off due to restructuring	4,885	
Depreciation	6,091	7,209
Amortization	233	1,342
Share-based compensation	2,143	2,122
Deferred income taxes	(1,688)	1,096
Loss on disposition of assets, net	34	145
Changes in operating assets and liabilities:		
Accounts receivable	17,955	(2,924)
Inventories	22,520	(13,386)
Prepaid expenses and other	2,333	(1,168)
Accounts payable and accrued expenses	(225)	1,648
Income taxes payable and receivable	2,539	(673)
Other assets and liabilities	(995)	242
Net cash provided by operating activities	31,449	17,006
Cash flows from investing activities:		
Capital expenditures	(1,831)	(10,039)
Proceeds from disposition of assets	130	388
Net cash used in investing activities	(1,701)	(9,651)
Cash flows from financing activities:		
Cash dividends paid	(1,087)	(4,119)
Payments on long-term debt	(55,735)	(27,708)
Proceeds from long-term debt	19,500	37,000
Notes payable to banks, net	(1,172)	(451)
Common stock issued under share-based compensation plans		130
Common stock repurchased		(3,220)
Tax effect from share-based compensation awards		(73)
Net cash provided by (used in) financing activities	(38,494)	1,559
Effect of exchange rate changes	(4,612)	(2,226)
Change in cash and cash equivalents	(13,358)	6,688
Cash and cash equivalents at beginning of period	31,185	21,223
Cash and cash equivalents at end of period	\$ 17,827	\$ 27,911

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.

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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, construction, mining and agricultural vehicles. Accordingly, our sales are largely dependent on sales of lift trucks and replacement parts. Our sales are made throughout the world. We are headquartered in Fairview, Oregon, employing approximately 1,900 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, 2009 and 2008 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, 2009. We evaluate events and transactions that occur after the balance sheet date as potential subsequent events. We performed this evaluation through September 8, 2009, the date on which we issued our financial statements.

Note 3 Segment Information

Our operating units have several similar economic characteristics and attributes, including 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 the performance of each of our operating segments based on income before interest, foreign currency losses 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, 2009.

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Revenues and operating results are classified according to the country of origin. Transfers between areas represent sales between our geographic operating segments. The costs of our corporate office are included in our North America operating segment. Identifiable assets are attributed to the geographic location in which they are located. Net sales and transfers, operating results and identifiable assets by geographic operating segment were as follows (in thousands):

2009	Three Months Ended July 31					Consolidated
	North America	Europe	Asia Pacific	China	Eliminations	
Net sales	\$ 37,085	\$ 20,740	\$ 10,946	\$ 7,872	\$	\$ 76,643
Transfers between areas	4,444	773	14	2,576	(7,807)	
Net sales and transfers	\$ 41,529	\$ 21,513	\$ 10,960	\$ 10,448	\$ (7,807)	\$ 76,643
Gross profit	\$ 11,781	\$ 308	\$ 2,804	\$ 3,640		\$ 18,533
Selling and administrative	10,044	4,538	1,936	932		17,450
Loss (gain) on disposition of assets, net		(1)	2	12		13
Amortization	48	71				119
European restructuring costs		11,589				11,589
Operating income (loss)	\$ 1,689	\$ (15,889)	\$ 866	\$ 2,696		\$ (10,638)
Total assets	\$ 172,795	\$ 103,294	\$ 35,607	\$ 44,561		\$ 356,257
Property, plant and equipment, net	\$ 32,185	\$ 28,310	\$ 9,255	\$ 18,994		\$ 88,744
Capital expenditures	\$ 316	\$ 222	\$ 324	\$ 185		\$ 1,047
Depreciation expense	\$ 1,426	\$ 1,003	\$ 142	\$ 486		\$ 3,057

2008	Three Months Ended July 31					Consolidated
	North America	Europe	Asia Pacific	China	Eliminations	
Net sales	\$ 69,841	\$ 48,424	\$ 18,860	\$ 12,978	\$	\$ 150,103
Transfers between areas	9,467	443	63	6,681	(16,654)	
Net sales and transfers	\$ 79,308	\$ 48,867	\$ 18,923	\$ 19,659	\$ (16,654)	\$ 150,103
Gross profit	\$ 24,542	\$ 7,630	\$ 4,491	\$ 6,054		\$ 42,717
Selling and administrative	11,646	7,882	2,459	1,391		23,378
Loss (gain) on disposition of assets, net	19	(14)	(11)	36		30
Amortization	587	80				667
European restructuring costs		128				128
Operating income (loss)	\$ 12,290	\$ (446)	\$ 2,043	\$ 4,627		\$ 18,514
Total assets	\$ 237,700	\$ 148,816	\$ 49,583	\$ 56,306		\$ 492,405
Property, plant and equipment, net	\$ 34,748	\$ 41,048	\$ 7,343	\$ 19,939		\$ 103,078
Capital expenditures	\$ 1,859	\$ 2,330	\$ 707	\$ 1,240		\$ 6,136
Depreciation expense	\$ 1,630	\$ 1,400	\$ 127	\$ 452		\$ 3,609

2009	Six Months Ended July 31					Consolidated
	North America	Europe	Asia Pacific	China	Eliminations	
Net sales	\$ 74,967	\$ 41,617	\$ 21,666	\$ 14,709	\$	\$ 152,959
Transfers between areas	6,761	1,277	15	4,887	(12,940)	
Net sales and transfers	\$ 81,728	\$ 42,894	\$ 21,681	\$ 19,596	\$ (12,940)	\$ 152,959

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Gross profit (loss)	\$ 22,627	\$ (1,720)	\$ 5,394	\$ 6,701	\$ 33,002
Selling and administrative	20,776	9,740	3,557	1,933	36,006
Loss (gain) on disposition of assets, net	(3)	4	2	31	34
Amortization	96	137			233
European restructuring costs		16,366			16,366
Operating income (loss)	\$ 1,758	\$ (27,967)	\$ 1,835	\$ 4,737	\$ (19,637)
Capital expenditures	\$ 834	\$ 292	\$ 367	\$ 338	\$ 1,831
Depreciation expense	\$ 2,824	\$ 2,030	\$ 266	\$ 971	\$ 6,091

2008	Six Months Ended July 31					Consolidated
	North America	Europe	Asia Pacific	China	Eliminations	
Net sales	\$ 139,161	\$ 97,760	\$ 38,040	\$ 25,009		\$ 299,970
Transfers between areas	17,186	1,024	146	12,831	(31,187)	
Net sales and transfers	\$ 156,347	\$ 98,784	\$ 38,186	\$ 37,840	\$ (31,187)	\$ 299,970
Gross profit	\$ 48,793	\$ 15,022	\$ 9,605	\$ 11,645		\$ 85,065
Selling and administrative	24,395	15,193	4,798	2,478		46,864
Loss (gain) on disposition of assets, net	139	(15)	(14)	35		145
Amortization	1,184	158				1,342
European restructuring costs		448				448
Operating income (loss)	\$ 23,075	\$ (762)	\$ 4,821	\$ 9,132		\$ 36,266
Capital expenditures	\$ 3,405	\$ 3,582	\$ 905	\$ 2,147		\$ 10,039
Depreciation expense	\$ 3,323	\$ 2,748	\$ 258	\$ 880		\$ 7,209

Table of Contents**Note 4 Inventories**

During the six months ended July 31, 2009, inventories decreased due to reduced inventory purchases and lower levels of finished goods needed to meet lower customer demand. Inventories stated at the lower of average cost or market are presented below by major class (in thousands):

	July 31 2009	January 31 2009
Finished goods	\$ 27,869	\$ 31,997
Raw materials and components	47,149	58,809
	\$ 75,018	\$ 90,806

Note 5 Goodwill

During the six months ended July 31, 2009, goodwill increased due 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 2009	January 31 2009
North America	\$ 69,728	\$ 61,316
Europe	11,220	10,040
Asia Pacific	2,983	3,031
	\$ 83,931	\$ 74,387

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 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.

Our SARS plan permits 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 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, 2009, a total of 277,000 shares of common stock have been issued under the SARS plan, which includes 96,000 shares of restricted stock.

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, 2009, a total of 1,090,000 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 are fully vested and have a term of ten years.

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A summary of the plans status at July 31, 2009 together with changes during the six months then ended is 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, 2009	279	\$ 13.26	806	\$ 34.95
Granted			61	24.50
Exercised				
Forfeited			(2)	37.14
Balance at July 31, 2009	279	\$ 13.26	865	\$ 34.21

	Restricted Stock Awards	
	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Unvested restricted stock at January 31, 2009	51	\$ 60.51
Granted	31	24.50
Vested	(22)	64.40
Forfeited		
Unvested restricted stock at July 31, 2009	60	\$ 40.73

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

	Granted in Fiscal 2010	Granted Prior to Fiscal 2010
Risk-free interest rate	3.4%	2.3 - 5.1%
Expected volatility	48%	40 - 42%
Expected dividend yield	0.8%	1.0 - 2.8%
Expected life (in years)	6	5 - 7
Weighted average fair value at date of grant	\$11.75	\$4.16 - \$33.31

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. Share-based compensation is expensed ratably over the applicable vesting period. Additional information regarding the assumptions used to calculate fair value of our share-based compensation plans is presented in Note 2 to our consolidated financial statements included in our Form 10-K for the year ended January 31, 2009.

As of July 31, 2009, there was \$4.6 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 2.3 years. The following table represents as of July 31, 2009 the share-based compensation costs to be recognized in future periods (in thousands) for awards granted to date:

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Fiscal Year	Amount
2010*	1,419
2011	1,878
2012	878
2013	373
2014	85
	\$ 4,633

* Represents last six months of fiscal 2010.

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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 operating results. 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 operating results if asserted. We cannot predict when the additional expense will be necessary or the amount of any additional loss or range of loss that may reasonably be 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 \$3.4 million and \$3.7 million at July 31, 2009 and January 31, 2009, 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 2014. The recorded liability for ongoing remediation activities in Springfield was \$853,000 at July 31, 2009 and \$900,000 at January 31, 2009.

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, results of operations, or cash flows.

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

	Three Months Ended July 31		Six Months Ended July 31	
	2009	2008	2009	2008
Basic earnings (loss) per share:				
Net income (loss)	\$ (12,303)	\$ 10,495	\$ (24,376)	\$ 21,353
Weighted average shares of common stock outstanding	10,814	10,793	10,807	10,788
	\$ (1.14)	\$ 0.97	\$ (2.26)	\$ 1.98
Diluted earnings (loss) per share:				
Net income (loss)	\$ (12,303)	\$ 10,495	\$ (24,376)	\$ 21,353
Weighted average shares of common stock outstanding	10,814	10,793	10,807	10,788
Dilutive effect of stock awards		316		321
Diluted weighted average shares of common stock outstanding	10,814	11,109	10,807	11,109
	\$ (1.14)	\$ 0.94	\$ (2.26)	\$ 1.92

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. The assumed exercise of stock awards and vesting of restricted stock was not included in the fiscal 2010 calculations as the impact would be antidilutive. Unexercised SARS totaling 104,000 awards and unvested restricted stock totaling 26,000 shares were excluded from the fiscal 2009 calculations of diluted earnings per share because they were antidilutive.

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

	For the Six Months Ended July 31	
	2009	2008
Cash paid during the period for:		
Interest	\$ 891	\$ 2,418
Income taxes	\$ 2,773	\$ 10,809

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		Postretirement Benefit	
	Three Months Ended July 31 2009	2008	Three Months Ended July 31 2009	2008
Net periodic benefit cost:				
Service cost	\$ 5	\$ 6	\$ 27	\$ 26
Interest cost	116	146	113	108
Expected return on plan assets	(94)	(131)		
Recognized prior service cost			(19)	(19)
Recognized net actuarial loss	12	23		1
	\$ 39	\$ 44	\$ 121	\$ 116

	Defined Benefit		Postretirement Benefit	
	Six Months Ended July 31 2009	2008	Six Months Ended July 31 2009	2008
Net periodic benefit cost:				
Service cost	\$ 10	\$ 12	\$ 54	\$ 52
Interest cost	221	293	226	216
Expected return on plan assets	(179)	(262)		
Recognized prior service cost			(38)	(38)
Recognized net actuarial loss	23	46		2
	\$ 75	\$ 89	\$ 242	\$ 232

Note 11 Recent Accounting Pronouncements

SFAS 141(R) & SFAS 160 In December 2007, the FASB issued SFAS No. 141(R) (SFAS 141(R)), Business Combinations, and SFAS No. 160 (SFAS 160), Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51. SFAS 141(R) requires the acquiring entity in a business combination to recognize the assets acquired and liabilities assumed. Further, SFAS 141(R) also changes the accounting for acquired in-process research and development assets, contingent consideration, partial acquisitions and transaction costs. Under SFAS 160, all entities are required to report noncontrolling (minority) interests in subsidiaries as equity in the consolidated financial statements. In addition, transactions between an entity and noncontrolling interests will be treated as equity transactions. We adopted SFAS 141(R) and SFAS 160 on February 1, 2009. The adoption of these standards did not have any impact on our financial statements.

SFAS 161 In March 2008, the FASB issued SFAS No. 161 (SFAS 161), Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133. SFAS 161 expands disclosures for derivative instruments by requiring entities to disclose the fair value

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of derivative instruments and their gains or losses in tabular format. SFAS 161 also requires disclosure of information about credit risk-related contingent features in derivative agreements, counterparty credit risk, and strategies and objectives for using derivative instruments. We adopted this new accounting standard on February 1, 2009. The adoption of this standard did not have any impact on our financial statements.

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FSP EITF 03-6-1 In June 2008, the FASB issued Staff Position Emerging Issues Task Force 03-6-1 (FSP EITF 03-6-1), *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*. This addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method described in paragraphs 60 and 61 of FASB Statement No. 128, *Earnings per Share*. The provisions of FSP EITF 03-6-1 were adopted on February 1, 2009 and did not have a material impact on our financial statements.

SFAS 165 In May 2009, the FASB issued SFAS No. 165 (SFAS 165), *Subsequent Events*. SFAS 165 establishes the general standards of accounting for and disclosure of subsequent events that occur after the balance sheet date but before financial statements are issued or available to be issued. In addition, it requires disclosure of the date through which an entity has evaluated subsequent events and the nature of any nonrecognized subsequent events. This new accounting standard was adopted for our financial statements for the quarter ended July 31, 2009. The adoption of SFAS 165 did not have a material impact on our financial statements.

SFAS 168 In June 2009, the FASB issued SFAS No. 168 (SFAS 168), *The FASB Accounting Standards Codification (Codification) and the Hierarchy of Generally Accepted Accounting Principles* a replacement of FASB Statement No. 162. SFAS 168 establishes the Codification as the single source of authoritative U.S. GAAP to be applied by nongovernmental entities. While not intended to change U.S. GAAP, the Codification significantly changes the way in which the accounting literature is referenced and organized. We will adopt this new accounting standard for our financial statements for the quarter ending October 31, 2009. The adoption of SFAS 168 will not have an impact on our 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):

	2009	2008
Balance at January 31	\$ 1,312	\$ 1,900
Accruals for warranties issued during the period	968	1,041
Accruals for pre-existing warranties	582	
Settlements during the period	(1,572)	(1,204)
Foreign currency changes	81	(98)
Balance at July 31	\$ 1,371	\$ 1,639

Note 13 Accumulated Other Comprehensive Income

During the six months ended July 31, 2009, accumulated other comprehensive income increased due to fluctuations in foreign currencies, primarily the Euro, British Pound and Canadian Dollar. The following table presents the changes in and the components of accumulated other comprehensive income (in thousands):

	Accumulated Other Comprehensive Income (Loss)		
	Translation Adjustment	Minimum Pension Liability Adjustment	Total
Balance at January 31, 2009	\$ 8,942	\$ (675)	\$ 8,267
Currency translation adjustment	17,591	(134)	17,457
Balance at July 31, 2009	\$ 26,533	\$ (809)	\$ 25,724

Table of Contents**Note 14 Income Taxes**

The provision for income taxes in the second quarter of fiscal 2010 is primarily a result of taxes due in countries where we are generating income and taxes on foreign dividends related to the repatriation of cash to the U.S. We are currently unable to realize a tax benefit in several European countries where we have incurred losses.

As of July 31, 2009 our liability for uncertain tax positions under FASB Interpretation No. 48 (FIN 48) was \$1.3 million. There were no material changes in unrecognized tax benefits during the current period. The reserve for unrecognized tax benefits as of July 31, 2009 included an accrual for interest and penalties of \$240,000.

We are subject to taxation primarily in the U.S., Canada and China, as well as various state and other foreign jurisdictions. The Internal Revenue Service (IRS) is currently reviewing our U.S. income tax return for fiscal years 2004 - 2007. The IRS has proposed an adjustment of \$5 million related to interest deductions reported on tax returns for the 2004 and 2005 tax years. These adjustments would result in an additional federal and state tax liability of approximately \$1.8 million. We are in the process of appealing the issue with the IRS and have determined that we will more-likely-than-not prevail on the issue. No amount has been recorded in our financial statements as of July 31, 2009 related to this matter. As of July 31, 2009, we remain subject to examination in various state and foreign jurisdictions for the 1999-2008 tax years.

Note 15 Restructuring Activities

During the first six months of fiscal 2010 and 2009 we incurred costs related to our ongoing European restructuring activities. The following table outlines the restructuring costs incurred during those periods (in thousands):

	For the Three Months Ended July 31		For the Six Months Ended July 31	
	2009	2008	2009	2008
Employee severance and benefits	\$ 7,282	\$ 128	\$ 10,615	\$ 448
Facility shut down	160		239	
Professional fees	74		185	
Other	100		442	
Fixed asset write downs	3,973		4,885	
Total costs	\$ 11,589	\$ 128	\$ 16,366	\$ 448

As of July 31, 2009, \$8.5 million of accrued restructuring costs are included on the consolidated balance sheet. We anticipate paying these costs by the end of fiscal 2010. Fixed asset write downs are recorded as a reduction of the carrying value of property, plant and equipment.

European restructuring costs by facility location are as follows (in thousands):

	For the Three Months Ended July 31		For the Six Months Ended July 31	
	2009	2008	2009	2008
The Netherlands	\$ 11,473	\$ 128	\$ 11,816	\$ 448
France	116		4,550	
Total costs	\$ 11,589	\$ 128	\$ 16,366	\$ 448

Note 16 Debt

In July 2009, we entered into an amendment of our loan agreement with Bank of America and Union Bank of California. The amendment decreases the aggregate amount that may be borrowed under the loan agreement from \$143.8 million to \$115 million, but provides that we may increase the amount that may be borrowed by up to \$30 million, subject to the agreement of the lenders. The amendment to the loan agreement grants the lenders a security interest in all of our assets, provides for the guaranty of the loan and the grant of a security interest to secure the

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guaranty by certain of our subsidiaries, increases the interest rate on the loan to rates ranging from 1.5% to 3.0% over LIBOR depending on our consolidated leverage ratio, and modifies certain loan covenants, including the consolidated leverage ratio and consolidated fixed charge coverage ratio, that we are required to maintain.

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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 period ended July 31, 2008 (fiscal 2009) and the period ended July 31, 2009 (fiscal 2010).

RECENT TRENDS AND DEVELOPMENTS AFFECTING OUR RESULTS

Restructuring

Given the uncertainty surrounding the depressed global economic conditions, we are continuing to move forward with aggressive plans and steps to adjust our current business and improve operational efficiencies. These plans include a rationalization of our existing production capacity for the current lift truck market in which shipments are down 50% from the prior year. We had previously announced that the estimated restructuring costs for fiscal 2010 would be in the range of \$20-25 million. Through the first six months of the year we have incurred costs of \$16.4 million, all of which related to our European operations. We still expect our costs for the year to fall within the previously disclosed range. The most significant restructuring activity in the second quarter was moving forward with plans to cease production activities at our attachment facility in Almere, The Netherlands. This work is expected to be completed by the end of the third quarter of fiscal 2010.

It continues to be very difficult to estimate the prolonged effect this downturn will have on our future business. We believe our cash and cash equivalents, existing credit facilities and cash flows from operations will be sufficient to satisfy our expected working capital, capital expenditures and debt requirements for more than the next twelve months.

Table of Contents**COMPARISON OF SECOND QUARTER OF FISCAL 2010 AND FISCAL 2009****Executive Summary**

	Three Months Ended July 31		Change	Change %
	2009	2008		
	(In thousands except per share amounts)			
Net sales	\$ 76,643	\$ 150,103	\$ (73,460)	(49)%
Operating income (loss)	\$ (10,638)	\$ 18,514	\$ (29,152)	(157)%
Income (loss) before taxes	\$ (11,103)	\$ 17,058	\$ (28,161)	(165)%
Provision for income taxes	\$ 1,200	\$ 6,563	\$ (5,363)	(82)%
Effective tax rate	(11)%	38%		
Net income (loss)	\$ (12,303)	\$ 10,495	\$ (22,798)	(217)%
Diluted earnings (loss) per share	\$ (1.14)	\$ 0.94	\$ (2.08)	(221)%

The following is an overview for the second quarter of fiscal 2010:

Consolidated net sales decreased 46%, excluding the impact of foreign currencies, as a result of the general economic downturn and a weak lift truck market. Global lift truck shipments were down 50% compared to the prior year. 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 percentages changes in lift truck shipments or orders.

Our consolidated gross profit percentage decreased primarily as a result of unabsorbed fixed and variable costs due to lower sales volumes.

We incurred restructuring costs of \$11.6 million primarily as a result of our plan to cease production activities at our facility in The Netherlands.

We were able to pay down outstanding debt by \$15.4 million during the quarter ended July 31, 2009 using cash flow from operations.

The income tax expense in fiscal 2010 is a result of taxes due in countries where we are generating income and taxes on foreign dividends related to the repatriation of cash to the U.S. We are currently unable to realize a tax benefit in several European countries where we have incurred losses.

North America

	Three Months Ended July 31				Change	Change %
	2009	%	2008	%		
	(In thousands)					
Net sales	\$ 37,085	89%	\$ 69,841	88%	\$ (32,756)	(47)%
Transfers between areas	4,444	11%	9,467	12%	(5,023)	(53)%
Net sales and transfers	41,529	100%	79,308	100%	(37,779)	(48)%
Cost of goods sold	29,748	72%	54,766	69%	(25,018)	(46)%

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Gross profit	11,781	28%	24,542	31%	(12,761)	(52)%
Selling and administrative	10,044	24%	11,646	15%	(1,602)	(14)%
Loss on disposition of assets, net			19		(19)	
Amortization	48		587	1%	(539)	(92)%
Operating income	\$ 1,689	4%	\$ 12,290	15%	\$ (10,601)	(86)%

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Details of the change in net sales compared to the prior year quarter are as follows (in thousands):

	Amount	Change %
Net sales change	\$ (32,389)	(46)%
Foreign currency change	(367)	(1)%
Total	\$ (32,756)	(47)%

The following summarizes financial results for North America for the second quarter of fiscal 2010. All percentage comparisons to the prior year exclude the impact of foreign currencies:

Net sales decreased 46% primarily due to lower sales volumes as a result of the general economic downturn and a weak lift truck market. Lift truck industry shipments decreased 44% for the quarter.

Transfers to other Cascade locations decreased 53% during fiscal 2010 due to lower global customer demand and efforts to reduce inventory on hand.

Our gross profit percentage decreased due to significantly lower sales volumes which resulted in unabsorbed fixed and variable costs. Most of our facilities in North America operated at reduced work schedules during the second quarter of fiscal 2010.

Selling and administrative costs decreased 12% due to lower personnel, advertising and other general costs.

Europe

	Three Months Ended July 31				Change	Change %
	2009	%	2008	%		
	(In thousands)					
Net sales	\$ 20,740	96%	\$ 48,424	99%	\$ (27,684)	(57)%
Transfers between areas	773	4%	443	1%	330	74%
Net sales and transfers	21,513	100%	48,867	100%	(27,354)	(56)%
Cost of goods sold	21,205	99%	41,237	84%	(20,032)	(49)%
Gross profit	308	1%	7,630	16%	(7,322)	(96)%
Selling and administrative	4,538	21%	7,882	17%	(3,344)	(42)%
Gain on disposition of assets, net	(1)		(14)		13	
Amortization	71		80		(9)	(11)%
Restructuring costs	11,589	54%	128		11,461	
Operating loss	\$ (15,889)	(74)%	\$ (446)	(1)%	\$ (15,443)	

Details of the change in net sales compared to the prior year quarter are as follows (in thousands):

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	Amount	Change %
Net sales change	\$ (24,812)	(51)%
Foreign currency change	(2,872)	(6)%
Total	\$ (27,684)	(57)%

The following summarizes financial results for Europe for the second quarter of fiscal 2010. All percentage comparisons to the prior year exclude the impact of foreign currencies:

Net sales decreased 51% primarily due to lower sales volumes as a result of the general economic downturn and a weak lift truck market. Lift truck industry shipments decreased 64% for the quarter.

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Our gross profit percentage decreased due to significantly lower sales volumes, which resulted in unabsorbed fixed and variable costs. Most facilities in Europe operated under reduced work schedules during the second quarter of fiscal 2010.

Selling and administrative costs decreased 36% primarily due to lower personnel costs as a result of headcount reductions made during our European restructuring activities and lower marketing costs.

Restructuring costs were primarily a result of our plan to cease production activities at our facility in The Netherlands. These costs include severance costs of \$7.3 million, fixed asset write downs of \$4.0 million and legal and other restructuring costs of \$0.3 million. We estimate incurring an additional \$1.0 million of costs for The Netherlands restructuring during the remainder of fiscal 2010.

Asia Pacific

	Three Months Ended July 31				Change	Change %
	2009	%	2008	%		
	(In thousands)					
Net sales	\$ 10,946	100%	\$ 18,860	100%	\$ (7,914)	(42)%
Transfers between areas	14		63		(49)	(78)%
Net sales and transfers	10,960	100%	18,923	100%	(7,963)	(42)%
Cost of goods sold	8,156	74%	14,432	76%	(6,276)	(43)%
Gross profit	2,804	26%	4,491	24%	(1,687)	(38)%
Selling and administrative	1,936	18%	2,459	13%	(523)	(21)%
Loss (gain) on disposition of assets, net	2		(11)		13	
Operating income	\$ 866	8%	\$ 2,043	11%	\$ (1,177)	(58)%

Details of the change in net sales compared to the prior year quarter are as follows (in thousands):

	Amount	Change %
Net sales change	\$ (6,783)	(36)%
Foreign currency change	(1,131)	(6)%
Total	\$ (7,914)	(42)%

The following summarizes financial results for Asia Pacific for the second quarter of fiscal 2010. All percentage comparisons to the prior year exclude the impact of foreign currencies:

Net sales decreased 36% primarily due to lower sales volumes as a result of the general economic downturn and a weak lift truck market. Lift truck industry shipments for the quarter decreased 53%.

Our gross profit percentage increased due to changes in product mix and fluctuations in foreign currency rates.

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Selling and administrative costs decreased 15% due to lower personnel, sales and other general costs.

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	Three Months Ended July 31				Change	Change %
	2009	%	2008	%		
	(In thousands)					
Net sales	\$ 7,872	75%	\$ 12,978	66%	\$ (5,106)	(39)%
Transfers between areas	2,576	25%	6,681	34%	(4,105)	(61)%
Net sales and transfers	10,448	100%	19,659	100%	(9,211)	(47)%
Cost of goods sold	6,808	65%	13,605	69%	(6,797)	(50)%
Gross profit	3,640	35%	6,054	31%	(2,414)	(40)%
Selling and administrative	932	9%	1,391	7%	(459)	(33)%
Loss on disposition of assets, net	12		36		(24)	
Operating income	\$ 2,696					