

CASCADE CORP
Form 10-Q
June 08, 2006

**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 April 30, 2006

OR

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

For the transition period from to

Commission file number 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)

Edgar Filing: CASCADE CORP - Form 10-Q

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 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 May 22, 2006 was 12,552,573.

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 margin, 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 industry;
- Fluctuations in lift truck orders or deliveries;
- Availability and cost of raw materials;
- General business and economic conditions in North America, Europe, Asia Pacific and China;
- Actions by foreign governments;
- Assumptions relating to pension and other post-retirement costs;
- Foreign currency fluctuations;
- Pending litigation;
- Environmental matters;
- Effectiveness of our capital expenditures and cost reduction initiatives.

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 | |
|---|---------------------------|-------------|
| | April 30 | |
| | 2006 | 2005 |
| Net sales | \$ 117,774 | \$ 114,515 |
| Cost of goods sold | 81,085 | 77,027 |
| Gross profit | 36,689 | 37,488 |
| Selling and administrative expenses | 19,852 | 18,118 |
| Gain on sale of assets | (662) | (28) |
| Amortization | 302 | 176 |
| Operating income | 17,197 | 19,222 |
| Interest expense | 532 | 750 |
| Interest income | (355) | (107) |
| Other income | (34) | (202) |
| Income before provision for income taxes | 17,054 | 18,781 |
| Provision for income taxes | 6,020 | 6,573 |
| Net income | \$ 11,034 | \$ 12,208 |
| Basic earnings per share | \$ 0.88 | \$ 1.00 |
| Diluted earnings per share | \$ 0.84 | \$ 0.95 |
| Basic weighted average shares outstanding | 12,542 | 12,229 |
| Diluted weighted average shares outstanding | 13,174 | 12,827 |

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

CASCADE CORPORATION
CONSOLIDATED BALANCE SHEETS
(Unaudited in thousands, except per share amounts)

| | April 30 2006 | January 31 2006 |
|--|------------------|--------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 40,127 | \$ 35,493 |
| Marketable securities | 22,104 | 23,004 |
| Accounts receivable, less allowance for doubtful accounts of \$1,496 and \$1,415 | 78,920 | 67,020 |
| Inventories | 55,397 | 56,996 |
| Deferred income taxes | 3,399 | 3,232 |
| Prepaid expenses and other | 4,593 | 5,373 |
| Total current assets | 204,540 | 191,118 |
| Property, plant and equipment, net | 76,485 | 75,374 |
| Goodwill | 80,410 | 78,820 |
| Deferred income taxes | 12,446 | 11,851 |
| Other assets | 3,998 | 4,120 |
| Total assets | \$ 377,879 | \$ 361,283 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| Current liabilities: | | |
| Notes payable to banks | \$ 4,532 | \$ 4,741 |
| Current portion of long-term debt | 12,681 | 12,681 |
| Accounts payable | 21,997 | 25,124 |
| Accrued payroll and payroll taxes | 8,988 | 8,710 |
| Accrued environmental expenses | 982 | 984 |
| Income taxes payable | 5,693 | 2,373 |
| Dividends payable | 1,882 | |
| Other accrued expenses | 11,527 | 11,543 |
| Total current liabilities | 68,282 | 66,156 |
| Long-term debt, net of current portion | 12,500 | 12,500 |
| Accrued environmental expenses | 6,764 | 6,951 |
| Deferred income taxes | 4,231 | 4,009 |
| Other liabilities | 12,690 | 12,261 |
| Total liabilities | 104,467 | 101,877 |
| Commitments and contingencies (Note 8) | | |
| Shareholders' equity: | | |
| Common stock, \$.50 par value, 20,000 authorized shares; 12,548 and 12,536 shares issued and outstanding | 6,274 | 6,268 |
| Additional paid-in capital | 22,652 | 21,590 |
| Retained earnings | 233,019 | 223,867 |
| Accumulated other comprehensive income | 11,467 | 7,681 |
| Total shareholders' equity | 273,412 | 259,406 |
| Total liabilities and shareholders' equity | \$ 377,879 | \$ 361,283 |

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 Shares | Amount | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Year-To-Date Comprehensive Income (Loss) |
|---|------------------------|----------|----------------------------------|----------------------|--|--|
| Balance at January 31, 2006 | 12,536 | \$ 6,268 | \$ 21,590 | \$ 223,867 | \$ 7,681 | |
| Net income | | | | 11,034 | | \$ 11,034 |
| Dividends (\$0.15 per share) | | | | (1,882) | | |
| Common stock issued | 12 | 6 | 108 | | | |
| Excess tax benefit from exercise of share-based compensation awards | | | 23 | | | |
| Share-based compensation | | | 931 | | | |
| Translation adjustment | | | | | 3,786 | 3,786 |
| Balance at April 30, 2006 | 12,548 | \$ 6,274 | \$ 22,652 | \$ 233,019 | \$ 11,467 | \$ 14,820 |

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

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

| | Three Months Ended | |
|---|---------------------------|-------------|
| | April 30 | |
| | 2006 | 2005 |
| Cash flows from operating activities: | | |
| Net income | \$ 11,034 | \$ 12,208 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 3,784 | 3,730 |
| Share-based compensation | 931 | (228) |
| Deferred income taxes | (586) | (532) |
| Gain on disposition of assets | (662) | (28) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (10,355) | (8,915) |
| Inventories | 2,754 | (2,116) |
| Prepaid expenses and other | 130 | 122 |
| Accounts payable and accrued expenses | (3,742) | (3,323) |
| Income taxes payable and receivable | 3,262 | 2,564 |
| Other assets and liabilities | 85 | 491 |
| Net cash provided by operating activities | 6,635 | 3,973 |
| Cash flows from investing activities: | | |
| Capital expenditures | (3,251) | (2,014) |
| Sales of marketable securities | 7,000 | 1,000 |
| Purchases of marketable securities | (6,100) | (12,550) |
| Proceeds from sale of assets | 1,521 | 163 |
| Net cash used in investing activities | (830) | (13,401) |
| Cash flows from financing activities: | | |
| Cash dividends paid | | (1,467) |
| Payments on long-term debt and capital leases | | (13) |
| Notes payable to banks, net | (366) | (1,065) |
| Common stock issued under share-based compensation plans | 114 | 189 |
| Excess tax benefit from exercise of share-based compensation awards | 23 | 23 |
| Net cash used in financing activities | (229) | (2,333) |
| Effect of exchange rate changes | (942) | 586 |
| Change in cash and cash equivalents | 4,634 | (11,175) |
| Cash and cash equivalents at beginning of period | 35,493 | 30,482 |
| Cash and cash equivalents at end of period | \$ 40,127 | \$ 19,307 |
| Supplemental disclosure of cash flow information: | | |
| See Note 10 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, 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, but primarily in North America and Europe. 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 April 30, 2006 and 2005 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 on Form 10-K in our Annual Report for the fiscal year ended January 31, 2006.

Note 3 Segment Information

Our operating units have 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 primarily for the lift truck industry. We evaluate performance of each of our operating segments based on operating 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 accounting policies.

Revenues and operating results are classified according to the region of origin. Property, plant and equipment are attributed to the geographic location in which they are located. Net sales, operating results and other financial information by geographic region were as follows (in thousands):

| 2006 | Three Months Ended April 30 | | | | | Consolidation |
|---------------------------------|-----------------------------|-----------|--------------|----------|--------------|---------------|
| | North America | Europe | Asia Pacific | China | Eliminations | |
| Sales to unaffiliated customers | \$ 66,615 | \$ 33,221 | \$ 11,137 | \$ 6,801 | \$ | \$ 117,774 |
| Transfers between areas | 5,994 | 405 | 92 | 1,667 | (8,158) | |
| Net sales | \$ 72,609 | \$ 33,626 | \$ 11,229 | \$ 8,468 | \$ (8,158) | \$ 117,774 |
| Gross profit | \$ 25,958 | \$ 5,344 | \$ 2,749 | \$ 2,638 | | \$ 36,689 |
| Selling and administrative | 11,468 | 5,852 | 1,948 | 584 | | 19,852 |
| Loss (gain) on sale of assets | 4 | (662) | (4) | | | (662) |
| Amortization | 89 | 207 | | 6 | | 302 |
| Operating income (loss) | \$ 14,397 | \$ (53) | \$ 805 | \$ 2,048 | | \$ 17,197 |
| Property, plant and equipment | \$ 34,351 | \$ 35,655 | \$ 1,548 | \$ 4,931 | | \$ 76,485 |
| Capital expenditures | \$ 2,003 | \$ 347 | \$ 71 | \$ 830 | | \$ 3,251 |
| Depreciation expense | \$ 2,041 | \$ 1,272 | \$ 104 | \$ 65 | | \$ 3,482 |

| 2005 | Three Months Ended April 30 | | | | | Consolidation |
|---------------------------------|-----------------------------|-----------|--------------|----------|--------------|---------------|
| | North America | Europe | Asia Pacific | China | Eliminations | |
| Sales to unaffiliated customers | \$ 61,617 | \$ 36,704 | \$ 10,913 | \$ 5,281 | \$ | \$ 114,515 |
| Transfers between areas | 6,090 | 685 | 91 | 1,210 | (8,076) | |
| Net sales | \$ 67,707 | \$ 37,389 | \$ 11,004 | \$ 6,491 | \$ (8,076) | \$ 114,515 |

Edgar Filing: CASCADE CORP - Form 10-Q

| | | | | | |
|-------------------------------|-----------|-----------|----------|----------|-----------|
| Gross profit | \$ 23,992 | \$ 8,294 | \$ 3,151 | \$ 2,051 | \$ 37,488 |
| Selling and administrative | 10,428 | 5,495 | 1,798 | 397 | 18,118 |
| Loss (gain) on sale of assets | | 20 | (48) | | (28) |
| Amortization | 37 | 132 | | 7 | 176 |
| Operating income | \$ 13,527 | \$ 2,647 | \$ 1,401 | \$ 1,647 | \$ 19,222 |
| Property, plant and equipment | \$ 35,192 | \$ 39,613 | \$ 1,631 | \$ 3,293 | \$ 79,729 |
| Capital expenditures | \$ 1,266 | \$ 592 | \$ 96 | \$ 60 | \$ 2,014 |
| Depreciation expense | \$ 1,974 | \$ 1,385 | \$ 106 | \$ 89 | \$ 3,554 |

6

Note 4 Goodwill

The change in the amount of goodwill between April 30, 2006 and January 31, 2006 related entirely to fluctuations in foreign currency. We have no goodwill in China. The following table provides a breakdown of goodwill by geographic region (in thousands):

| | April 30 2006 | January 31 2006 |
|---------------|------------------|--------------------|
| North America | \$ 67,210 | \$ 65,978 |
| Europe | 10,198 | 9,840 |
| Asia Pacific | 3,002 | 3,002 |
| | \$ 80,410 | \$ 78,820 |

Note 5 Marketable Securities

Marketable securities consist of auction rate and variable rate demand notes issued by various state agencies throughout the United States. We classify these securities as available-for-sale securities. These securities are insured either through third party agencies, reinsured through the U.S. government, or secured by a letter of credit from a bank. The specific identification method is used to determine the cost of securities sold. There are no realized or unrealized gains or losses related to our marketable securities. These securities are long-term instrument maturing through 2040, however, the interest rates and maturities are reset approximately every month, at which time we can sell the securities. Accordingly, we have classified these securities as current assets in our consolidated balance sheets.

Note 6 Inventories

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

| | April 30 2006 | January 31 2006 |
|-------------------------------|------------------|--------------------|
| Finished goods and components | \$ 36,027 | \$ 37,236 |
| Work in process | 605 | 620 |
| Raw materials | 18,765 | 19,140 |
| | \$ 55,397 | \$ 56,996 |

Note 7 Share-Based Compensation Plans

We have granted two types of awards, stock options and stock appreciation rights (SARS), under our share-based compensation plans to officers, key managers and directors. Stock options provide the holder the right to receive our common shares at an established price. 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. The prices for all awards are established by our Board of Directors Compensation Committee at the time the awards are granted. All awards vest ratably over a four year period and have a term of ten years.

We have reserved 1,400,000 shares of common stock under our stock option plan. As of April 30, 2006 a total of 576,000 shares have been issued upon the exercise of stock options. No additional stock options can be granted under the terms of the plan. The SARS plan provides for the issuance of 750,000 shares of common stock upon the exercise of SARS of which 21,000 shares have been issued at April 30, 2006. We issue new common shares upon the exercise of all awards.

Edgar Filing: CASCADE CORP - Form 10-Q

A summary of the plans status at April 30, 2006 together with changes during the three months then ended are presented in the following table (in thousands, except per share amounts):

| | Stock Options Weighted Average Outstanding Awards | Weighted Average Exercise Price Per Share | Stock Appreciation Rights Outstanding Awards | Exercise Price Per Share |
|---------------------------|--|---|--|-----------------------------|
| | Balance at January 31, 2006 | 841 | \$ 14.10 | 1,019 |
| Granted | | | | |
| Exercised | (14) | 15.71 | | |
| Forfeited | | | | |
| Balance at April 30, 2006 | 827 | \$ 14.08 | 1,019 | \$ 29.83 |

Prior to May 1, 2005 we accounted for our stock options under Accounting Principles Board Opinion No. 25 (APB 25), Accounting for Stock Issued to Employees, which permitted the use of intrinsic value accounting. No stock-based compensation cost was reflected in net income for stock options, as all options granted had an exercise price equal to the market price of the underlying common stock on the date of grant.

We accounted for SARS using variable plan accounting under Financial Interpretation No. (FIN) 28, Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans. Accordingly, we recorded deferred compensation as a reduction of shareholders equity, equal to the excess of the market value of our common stock on the balance sheet date or date of exercise over the base price at the date of grant. The deferred compensation was recognized as an expense over the vesting period based on the periods in which the executives and directors performed services.

In our second quarter of fiscal 2006, we adopted Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Based Payment (123R). This standard is a revision of SFAS 123, Accounting for Stock-Based Compensation and supersedes APB 25 and FIN 28. SFAS 123R addresses the accounting for share-based compensation in which we receive employee services in exchange for our equity instruments. Under SFAS 123R, we are required to recognize compensation cost for share-based compensation issued to or purchased by employees, net of estimated forfeitures, under share-based compensation plans using a fair value method. We adopted SFAS 123R using the modified prospective method as of May 1, 2005. Accordingly, no prior periods were restated. Under this method, we recorded compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remained outstanding as of the beginning of the period of adoption.

The following table illustrates the pro forma effect on net income and earnings per share if we had recorded compensation expense based on the fair value method for all share-based compensation awards (in thousands, except per share amount):

| | Three Months Ended April 30 | |
|--|-----------------------------|-----------|
| | 2006 | 2005 |
| Net income - as reported | \$ 11,034 | \$ 12,208 |
| Add: SARS amortization, net of taxes of \$80 | | (148) |
| Net income excluding SARS amortization | 11,034 | 12,060 |
| Deduct: total stock-based compensation, net of income tax benefits of \$140 determined under fair value based method | | (297) |
| Net income - pro forma | \$ 11,034 | \$ 11,763 |
| Basic earnings per share - as reported | \$ 0.88 | \$ 1.00 |
| Basic earnings per share - pro forma | \$ 0.88 | \$ 0.96 |
| Diluted earnings per share - as reported | \$ 0.84 | \$ 0.95 |
| Diluted earnings per share - pro forma | \$ 0.84 | \$ 0.92 |

We calculate share-based compensation cost using the Black-Scholes option pricing model. Additional information regarding the assumptions used to calculate the fair value of our share-based compensation plans is presented in Note 10 to our consolidated financial statements included in our Form 10-K for the year ended January 31, 2006.

Edgar Filing: CASCADE CORP - Form 10-Q

The following table presents all share-based compensation costs recognized in our statements of income (in thousands):

| Method used to account for share-based compensation | Three Months Ended April 30 | |
|---|-----------------------------|-----------|
| | 2006 | 2005 |
| | Fair Value | Intrinsic |
| Share-based compensation under SFAS 123R | \$ 931 | \$ |
| Share-based compensation under FIN 28 | | (228) |
| | \$ 931 | \$ (228) |
| Tax benefit (expense) recognized | \$ 249 | \$ (80) |

As of April 30, 2006, there was \$9.4 million of total unrecognized compensation cost related to nonvested share-based compensation awards granted under the plans. That cost is expected to be recognized over a weighted average period of 2.9 years. The following table represents as of April 30, 2006 the share-based compensation costs to be recognized in future periods (in thousands) for awards granted to date:

| Fiscal year | Amount |
|-------------|----------|
| 2007 | \$ 2,641 |
| 2008 | 3,289 |
| 2009 | 2,537 |
| 2010 | 891 |
| | \$ 9,358 |

Note 8 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. Our liabilities for environmental costs, other than for costs of assessments themselves, are generally determined after the completion of investigations and studies or our commitment to a formal plan of action, such as an approved remediation plan, and are based on our best estimate of undiscounted future costs using currently available technology, applying current regulations, as well as our own historical experience regarding environmental cleanup costs. 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 and operating cash flows. Unasserted claims are not currently reflected in our environmental liabilities. It is also reasonably possible that these changes or claims may also have a material impact on our net income and operating cash flows if asserted. We cannot estimate the impact of these potential changes or claims at this time.

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 2021. Costs of certain remediation activities at the facility are shared with The Boeing Company, with Cascade paying 70% of these costs. We have a liability for the ongoing remediation activities at our Fairview facility of \$6.5 million and \$6.7 million at April 30, 2006 and January 31, 2006, 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. Our liability for ongoing remediation activities at our Springfield facility was \$1.1 million at both April 30, 2006 and January 31, 2006.

Insurance Litigation

On April 22, 2002, the Circuit Court of the State of Oregon for Multnomah County entered judgment in our favor in an action originally brought in 1992 against several insurers to recover various expenses incurred in connection with environmental litigation and related proceedings. The judgment was against two non-settling insurers. We subsequently reached a settlement of all claims with one of the insurers in return for a payment of \$1.3 million, which we received October 22, 2004. The trial court judgment against the remaining insurer, Employers Reinsurance Corp. (ERC) is in the amount of approximately \$800,000. The judgment also requires ERC to defend us in suits alleging liability because of groundwater contamination emanating from our Fairview, Oregon plant and requires ERC to pay approximately 3.1% of any costs incurred after March 1, 1997 on account of such contamination. We appealed the judgment to the Oregon Court of Appeals contending ERC should pay a larger share of our expenses from both before and after March 1, 1997, together with additional interest and attorneys fees. ERC cross-appealed the judgment.

On May 17, 2006, the Oregon Court of Appeals ruled in our favor and reversed the trial court judgment in part. The Court of Appeals ruling would obligate ERC to pay 100% of our unreimbursed environmental expenses up to its policy limits, plus increased interest and attorneys fees.

We estimate the Court of Appeals ruling could result in an eventual recovery of up to \$14.0 million, in addition to the increased interest and attorneys fees and unreimbursed costs of environmental defense. However, any determination of our ultimate recovery is subject to possible discretionary review of the Court of Appeals decision by the Oregon Supreme Court as well as further proceedings at the trial court level. We have not recorded any amounts that may be recovered from ERC in our consolidated financial statements.

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.

Lease Guarantee

We sold our hydraulic cylinder division to Precision Hydraulic Cylinders, Inc. (Precision) on January 15, 2002. Under the terms of the sale, we assigned to Precision an operating lease related to a manufacturing facility in Beulaville, North Carolina. We are a guarantor on the lease in the event Precision fails to comply with the lease terms. The lease requires payments by Precision of approximately \$21,000 per month through November 2007. The total value of the lease guarantee using undiscounted cash flows was approximately \$400,000 at April 30, 2006.

Note 9 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 April 30 | |
|--|------------------------------------|-------------|
| | 2006 | 2005 |
| Basic earnings per share: | | |
| Net income | \$ 11,034 | \$ 12,208 |
| Weighted average shares of common stock outstanding | 12,542 | 12,229 |
| | \$ 0.88 | \$ 1.00 |
| Diluted earnings per share: | | |
| Net income | \$ 11,034 | \$ 12,208 |
| Weighted average shares of common stock outstanding | 12,542 | 12,229 |
| Dilutive effect of stock options and stock appreciation rights | 632 | 598 |
| Diluted weighted average shares of common stock outstanding | 13,174 | 12,827 |
| | \$ 0.84 | \$ 0.95 |

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. All stock options and stock appreciation rights are included in our calculation of incremental share because they are dilutive.

Note 10 Supplemental Cash Flow Information

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

| | For the Three Months Ended April 30 | |
|--|--|-------------|
| | 2006 | 2005 |
| Cash paid during the period for: | | |
| Interest | \$ 58 | \$ 85 |
| Income taxes | \$ 3,477 | \$ 4,301 |
| Supplemental disclosure of noncash information: | | |
| Dividends declared | \$ 1,882 | \$ |

Note 11 Benefit Plans

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

| | Defined Benefit Three Months Ended April 30 | | Postretirement Benefit Three Months Ended April 30 | |
|--------------------------------|---|--------|--|--------|
| | 2006 | 2005 | 2006 | 2005 |
| Net periodic benefit cost: | | | | |
| Service cost | \$ 21 | \$ 51 | \$ 34 | \$ 32 |
| Interest cost | 125 | 119 | 114 | 108 |
| Expected return on plan assets | (123) | (114) | | |
| Recognized net actuarial loss | 35 | 32 | 92 | 86 |
| | \$ 58 | \$ 88 | \$ 240 | \$ 226 |

Note 12 Recent Accounting Pronouncements

In November 2004, the FASB issued SFAS No. 151 (SFAS 151), *Inventory Costs*, an amendment of ARB No. 43, Chapter 4. This statement amends the guidance in ARB No. 43, Chapter 4, *Inventory Pricing*, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Paragraph 5 of ARB No. 43, Chapter 4, previously stated that under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and re-handling costs may be so abnormal as to require treatment as current period charges. SFAS 151 requires that those items be recognized as current-period charges regardless of whether they meet the criterion of so abnormal. In addition, this statement requires that allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities. The provisions of SFAS 151 were effective for us on February 1, 2006. The adoption of SFAS 151 did not have a material impact on our financial position or results of operations.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections*, a replacement of APB Opinion No. 20 and FASB Statement No. 3 (SFAS 154). SFAS 154 changes the requirements for the accounting for and reporting of a change in accounting principle. This statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. SFAS 154 requires the application of a change in accounting principle be applied to prior accounting periods presented as if that principle had always been used. When a pronouncement includes specific transition provision, those provisions should be followed. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS 154 at the beginning of fiscal 2007 did not have an effect on our consolidated financial statements.

Note 13 Warranty Obligations

We record a liability on our consolidated balance sheets 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):

| | 2006 | 2005 |
|--|----------|----------|
| Balance at January 31 | \$ 1,665 | \$ 1,911 |
| Accruals for warranties issued during the period | 715 | 503 |
| Accruals for pre-existing warranties | (40) | 52 |
| Settlements during the period | (598) | (548) |
| Balance at April 30 | \$ 1,742 | \$ 1,918 |

Note 14 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, 2006 | \$ 10,667 | \$ (2,986) | | \$ 7,681 |
| Translation adjustment | 3,786 | | | 3,786 |
| Balance at April 30, 2006 | \$ 14,453 | \$ (2,986) | | \$ 11,467 |

Note 15 Gain on Sale of Assets

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.

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. We operate our business in four geographic segments: North America, Europe, Asia Pacific and China. All references to fiscal periods are defined as periods ending in the year ended January 31, 2006 (fiscal 2006) and the year ending January 31, 2007 (fiscal 2007).

COMPARISON OF FIRST QUARTER OF FISCAL 2007 AND FISCAL 2006**Consolidated Summary**

Net income for the first quarter of fiscal 2007 decreased to \$11.0 million (\$0.84 per diluted share) from record net income of \$12.2 million (\$0.95 per diluted share) for the first quarter of fiscal 2006. Net sales for the first quarter of fiscal 2007 were \$117.8 million or 3% greater than the first quarter of fiscal 2006. Excluding the effect of foreign currency fluctuations, net sales in North America and Asia Pacific each grew 7% in the first quarter of fiscal 2007 as compared to the same quarter of the prior year. The increased sales levels reflect strong lift truck markets in both of these geographic regions. Sales in Europe decreased 3%, excluding foreign currency changes.

The gross margin percentage of 31% in the first quarter of fiscal 2007 was down from 33% in the prior year. The decrease is primarily due to several factors:

- Lower margins in Europe due to manufacturing inefficiencies and higher costs at our manufacturing facility in Germany
- Lower shipment levels of products in Europe
- Higher steel costs for certain steel grades, parts and components throughout the world

Selling and administrative costs increased by 10% in the first quarter of fiscal 2007 over the comparable quarter of the prior year. Excluding foreign currency changes, selling and administrative costs increased 11%. The increase is primarily due to higher share-based compensation costs. Selling and administrative costs as a percentage of net sales were 17% and 16% for first quarter of fiscal 2007 and 2006, respectively.

North America

| | Three Months Ended April 30 | | | 2005 | | Change | Change % | |
|----------------------------|-----------------------------|-----|---|-----------|-----|------------|----------|---|
| | 2006 (In thousands) | % | | | % | | | % |
| Net sales | \$ 66,615 | 100 | % | \$ 61,617 | 100 | % \$ 4,998 | 8 | % |
| Cost of goods sold | 40,657 | 61 | % | 37,625 | 61 | % 3,032 | 8 | % |
| Gross profit | 25,958 | 39 | % | 23,992 | 39 | % 1,966 | 8 | % |
| Selling and administrative | 11,468 | 17 | % | 10,428 | 17 | % 1,040 | 10 | % |
| Loss on sale of assets | 4 | | | | | 4 | | |
| Amortization | 89 | | | 37 | | 52 | | |
| Operating income | \$ 14,397 | 22 | % | \$ 13,527 | 22 | % \$ 870 | 6 | % |

North America net sales increased 8% in the first quarter of fiscal 2007 over the same quarter of fiscal 2006. Currency changes accounted for 1% of the sales increase. Higher volumes of shipments from North American plants accounted for virtually all of the increase. Shipments benefited from a strong North American lift truck market in the first quarter of fiscal 2007 in comparison with the prior year.

Historically, we have found that changes in the level of our net sales do not correspond directly to the percentage changes in lift truck industry shipments, but industry statistics do provide an indication of the direction of business activity. North American lift truck industry shipments in the first quarter were up 6% in comparison with the prior year.

Gross margin percentage for the first quarter of fiscal 2007 in North America was the same as the prior year at 39%. The effect of sales price increases implemented in the second quarter of fiscal 2006 has been offset by material and other cost increases.

Edgar Filing: CASCADE CORP - Form 10-Q

Selling and administrative costs for the first quarter of fiscal 2007 increased 10% over the same quarter of the prior year. The increase is due primarily to an increase in share-based compensation costs, resulting from the adoption of the new accounting standard for share-based compensation in the second quarter of fiscal 2006.

Preliminary industry data suggests the lift truck market in North America will continue to grow at approximately the same rate through the second quarter.

14

Europe

| | Three Months Ended April 30 | | | | | Change | Change % |
|-------------------------------|-----------------------------|-------|-----------|-------|-------------|--------|----------|
| | 2006 | % | | 2005 | % | | |
| | (In thousands) | | | | | | |
| Net sales | \$ 33,221 | 100 % | \$ 36,704 | 100 % | \$ (3,483) | (9)% | |
| Cost of goods sold | 27,877 | 84 % | 28,410 | 77 % | (533) | (2)% | |
| Gross profit | 5,344 | 16 % | 8,294 | 23 % | (2,950) | (36)% | |
| Selling and administrative | 5,852 | 18 % | 5,495 | 16 % | 357 | 6 % | |
| Loss (gain) on sale of assets | (662) | (2)% | 20 | | (682) | | |
| Amortization | 207 | | 132 | | 75 | 57 % | |
| Operating income | \$ (53) | | \$ 2,647 | 7 % | \$ (2,700) | | |

Net sales in Europe for the first quarter of fiscal 2007 decreased to \$33.2 million, a 9% decrease over the same quarter of fiscal 2006. Foreign currency changes made up 6% of the sales decrease. The remaining 3% decrease can be attributed entirely to lower shipment volumes of OEM products. With the continued rationalization of production between our European manufacturing facilities we had planned some reduction of shipment volumes but actual shipment levels still fell below expected shipment levels. We have experienced some loss of market share for certain products over the past six to nine months. We are taking steps to gain back this lost market share through an expansion of our existing sales staff and focused marketing efforts with certain customers.

Industry lift truck shipments in Europe increased 13% for the first quarter compared to the prior year. In particular the Eastern European market is expanding very rapidly with a 38% increase in lift truck industry shipments in the first quarter of fiscal 2007. Our sales to Eastern Europe and the Middle East (part of our European organization) fell short of the industry growth in these regions. We have recently expanded our presence in this market with the addition of sales staff in the Czech Republic and Turkey. We expect to see the benefits of these additional sales resources by the second half of fiscal 2007.

The gross margin percentage in Europe declined to 16% compared to 23% in the first quarter of fiscal 2006. This decrease can be primarily attributed to the following factors:

- Manufacturing inefficiencies and higher costs at our manufacturing facility in Germany resulted in overall operating results for this location which fell short of our expectations. We have made certain management changes to address the poor performance.
- Failure to fully recover material cost increases. We are pursuing various sourcing strategies to reduce our overall material costs and mitigate the effect of additional price increases.
- We have yet to realize the full benefits from the closure of our Hoorn, The Netherlands facility in fiscal 2006.

In addition to the previously mentioned initiatives, we are continuing our efforts to improve overall product quality, on-time delivery and reduce administrative costs through streamlining of support functions. Based on our current plans we hope to see continued improvement in margins through the remainder of fiscal 2007.

Selling and administrative costs in Europe, excluding foreign currency changes, increased 13% for the first quarter of fiscal 2007 as compared to the first quarter of fiscal 2006 due primarily to higher sales and marketing costs.

The gain on the sale of assets in the first quarter of fiscal 2007 relates primarily to the sale of our manufacturing facility in Hoorn, The Netherlands. We closed this facility in fiscal 2006.

Preliminary industry data suggest the lift truck market will continue to grow but at a much more modest rate than the first quarter.

Asia Pacific

| | Three Months Ended April 30 | | | | | | Change | Change % |
|----------------------------|-----------------------------|-------|-----------|-------|--------|--------|--------|----------|
| | 2006 (In thousands) | % | 2005 | % | | | | |
| Net sales | \$ 11,137 | 100 % | \$ 10,913 | 100 % | \$ 224 | 2 % | | |
| Cost of goods sold | 8,388 | 75 % | 7,762 | 71 % | 626 | 8 % | | |
| Gross profit | 2,749 | 25 % | 3,151 | 29 % | (402) | (13) % | | |
| Selling and administrative | 1,948 | 18 % | 1,798 | 16 % | 150 | 8 % | | |
| Gain on sale of assets | (4) | | (48) | | 44 | | | |
| Operating income | \$ 805 | 7 % | \$ 1,401 | 13 % | (596) | (43) % | | |

Asia Pacific net sales increased to \$11.1 million, a 2% increase in the first quarter of fiscal 2007 over fiscal 2006. Excluding the effect of foreign currencies, net sales increased 7% for the quarter. All Asia Pacific markets, which primarily includes Japan, Australia and Korea, experienced sales increases during the first quarter. Industry lift truck shipments, excluding China, were up 10% in the first quarter over the prior year.

Gross margin percentages in the Asia Pacific region decreased to 25% in the first quarter of fiscal 2007 when compared to 29% in the same quarter of the prior year. This increase is due to higher material costs which we have not been able to pass through to customers with higher prices. We are working to mitigate the effect of these increases on our gross margins, but for the present time do not anticipate any significant improvements through the remainder of fiscal 2007.

Selling and administrative costs in the Asia Pacific region increased 8% for the first quarter of fiscal 2007 as compared to fiscal 2006. Excluding foreign currency changes the selling and administrative expenses increased 14% over the prior year. This increase is due to additional employee costs, primarily for management positions created to support corporate initiatives.

Preliminary industry data indicates continued growth in the Asia Pacific region for the second quarter.

China

| | Three Months Ended April 30 | | | | | | Change | Change % |
|----------------------------|-----------------------------|-------|----------|-------|----------|------|--------|----------|
| | 2006 (In thousands) | % | 2005 | % | | | | |
| Net sales | \$ 6,801 | 100 % | \$ 5,281 | 100 % | \$ 1,520 | 29 % | | |
| Cost of goods sold | 4,163 | 61 % | 3,230 | 61 % | 933 | 29 % | | |
| Gross profit | 2,638 | 39 % | 2,051 | 39 % | 587 | 29 % | | |
| Selling and administrative | 584 | 9 % | 397 | 8 % | 187 | 47 % | | |
| Amortization | 6 | | 7 | | (1) | | | |
| Operating income | \$ 2,048 | 30 % | \$ 1,647 | 31 % | \$ 401 | 24 % | | |

Net sales in China increased 29% in the first quarter of fiscal 2007 in comparison with the prior year. Excluding currency changes, net sales increased 26%. This increase is due to higher sales of all products and reflects strong growth in the Chinese lift truck market. Lift truck industry shipments increased 23% in the first quarter of fiscal 2007.

We believe our sales increase in China also reflects increasing application rates for our attachment products. The application rate relates to the percentage of new lift truck sales which include attachments. Historically, application rates in China and emerging markets have been lower than in more mature markets such as Europe and North America.

Gross margin percentages in China remained consistent with the prior year at 39%. To date any effects of rising costs have been offset by additional gross profit from higher sales volumes in the region.

Selling and administrative costs increased 47% in the first quarter compared to the prior year. Currency changes made up 3% of this increase. The remaining 44% increase is due to additional sales and marketing costs and professional fees.

Preliminary industry statistics indicate continued growth at approximately the same rate for the second quarter.

Non-Operating Items

Interest expense was lower in the first quarter of fiscal 2007 as compared to the same quarter of fiscal 2006 due to the reduction in long-term debt from scheduled debt payments in the fourth quarter of fiscal 2006. See [Financial Condition and Liquidity](#) for additional discussion of debt levels and payments.

The effective tax rate in the first quarter of fiscal 2007 of 35% was consistent with the prior year.

16

CASH FLOWS

The statements of cash flows reflect the changes in cash and cash equivalents for the three months ended April 30, 2006 and April 30, 2005 by classifying transactions into three major categories of activities: operating, investing and financing.

Operating

Our main source of liquidity is cash generated from operating activities. This consists of net income adjusted for noncash operating items such as depreciation and amortization, losses and gains on the disposal of assets, share-based compensation, deferred income taxes, and changes in operating assets and liabilities.

Net cash provided by operating activities from continuing operations was \$6.6 million in the first three months of fiscal 2007 compared to \$4.0 million for the same period in fiscal 2006. The increase in fiscal 2007 was due to changes in inventories and current income taxes payable and receivable. These increases were partially offset by lower levels of net income and changes in accounts receivable.

Investing

Our capital expenditures are primarily for equipment and tooling related to product improvements, more efficient production methods, expansion of production capacity and replacement for normal wear and tear. Capital expenditures by geographic segments were as follows (in thousands):

| | Three Months Ended April 30 | |
|---------------|--|-----------------|
| | 2006 | 2005 |
| North America | \$ 2,003 | \$ 1,266 |
| Europe | 347 | 592 |
| Asia Pacific | 71 | 96 |
| China | 830 | 60 |
| | \$ 3,251 | \$ 2,014 |

We expect capital expenditures in the rest of fiscal 2007 to approximate depreciation expense, excluding expenditures related to our expansion plans in China. We anticipate investing up to \$18 million in China by the middle of fiscal 2008 of which \$1.0 million has been spent to date. Depreciation expense for the first three months in fiscal 2007 and fiscal 2006 was \$3.5 million and \$3.6 million, respectively.

We held marketable securities of \$22.1 million at April 30, 2006. These securities consist of auction rate and variable rate demand notes issued by various state agencies throughout the United States. We classify these securities as available-for-sale securities. These securities are either insured through first party agencies, reinsured through the U.S. federal government, or secured by a letter of credit from a bank. There were no realized or unrealized gains or losses related to our marketable securities during the first three months of fiscal 2007 and fiscal 2006. These securities are long-term instruments maturing through 2040; however, the interest rates and maturities are reset approximately every month, at which time we can sell the securities. Accordingly, we have classified these securities as current assets in our consolidated balance sheets. Interest rates on tax free securities range from 3.1% to 3.9% per annum.

Financing

We declared dividends totaling \$0.15 and \$0.12 per share during the first three months of fiscal 2007 and 2006, respectively. The dividend of \$0.15 per share declared by our Board of Directors on April 11, 2006 was paid on May 15, 2006. A dividend payable of \$1.9 million is recorded on our consolidated balance sheet of April 30, 2006 and presented as a noncash item in Note 10 to the consolidated financial statements in this Form 10-Q.

FINANCIAL CONDITION AND LIQUIDITY

Our working capital, defined as current assets less current liabilities at April 30, 2006 was \$136.3 million as compared to \$125.0 million at January 31, 2006. Our current ratio at April 30, 2006 was 3.0 to 1 as compared to 2.9 to 1 at January 31, 2006.

Total outstanding debt, including notes payable to banks and capital leases, at April 30, 2006 was \$29.7 million was substantially unchanged from January 31, 2006. Our debt agreements contain covenants relating to net worth and leverage ratios. We

were in compliance with these covenants at April 30, 2006. Borrowing arrangements currently in place with commercial banks provide lines of credit totaling \$25 million, of which \$2.8 million was used to issue letters of credit at April 30, 2006. The lines of credit expire on September 1, 2010. Average interest rates on notes payable to banks was 2.7% at April 30, 2006 and 3.0% at January 31, 2006.

Our current plans are to fund the existing postretirement obligation as costs are incurred and defined benefit obligations will be funded to meet minimum statutory funding requirements, or any additional funding requirements which we have committed to provide in specific plan agreements. Currently these additional funding requirements are limited to contributions of \$350,000 for each of the next five years to a defined benefit plan in England.

We believe that our cash and cash equivalents, existing credit facilities and cash flows from operations will be sufficient to satisfy our expected working capital, capital expenditure, acquisition and debt retirement requirements for the next twelve months.

OTHER MATTERS

The U.S. dollar weakened in comparison with the Euro, Canadian Dollar and British Pound from January 31, 2006 to April 30, 2006. The net result was these foreign currency translation adjustments increased shareholders' equity by \$3.8 million in the first quarter of fiscal 2007.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of financial position and results of operations is based on our consolidated financial statements which have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. We evaluate our estimates and judgments on an on-going basis, including those related to uncollectible receivables, inventories, goodwill and long-lived assets, warranty obligations, environmental liabilities and deferred taxes. We base our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. A description of our critical accounting policies and related judgments and estimates that affect the preparation of our consolidated financial statements is set forth on Form 10-K in our Annual Report for the year ended January 31, 2006. We have presented below any updates to these policies and estimates from the information disclosed in our fiscal 2006 form 10-K.

Impairment of Goodwill

We review goodwill for impairment either annually or when events or changes in circumstances indicate the carrying value of the assets might exceed their current fair values. The review is performed for the three reporting units in which we have recorded goodwill, North America, Europe and Australia. Certain factors we consider important which could trigger an impairment review, at an interim date outside of the annual review, include, but are not limited to, significant underperformance relative to historical or projected future operating results, significant changes in the manner of use of the acquired assets or our overall business and significant industry or economic trends.

We disclosed in our Form 10-K for the year ended January 31, 2006 that our goodwill impairment test for Europe assumed operating results in fiscal 2007 and future years would be improved over prior year actual results. These improvements reflected a number of initiatives in Europe to restructure our European business. During the first quarter of fiscal 2007 our European reporting unit incurred an operating loss. As we previously discussed in our review of Europe's first quarter results the operating loss can be attributed entirely to the performance of our German manufacturing facility. We have made management changes at this location which we believe will improve our performance for the remainder of fiscal 2007. In addition we are continuing to pursue other initiatives and improvements in Europe to improve our overall results. Because of these factors, we do not believe Europe's first quarter operating loss would trigger an interim impairment review at this time. We will continue to evaluate our actual results to determine if existing factors, such as additional operating losses, would require an interim goodwill impairment review. If we do not realize these improvements and our actual results are not consistent with our assumptions and judgments, we could be exposed to a material impairment of our goodwill in Europe in the future.

OFF BALANCE SHEET ARRANGEMENTS

At April 30, 2006, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or for other contractually narrow or limited purposes. As such, we are not materially exposed to any financing, liquidity market or credit risk that could arise if we had engaged in such relationships.

RECENT ACCOUNTING PRONOUNCEMENTS

In November 2004, the FASB issued SFAS No. 151 (SFAS 151), *Inventory Costs*, an amendment of ARB No. 43, Chapter 4. This statement amends the guidance in ARB No. 43, Chapter 4, *Inventory Pricing*, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Paragraph 5 of ARB No. 43, Chapter 4, previously stated that . . .under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and re-handling costs may be so abnormal as to require treatment as current period charges. SFAS 151 requires that those items be recognized as current-period charges regardless of whether they meet the criterion of so abnormal. In addition, this statement requires that allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities. The provisions of SFAS 151 were effective for us on February 1, 2006. The adoption of SFAS 151 did not have a material impact on our financial position or results of operations.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections* a replacement of APB Opinion No. 20 and FASB Statement No. 3 (SFAS 154). SFAS 154 changes the requirements for the accounting for and reporting of a change in accounting principle. This statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. SFAS 154 requires the application of a change in accounting principle be applied to prior accounting periods presented as if that principle had always been used. When a pronouncement includes specific transition provision, those provisions should be followed. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS 154 at the beginning of fiscal 2007 did not have an effect on our consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the potential loss arising from adverse changes in market rates and prices, such as foreign currency exchange rate and interest rate fluctuations. A significant portion of our revenues and expenses are denominated in foreign currencies. As a result, our operating results could become subject to significant fluctuations based upon changes in the exchange rates of the foreign currencies in relation to the U.S. dollar. The table below illustrates the hypothetical increase in net sales for the first quarter of fiscal 2007 resulting from a 10% weaker U.S. dollar during the quarter, measured against foreign currencies that affect our operations (in millions):

| | |
|--|--------|
| Euro | \$ 2.5 |
| Canadian dollar | 0.7 |
| British pound | 0.7 |
| Chinese renminbi | 0.7 |
| Other currencies (representing net sales of less than 11% of consolidated net sales) | 1.2 |

We enter into foreign currency forward exchange contracts to offset the impact of currency fluctuations on certain nonfunctional currency assets and liabilities. The principal currencies hedged are denominated in Japanese yen, Canadian dollars, Euros and British pounds. Our foreign currency forward exchange contracts have terms lasting up to six months, but generally less than one month. We do not enter into derivatives or other financial instruments for trading or speculative purposes.

A majority of our products are manufactured using steel as a primary raw material and steel based components as purchased parts. As such, our cost of goods sold is sensitive to fluctuations in steel prices, either directly through the purchase of steel as raw material or indirectly through the purchase of steel based components. Presuming that the full impact of commodity steel cost increases is reflected in all steel and steel based component purchases, we estimate our gross profit percentage sensitivity to be approximately 0.3% for each 1.0% increase in commodity steel cost without offsetting sales price increases. For example, if the price of commodity steel increases 1.0%, and the full impact of that increase is reflected in all raw material and component purchases, the net decrease in the gross profit percentage would be approximately 0.3%. Based on our statement of income for the quarter ended April 30, 2006, a 1% increase in commodity steel costs without offsetting sales price increases would have decreased consolidated gross profit by approximately \$325,000.

To date we have been able to mitigate the effect of a portion of the steel cost increases on our gross margin. This has been done through price increases and cost reductions. We intend to continue our efforts in the coming months to mitigate the impact of any additional steel cost increases. There may be some time lag between the absorption of the steel cost increases and realizing the offsetting benefits of the mitigating measures. It should be noted that there is no assurance that we can fully mitigate all future steel cost increases through price increases and other measures and actual cost increases from steel suppliers could differ from cost increases that have been previously communicated.

Manufacturing of our products includes the purchase of various raw materials and components. Certain of these items are provided worldwide by a limited number of suppliers. We are not currently experiencing shortages in obtaining the raw materials and components. However, certain steel products obtained in Europe are subject to allocations from suppliers. At this time, we believe the current allocation of these products from suppliers is sufficient to meet planned production volumes. Nevertheless, there can be no assurance that these suppliers will be able to meet our future requirements. An extended delay or interruption in the supply of any components could have a material adverse effect on our business, results of operations and financial condition. We are working to identify alternative supplier sources for these products.

Substantially all of our debt at April 30, 2006 had a fixed interest rate and was denominated in U.S. dollars. Any additional payments to prepay scheduled amounts of debt are subject to penalties. At April 30, 2006, the penalties to retire all of our long-term debt were \$354,000. A hypothetical immediate increase in market interest rates by 1% would decrease the fair value of our long-term debt outstanding at April 30, 2006 by \$256,000.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management has evaluated, under the supervision and with the participation of our chief executive officer and chief financial officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 (the Exchange Act). Based on that evaluation, our chief executive officer and chief financial officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective in ensuring that information required to be disclosed in our Exchange Act reports is (1) recorded, processed, summarized and reported in a timely manner, and (2) accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There has been no change in the internal control over financial reporting that occurred during the three months ended April 30, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 1A. Risk Factors

There are no material changes from risk factors previously disclosed in our Form 10-K for the year ended January 31, 2006.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits

- 31.1 Certification of Chief Executive Officer of Cascade Corporation.
- 31.2 Certification of Chief Financial Officer of Cascade Corporation.
- 32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350.

22

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

June 8, 2006

CASCADE CORPORATION

/s/ RICHARD S. ANDERSON
Richard S. Anderson
*Senior Vice President and
Chief Financial Officer
(Principal Financial and Accounting Officer)*

23

EXHIBIT INDEX

| Exhibit No. | Description |
|--------------------|---|
| 31.1 | Certification of Chief Executive Officer |
| 31.2 | Certification of Chief Financial Officer |
| 32 | Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 |

24
