CASCADE CORP
Form 10-Q
September 07, 2011
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended July 31, 2011

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	**93-0136592**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
2201 N.E. 201st Ave. Fairview, Oregon	**97024-9718**
(Address of principal executive office)	**(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 x 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 x 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 x	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 x

The number of shares outstanding of the registrant s common stock as of August 16, 2011 was 11,077,533.

Table of Contents

CASCADE CORPORATION

FORM 10-Q

Quarter Ended July 31, 2011

TABLE OF CONTENTS

Table of Contents

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 that do not constitute statements of historical fact are deemed forward-looking statements, including any projections of market conditions, revenue, gross profit, expenses, earnings or losses from operations or other financial items; any discussion of expectations regarding future profitability of operations in particular regions or product lines; 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. Risks, uncertainties, and assumptions that could cause material differences from expectations include, but are not limited to:

General business and economic conditions globally and in particular in the Americas, Europe, the Asia Pacific region and China;

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

Risks and complexities associated with international operations, including foreign currency fluctuations and international tax considerations;

Cost and availability of raw materials;

Environmental matters;

Assumptions relating to pension and other postretirement costs; and

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 under Item 1A in our Annual Report on Form 10-K for the year ended January 31, 2011, for additional information on risk factors with the potential to impact our financial results and business operations.

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

CASCADE CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited in thousands, except per share amounts)

	Three Months Ended July 31		Six Months Ended July 31	
	2011	2010	2011	2010
Net sales	$ 135,642	$ 97,741	$ 271,819	$ 192,133
Cost of goods sold	92,331	68,221	184,135	134,899
Gross profit	43,311	29,520	87,684	57,234
Selling and administrative expenses	22,334	19,107	42,200	37,331
Operating income	20,977	10,413	45,484	19,903
Interest expense, net	206	536	457	1,069
Foreign currency loss, net	463	215	659	520
Income before provision for income taxes	20,308	9,662	44,368	18,314
Provision for income taxes	6,457	6,430	14,093	9,416
Net income	$ 13,851	$ 3,232	$ 30,275	$ 8,898
Basic earnings per share	$ 1.26	$ 0.30	$ 2.76	$ 0.82
Diluted earnings per share	$ 1.23	$ 0.29	$ 2.68	$ 0.80
Basic weighted average shares outstanding	10,994	10,889	10,960	10,860
Diluted weighted average shares outstanding	11,302	11,089	11,288	11,059
Cash dividends per share	$ 0.20	$ 0.05	$ 0.40	$ 0.07

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

Table of Contents

CASCADE CORPORATION

CONSOLIDATED BALANCE SHEETS

(Unaudited in thousands, except per share amounts)

	July 31 2011	January 31 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 32,143	$ 25,037
Accounts receivable, less allowance for doubtful accounts of $1,486 and $1,196	86,482	66,497
Inventories	82,100	67,041
Deferred income taxes	4,185	5,001
Assets available for sale	8,334	8,610
Prepaid expenses and other	18,368	11,170
Total current assets	231,612	183,356
Property, plant and equipment, net	69,567	66,978
Goodwill	92,778	88,708
Deferred income taxes	17,461	16,606
Other assets	3,655	3,531
Total assets	$ 415,073	$ 359,179
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 586	$ 548
Accounts payable	31,855	23,905
Accrued payroll and payroll taxes	9,314	9,299
Accrued incentive pay	1,897	2,868
Other accrued expenses	13,639	11,612
Total current liabilities	57,291	48,232
Long-term debt, net of current portion	48,224	41,789
Accrued environmental expenses	2,838	3,198
Deferred income taxes	4,665	4,452
Employee benefit obligations	8,101	7,864
Other liabilities	6,971	5,088
Total liabilities	128,090	110,623
Commitments and contingencies (Note 7)		
Shareholders equity:		
Common stock, $.50 par value, 40,000 authorized shares; 11,078 and 10,972 shares issued and outstanding	5,539	5,486
Additional paid-in capital	12,055	9,254
Retained earnings	224,048	198,194
Accumulated other comprehensive income	45,341	35,622
Total shareholders equity	286,983	248,556
Total liabilities and shareholders equity	$ 415,073	$ 359,179

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

Table of Contents

CASCADE CORPORATION

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

(Unaudited in thousands, except per share amounts)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders Equity	Year-To-Date Comprehensive Income
Balance at January 31, 2011	10,972	$ 5,486	$ 9,254	$ 198,194	$ 35,622	$ 248,556	
Net income				30,275		30,275	$ 30,275
Dividends ($ 0.40 per share)				(4,421)		(4,421)	
Common stock issued	106	53	756			809	
Share-based compensation			1,345			1,345	
Tax effect on stock-based compensation			700			700	
Currency translation adjustment					9,719	9,719	9,719
Balance at July 31, 2011	11,078	$ 5,539	$ 12,055	$ 224,048	$ 45,341	$ 286,983	$ 39,994

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

6

Table of Contents

CASCADE CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited in thousands)

	Three Months Ended July 31		Six Months Ended July 31	
	2011	**2010**	**2011**	**2010**
Cash flows from operating activities:				
Net income	$ 13,851	$ 3,232	$ 30,275	$ 8,898
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	2,493	2,476	4,886	5,057
Share-based compensation	746	945	1,345	1,639
Deferred income taxes	349	626	190	918
Loss (gain) on disposition of assets, net	(119)	15	(136)	6
Changes in operating assets and liabilities:				
Accounts receivable	2,403	(4,125)	(17,239)	(13,600)
Inventories	(8,194)	(2,196)	(12,281)	(277)
Prepaid expenses and other	(2,872)	(1,663)	(4,571)	(3,731)
Accounts payable and accrued expenses	5,305	2,645	7,773	2,337
Income taxes payable and receivable	(3,135)	1,595	(2,373)	2,494
Other assets and liabilities	50	(411)	1,368	(370)
Net cash provided by operating activities	10,877	3,139	9,237	3,371
Cash flows from investing activities:				
Capital expenditures	(3,406)	(1,150)	(5,708)	(1,905)
Proceeds from disposition of assets	1,001	97	1,052	117
Net cash used in investing activities	(2,405)	(1,053)	(4,656)	(1,788)
Cash flows from financing activities:				
Cash dividends paid	(4,421)	(766)	(4,421)	(766)
Tax effect on share-based compensation	700		700	
Payments on long-term debt	(27,040)	(22,876)	(40,277)	(32,999)
Proceeds from long-term debt	28,500	21,000	46,500	31,500
Notes payable to banks, net	(2,966)	(590)		(906)
Common stock issued under share-based compensation plans	210		809	14
Net cash provided by (used in) financing activities	(5,017)	(3,232)	3,311	(3,157)
Effect of exchange rate changes	1,827	2,188	(786)	3,736
Change in cash and cash equivalents	5,282	1,042	7,106	2,162
Cash and cash equivalents at beginning of period	26,861	21,321	25,037	20,201
Cash and cash equivalents at end of period	$ 32,143	$ 22,363	$ 32,143	$ 22,363
Supplemental disclosure of cash flow information:				
See Note 9 to the consolidated financial statements				

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

Table of Contents

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 16 countries outside the United States.

Note 2 Interim Financial Information

The accompanying consolidated financial statements for the interim periods ended July 31, 2011 and 2010 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, 2011.

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 related to the manufacturing, distribution and servicing of material handling load engagement products into four geographic operating segments, which we identify as the Americas, Europe, Asia Pacific and China. We evaluate the performance of each of our operating segments based on income or loss before interest, foreign currency gains or 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, 2011.

Table of Contents

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 the Americas. 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):

Segment Information

(In thousands)

	Three Months Ended July 31					
2011	**Americas**	**Europe**	**Asia Pacific**	**China**	**Eliminations**	**Consolidated**
Net sales	$ 67,025	$ 29,344	$ 21,167	$ 18,106	$	$ 135,642
Transfers between areas	7,952	187	8	8,771	(16,918)	
Net sales and transfers	$ 74,977	$ 29,531	$ 21,175	$ 26,877	$ (16,918)	$ 135,642
Gross profit	$ 21,783	$ 6,671	$ 7,272	$ 7,585		$ 43,311
Selling and administrative	12,686	4,864	3,293	1,491		22,334
Operating income	$ 9,097	$ 1,807	$ 3,979	$ 6,094		$ 20,977
Total assets	$ 195,389	$ 91,565	$ 55,670	$ 72,449		$ 415,073
Property, plant and equipment, net	$ 28,812	$ 10,699	$ 10,778	$ 19,278		$ 69,567
Capital expenditures	$ 1,221	$ 447	$ 636	$ 1,102		$ 3,406
Depreciation expense	$ 1,227	$ 475	$ 168	$ 589		$ 2,459

	Three Months Ended July 31					
2010	**Americas**	**Europe**	**Asia Pacific**	**China**	**Eliminations**	**Consolidated**
Net sales	$ 48,177	$ 21,887	$ 14,243	$ 13,434	$	$ 97,741
Transfers between areas	6,227	96	61	6,598	(12,982)	
Net sales and transfers	$ 54,404	$ 21,983	$ 14,304	$ 20,032	$ (12,982)	$ 97,741
Gross profit	$ 16,119	$ 2,953	$ 3,746	$ 6,702		$ 29,520
Selling and administrative	11,324	4,267	2,337	1,179		19,107
Operating income (loss)	$ 4,795	$ (1,314)	$ 1,409	$ 5,523		$ 10,413
Total assets	$ 177,379	$ 79,170	$ 42,962	$ 55,347		$ 354,858
Property, plant and equipment, net	$ 29,463	$ 12,648	$ 10,134	$ 17,962		$ 70,207
Capital expenditures	$ 623	$ 19	$ 209	$ 299		$ 1,150
Depreciation expense	$ 1,269	$ 494	$ 152	$ 525		$ 2,440

	Six Months Ended July 31					
2011	**Americas**	**Europe**	**Asia Pacific**	**China**	**Eliminations**	**Consolidated**
Net sales	$ 138,729	$ 56,783	$ 39,259	$ 37,048	$	$ 271,819
Transfers between areas	16,029	641	88	16,059	(32,817)	
Net sales and transfers	$ 154,758	$ 57,424	$ 39,347	$ 53,107	$ (32,817)	$ 271,819
Gross profit	$ 46,689	$ 12,522	$ 13,073	$ 15,400		$ 87,684

Selling and administrative	24,642	9,415	5,161	2,982		42,200
Operating income	$ 22,047	$ 3,107	$ 7,912	$ 12,418		$ 45,484
Capital expenditures	$ 2,095	$ 772	$ 1,150	$ 1,691		$ 5,708
Depreciation expense	$ 2,416	$ 929	$ 300	$ 1,170		$ 4,815

	Six Months Ended July 31					
2010	**Americas**	**Europe**	**Asia Pacific**	**China**	**Eliminations**	**Consolidated**
Net sales	$ 93,470	$ 44,257	$ 28,053	$ 26,353	$	$ 192,133
Transfers between areas	12,629	198	110	11,433	(24,370)	
Net sales and transfers	$ 106,099	$ 44,455	$ 28,163	$ 37,786	$ (24,370)	$ 192,133
Gross profit	$ 31,686	$ 4,956	$ 7,513	$ 13,079		$ 57,234
Selling and administrative	21,634	8,806	4,665	2,226		37,331
Operating income (loss)	$ 10,052	$ (3,850)	$ 2,848	$ 10,853		$ 19,903
Capital expenditures	$ 1,017	$ 222	$ 265	$ 401		$ 1,905
Depreciation expense	$ 2,586	$ 1,038	$ 309	$ 1,040		$ 4,973

Table of Contents

Note 4 Inventories

During the six months ended July 31, 2011, inventories increased primarily due to additional product needed to meet increased customer demand. Inventories stated at the lower of average cost or market are presented below by major class (in thousands):

	July 31 2011	January 31 2011
Finished goods	$ 30,828	$ 24,933
Raw materials and components	51,272	42,108
	$ 82,100	$ 67,041

Note 5 Goodwill

During the six months ended July 31, 2011, goodwill increased due to the strengthening of the Canadian Dollar against the U.S. Dollar. We have no goodwill recorded in China. The following table provides a breakdown of goodwill by geographic region (in thousands):

	July 31 2011	January 31 2011
Americas	$ 78,560	$ 74,988
Europe	11,299	10,776
Asia Pacific	2,919	2,944
	$ 92,778	$ 88,708

Note 6 Share-Based Compensation Plans

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

Restricted stock is a grant of common shares to a recipient, subject to restrictions on transfer until vesting conditions are satisfied. Regardless of vesting, restricted shares have full voting rights and any dividends declared will be paid to the restricted stock recipient free of restrictions. Restricted shares granted to officers vest ratably over a period of three years. Restricted shares granted to directors prior to June 1, 2010 vest ratably over a period of four years and grants after May 31, 2010 vest after one year.

Stock options provide the holder the right to receive our common shares at an established price. No additional stock options can be granted under the terms of our plan. All outstanding stock options are fully vested and have a term of ten years.

Table of Contents

The following table provides the number of shares to be issued under our share-based plans, based on outstanding awards as of July 31, 2011 (in thousands):

	Stock Options	SARS
Common stock previously issued	1,198	206
Restricted stock previously issued		158
Shares issuable upon exercise of SARs, based on $49.99 share price at July 31, 2011		274
Shares issuable upon exercise of stock options	154	
Estimated shares to be issued	1,352	638
Maximum shares of common stock to be issued per plan document	1,400	750

A summary of the status of our plans at July 31, 2011, together with changes during the six months then ended, is presented in the following tables (in thousands, except per share amounts):

	Stock Options		SARS	
	Outstanding Awards	Weighted Average Exercise Price Per Share	Outstanding Awards	Weighted Average Exercise Price Per Share
Balance at January 31, 2011	218	$ 13.96	791	$ 34.24
Granted			96	48.65
Exercised	(64)	11.81	(8)	35.88
Forfeited			(3)	33.30
Balance at July 31, 2011	154	$ 14.86	876	$ 35.80

	Restricted Stock Awards	
	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Unvested restricted stock at January 31, 2011	56	$ 31.85
Granted	39	48.42
Vested	(33)	33.90
Unvested restricted stock at July 31, 2011	62	$ 41.14

Table of Contents

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 2012	Granted Prior to Fiscal 2012
Risk-free interest rate	2.1 - 2.6%	2.3 - 5.1%
Expected volatility	56.0%	40.0 - 53.0%
Expected dividend yield	1.6%	0.6 - 2.8%
Expected life (in years)	6 - 7	5 - 7
Weighted average fair value at date of grant	$22.80 - $23.70	$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 under 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, 2011.

As of July 31, 2011, there was $5 million of total unrecognized compensation cost related to nonvested share-based compensation awards granted under the plans. The following table shows the share-based compensation costs to be recognized in future periods for awards granted to date as of July 31, 2011 (in thousands):

Fiscal Year	Amount
2012*	$ 1,140
2013	1,791
2014	1,292
2015	646
2016	86
	$ 4,955

* Represents last six months of fiscal 2012.

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.

Table of Contents

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 $2.5 million at July 31, 2011 and $2.7 million at January 31, 2011.

Springfield, Ohio

In March 2010 we signed a Facility Lead Corrective Action Agreement (Action Agreement) with the Ohio Environmental Protection Agency, which outlines a more comprehensive remediation plan at our Springfield, Ohio facility. We had previously been performing our remediation activities under a consent order signed in 1994, which had required the installation of remediation systems for the cleanup of groundwater contamination. The Action Agreement specifies an action plan that would allow us to be more proactive in our environmental cleanup efforts. The current estimate is that the remediation activities will continue through 2019. The recorded liability for ongoing remediation activities in Springfield was $1.5 million at July 31, 2011 and $1.7 million at January 31, 2011.

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.

Note 8 Earnings Per Share

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

	Three Months Ended July 31		**Six Months Ended July 31**	
	2011	**2010**	**2011**	**2010**
Basic earnings per share:				
Net income	$ 13,851	$ 3,232	$ 30,275	$ 8,898
Weighted average shares of common stock outstanding	10,994	10,889	10,960	10,860
	$ 1.26	$ 0.30	$ 2.76	$ 0.82
Diluted earnings per share:				
Net income	$ 13,851	$ 3,232	$ 30,275	$ 8,898
Weighted average shares of common stock outstanding	10,994	10,889	10,960	10,860
Dilutive effect of stock awards	308	200	328	199
Diluted weighted average shares of common stock outstanding	11,302	11,089	11,288	11,059
	$ 1.23	$ 0.29	$ 2.68	$ 0.80

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 SARs and the amount of unvested restricted stock. All unvested restricted stock was included in our calculation of incremental shares because they are dilutive. The number of unexercised SARs that were not included in the calculation as the impact would be antidilutive are as follows:

	Three Months Ended July 31		Six Months Ended July 31	
	2011	**2010**	**2011**	**2010**
Excluded Awards:				
Unexercised SARS Awards	149,000	572,000	149,000	572,000

Table of Contents

Note 9 Supplemental Cash Flow Information

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

	Six Months Ended July 31	
	2011	2010
Cash paid during the period for:		
Interest	$ 626	$ 1,139
Income taxes	$ 14,151	$ 5,838

Note 10 Benefit Plans

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

	Defined Benefit Three Months Ended July 31		Postretirement Benefit Three Months Ended July 31	
	2011	2010	2011	2010
Net periodic benefit cost:				
Service cost	$ 4	$ 5	$ 22	$ 31
Interest cost	117	111	95	110
Expected return on plan assets	(120)	(104)		
Recognized prior service cost			(19)	(19)
Recognized net actuarial loss	30	29		
	$ 31	$ 41	$ 98	$ 122

	Defined Benefit Six Months Ended July 31		Postretirement Benefit Six Months Ended July 31	
	2011	2010	2011	2010
Net periodic benefit cost:				
Service cost	$ 8	$ 10	$ 44	$ 62
Interest cost	233	225	190	220
Expected return on plan assets	(239)	(210)		
Recognized prior service cost			(38)	(38)
Recognized net actuarial loss	59	58		
	$ 61	$ 83	$ 196	$ 244

Note 11 Recent Accounting Pronouncements

Other Comprehensive Income

In June 2011, a pronouncement was issued that eliminates the option of presenting other comprehensive income as part of the statement of changes in stockholders equity and provides an entity with the option to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This guidance also requires presentation of items on the face of the financial statements that are reclassified from other comprehensive income to net income. This guidance does not change the items that must be reported in other comprehensive income, when an item of other comprehensive income must be reclassified to net income or how tax effects of each item of other comprehensive income are presented. This guidance is effective for interim and annual reporting periods beginning after December 15, 2011 and should be applied retrospectively. We currently report other comprehensive income in the consolidated statement of changes in shareholders equity and will be required to update the presentation of comprehensive income to be in compliance with the new standard. We are currently evaluating the impact of adopting this guidance on the presentation of our consolidated financial statements.

Table of Contents

Fair Value Measurements

In May 2011, a pronouncement was issued that amends existing guidance and expands disclosure requirements for fair value measurements, particularly for Level 3 (as defined in the accounting guidance) inputs. The amendments in this guidance are not intended to result in a change in current accounting. This guidance is effective for interim and annual reporting periods beginning after December 15, 2011. We are currently evaluating the impact of adopting this guidance on our disclosures included within notes to consolidated financial statements.

Goodwill Impairment

In December 2010, a pronouncement was issued that modified the process used to test goodwill for impairment. The pronouncement impacted reporting units with zero or negative carrying amounts and required an additional test to be performed to determine whether goodwill has been impaired and to calculate the amount of that impairment. This amendment is effective for fiscal years beginning after December 15, 2010. The Company adopted this pronouncement as of February 1, 2011. As the Company has not performed its annual goodwill impairment analysis and there have been no indicators of impairment during the second quarter of fiscal 2012, the Company is currently evaluating the potential impact, if any, the adoption of this pronouncement will have on its consolidated financial condition, results of operations or cash flows.

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):

	2011	2010
Balance at January 31	$ 1,339	$ 1,348
Accruals for warranties issued during the period	1,226	981
Accruals for pre-existing warranties	103	100
Settlements during the period	(1,162)	(1,049)
Foreign currency changes	46	(3)
Balance at July 31	$ 1,552	$ 1,377

Table of Contents

Note 13 Accumulated Other Comprehensive Income

During the six months ended July 31, 2011, accumulated other comprehensive income increased due to fluctuations in foreign currencies, primarily the Canadian Dollar, Australian Dollar, Chinese Yuan, Euro and British Pound. 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, 2011	$ 36,455	$ (833)	$ 35,622
Currency translation adjustment	9,748	(29)	9,719
Balance at July 31, 2011	$ 46,203	$ (862)	$ 45,341

Note 14 Income Taxes

The effective tax rate was 32% in the second quarter of fiscal 2012. The effective tax rate is lower than the US tax rate of 35% due to lower tax rates in foreign jurisdictions where we earn income.

As of July 31, 2011 our liability for uncertain tax positions was $2.5 million, excluding interest and penalties. We recognize interest and penalties related to uncertain tax positions in income tax expense. As of July 31, 2011 we had approximately $900,000 of accrued interest and penalties related to uncertain tax positions.

As of July 31, 2011 Cascade has provided a full valuation allowance on $34.5 million of deferred tax assets relating to net operating loss carryforwards generated in Europe. The valuation allowance has been provided because management has determined that it is more-likely-than-not that we would not realize these deferred tax assets in the foreseeable future based on historical financial performance in this region. Management quarterly assesses the need for valuation allowance on deferred tax assets based on all available positive and negative evidence.

We are subject to taxation primarily in the jurisdictions where we have operations. As of July 31, 2011, we remain subject to examination in various state and foreign jurisdictions for the 2003 2011 fiscal tax years.

Note 15 Australia Flood

Our operations in Brisbane, Australia, were significantly disrupted in January 2011 due to damage from flooding caused by heavy rainfalls in the Queensland, Australia region. During fiscal 2012, we have made significant progress in restoring our operations to pre-flood conditions and have been able to meet customer needs with on-hand inventory and product sourced from other locations.

Table of Contents

The following table shows flood-related costs and insurance proceeds recorded during fiscal 2012 (in thousands):

	Three Months Ended April 30, 2011	Three Months Ended July 31, 2011	Six Months Ended July 31, 2011
Cost of Goods Sold Related			
Flood-related costs	$ 334	$ 305	$ 639
Insurance proceeds	(1,063)	(1,603)	(2,666)
Net expense (recovery)	(729)	(1,298)	(2,027)
Selling, General & Administrative Related			
Fixed asset recovery		(100)	(100)
Flood-related costs	1,645	454	2,099
Insurance proceeds	(2,397)		(2,397)
Net expense (recovery)	(752)	354	(398)
Total Flood Related			
Fixed asset recovery		(100)	(100)
Flood-related costs	1,979	759	2,738
Insurance proceeds	(3,460)	(1,603)	(5,063)
Net expense (recovery)	$ (1,481)	$ (944)	$ (2,425)

The following table shows flood-related costs and insurance proceeds recorded in total for the Australia flood (in thousands):

	Six Months Ended July 31, 2011	Year Ended January 31, 2011	Australia Flood Total
Cost of Goods Sold Related			
Inventory write down	$	$ 2,167	$ 2,167
Flood-related costs	639		639
Insurance proceeds	(2,666)		(2,666)
Net expense (recovery)	(2,027)	2,167	140
Selling, General & Administrative Related			
Fixed asset write down (recovery)	(100)	2,451	2,351
Flood-related costs	2,099	527	2,626
Insurance proceeds	(2,397)		(2,397)
Net expense (recovery)	(398)	2,978	2,580
Total Flood Related			
Inventory write down		2,167	2,167
Fixed asset write down (recovery)	(100)	2,451	2,351
Flood-related costs	2,738	527	3,265
Insurance proceeds	(5,063)		(5,063)

Net expense (recovery)	$ (2,425)	$ 5,145	$ 2,720

Note 16 Fair Value of Financial Assets and Liabilities

The fair value of our financial instruments represents the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. The carrying amount of our cash and cash equivalents, trade receivables and payables and notes payable to banks approximates fair value due to the short maturity of these instruments. The carrying value of long-term debt approximates fair market value due to the variable interest rate on the debt and consideration of credit risk.

Table of Contents

Note 17 Subsequent Event

In August 2011, we entered into an amended and restated loan agreement with Bank of America and Union Bank. The amendment:

- decreases the amount of our credit facility to $100 million;
- extends the commitment period to August 2016;
- decreases the interest rate on the loan 0.25% to a range of 1.0% to 2.0% over LIBOR, based on our consolidated leverage ratio;
- includes a provision that increases the amount of the credit facility by up to $50 million, subject to lenders approval; and
- includes no changes to debt covenants.

Table of Contents

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: Americas (previously listed as North America), Europe, Asia Pacific and China. The Americas region includes activity in North, Central and South America.

All references to fiscal years are defined as the year ended January 31, 2011 (fiscal 2011) and the year ended January 31, 2012 (fiscal 2012).

RECENT TRENDS AND DEVELOPMENTS AFFECTING OUR RESULTS

Global Economic & Lift Truck Market Conditions

Our industry continues to recover from the global economic crisis and ensuing recession. We began to see an increase in our sales levels toward the end of fiscal 2010 that continued through fiscal 2011 and accelerated in the first quarter of fiscal 2012. During the second quarter of fiscal 2012, we began to experience a slower rate of growth in markets globally compared to the rapid growth experienced in the first quarter of fiscal 2012. Global lift truck shipments for the second quarter of fiscal 2012 were 32% higher than the second quarter of fiscal 2011 and 15% higher than the first quarter of fiscal 2012.

The following table shows the quarter-over-quarter percent increase in global lift truck shipments:

	Lift Truck Shipments Q2 Fiscal 2012 vs 2011	Lift Truck Orders Q2 Fiscal 2012 vs 2011
Americas	53%	26%
Europe	35%	31%
Asia Pacific	21%	24%
China	26%	27%
Global	32%	27%

We expect lift truck demand to remain at the existing level through the end of the fiscal year. However, we do expect fourth quarter business levels to be impacted by regular holiday shutdowns.

Currently, the lift truck market is the only direct economic or industrial indicator we have available for our markets. While results across this market do not correlate exactly with our business levels over the short term, since customers in the various end markets use our products to differing degrees, it does give us a good indication of trends over the year.

Additional information on lift truck industry trends can be found at www.cascorp.com/investor/industrytrends. This website address is intended to provide an inactive, textual reference only. The information at this website is not part of this Form 10-Q and is not incorporated by reference.

European Operating Results

Management placed significant focus in recent years on restructuring our European business with a goal of achieving sustainable profitability. The steps taken included closure of three manufacturing facilities and a reduction of our European workforce by 50%, resulting in restructuring costs of approximately $34 million incurred since fiscal 2009. In addition, we consolidated certain production operations, shifted sourcing of certain products from Europe to China and raised prices on certain products. Europe s fiscal 2012 results include operating income of $1.3 million and $1.8 million during the first and second quarter, respectively. We anticipate that the current structure will put us in the position of being profitable in Europe through the remainder of the year.

Table of Contents

Use of Cash

In recent years we have used excess cash to reduce our outstanding debt balance. At July 31, 2011, our cash balance was $32.1 million and our outstanding debt balance was $48.8 million. Given our current and projected liquidity position we are evaluating various growth opportunities, both within and outside the lift truck and construction equipment industries. We will also continue to review our dividend policy in light of our cash flows and operating results.

Australia Flood

Our operations in Brisbane, Australia, were significantly disrupted in January 2011 due to damage from flooding caused by heavy rainfalls in the Queensland, Australia region. During fiscal 2012, we have made significant progress in restoring our operations to pre-flood conditions and have been able to meet customers needs with on-hand inventory and product sourced from other locations.

The flood resulted in charges of $5.1 million in fiscal 2011 and an additional $2.7 million during fiscal 2012. To date we have received $5.1 million of insurance proceeds during fiscal 2012 as a partial recovery of our losses. During the remainder of fiscal 2012, we may receive additional insurance proceeds of up to $6 million, of which $4 million could be used to purchase replacement fixed assets.

COMPARISON OF SECOND QUARTER OF FISCAL 2012 AND FISCAL 2011

Executive Summary

	Three Months Ended July 31			
	2011	2010	Change	Change %
	(In thousands except per share amounts)			
Net sales	$ 135,642	$ 97,741	$ 37,901	39%
Gross profit %	*32%*	*30%*		
Operating income	$ 20,977	$ 10,413	$ 10,564	101%
Income before taxes	$ 20,308	$ 9,662	$ 10,646	110%
Provision for income taxes	$ 6,457	$ 6,430	$ 27	0%
Effective tax rate	32%	67%		
Net income	$ 13,851	$ 3,232	$ 10,619	329%
Diluted earnings per share	$ 1.23	$ 0.29	$ 0.94	324%

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

	Amount	Change %
Net sales change	$ 30,073	31%
Foreign currency change	7,828	8%
Total	$ 37,901	39%

The following is an overview for the three months ended July 31, 2011 and 2010. All percentage comparisons to the prior year exclude the impact of foreign currencies:

Consolidated net sales increased 31% due to higher sales volumes as a result of favorable economic conditions and a strong global lift truck market.

Our consolidated gross profit percentage increased to 32% during the second quarter of fiscal 2012 from 30% in the prior period, primarily as a result of improved cost absorption due to increased sales volumes and net insurance proceeds related to the flood in

Australia. Our consolidated gross profit percentage was 33% during the first quarter of fiscal 2012.

Table of Contents

During the second quarter of fiscal 2012, we received insurance proceeds and incurred additional flood related costs, which had a net after-tax impact of increasing net income by $0.7 million ($0.06 per diluted share).

The income tax expense during fiscal 2011 included $3.4 million of expense as a result of recording valuation allowances against deferred tax assets in Italy and the United Kingdom.

Americas

	Three Months Ended July 31			
	2011	**2010**	**Change**	**Change %**
Net sales	$ 67,025	$ 48,177	$ 18,848	39%
Transfers between areas	7,952			