

CASCADE CORP
Form 10-Q
September 07, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended July 31, 2010

OR

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

For the transition period from to

Commission file number 1-12557

CASCADE CORPORATION

(Exact name of registrant as specified in its charter)

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Oregon
(State or other jurisdiction of
incorporation or organization)

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

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

97024-9718
(Zip Code)

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

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares outstanding of the registrant's common stock as of August 17, 2010 was 10,961,179.

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CASCADE CORPORATION

FORM 10-Q

Quarter Ended July 31, 2010

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Forward-Looking Statements

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

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

Effectiveness of our cost reduction initiatives and reorganization plans;

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

Risks and complexities associated with international operations;

Impact of tax law changes;

Foreign currency fluctuations;

Cost and availability of raw materials;

Environmental matters;

Assumptions relating to pension and other postretirement costs;

Fluctuations in interest rates;

Impact of acquisitions.

We undertake no obligation to publicly revise or update forward-looking statements to reflect events or circumstances that arise after the date of this report. See Risk Factors (Item 1A) for additional information on risk factors with the potential to impact our business.

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****CASCADE CORPORATION****CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited in thousands, except per share amounts)**

| | Three Months Ended July 31 | | Six Months Ended July 31 | |
|---|-------------------------------|-------------|-----------------------------|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| Net sales | \$ 97,741 | \$ 76,643 | \$ 192,133 | \$ 152,959 |
| Cost of goods sold | 68,221 | 58,110 | 134,899 | 119,957 |
| Gross profit | 29,520 | 18,533 | 57,234 | 33,002 |
| Selling and administrative expenses | 19,113 | 17,582 | 37,262 | 36,273 |
| European restructuring costs | (6) | 11,589 | 69 | 16,366 |
| Operating income (loss) | 10,413 | (10,638) | 19,903 | (19,637) |
| Interest expense | 575 | 371 | 1,154 | 797 |
| Interest income | (39) | (57) | (85) | (170) |
| Foreign currency loss, net | 215 | 151 | 520 | 151 |
| Income (loss) before provision for income taxes | 9,662 | (11,103) | 18,314 | (20,415) |
| Provision for income taxes | 6,430 | 1,200 | 9,416 | 3,961 |
| Net income (loss) | \$ 3,232 | \$ (12,303) | \$ 8,898 | \$ (24,376) |
| Basic earnings (loss) per share | \$ 0.30 | \$ (1.14) | \$ 0.82 | \$ (2.26) |
| Diluted earnings (loss) per share | \$ 0.29 | \$ (1.14) | \$ 0.80 | \$ (2.26) |
| Basic weighted average shares outstanding | 10,889 | 10,814 | 10,860 | 10,807 |
| Diluted weighted average shares outstanding | 11,089 | 10,814 | 11,059 | 10,807 |

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

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

| | July 31 | January |
|---|-------------------|-------------------|
| | 2010 | 31 |
| | | 2010 |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 22,363 | \$ 20,201 |
| Accounts receivable, less allowance for doubtful accounts of \$1,193 and \$1,328 | 64,313 | 50,910 |
| Inventories | 62,977 | 63,466 |
| Deferred income taxes | 4,341 | 4,230 |
| Assets available for sale | 8,513 | 9,125 |
| Prepaid expenses and other | 13,150 | 12,334 |
| Total current assets | 175,657 | 160,266 |
| Property, plant and equipment, net | 70,207 | 73,408 |
| Goodwill | 86,303 | 84,122 |
| Deferred income taxes | 19,246 | 21,022 |
| Intangible assets, net | 679 | 763 |
| Other assets | 2,766 | 2,350 |
| Total assets | \$ 354,858 | \$ 341,931 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| Current liabilities: | | |
| Notes payable to banks | \$ 2,070 | \$ 2,927 |
| Current portion of long-term debt | 521 | 499 |
| Accounts payable | 23,181 | 20,542 |
| Accrued payroll and payroll taxes | 7,685 | 7,683 |
| Accrued restructuring costs | 1,379 | 5,260 |
| Other accrued expenses | 13,702 | 10,977 |
| Total current liabilities | 48,538 | 47,888 |
| Long-term debt, net of current portion | 54,635 | 55,990 |
| Accrued environmental expenses | 3,637 | 4,161 |
| Deferred income taxes | 4,203 | 4,839 |
| Employee benefit obligations | 9,377 | 9,120 |
| Other liabilities | 4,381 | 4,171 |
| Total liabilities | 124,771 | 126,169 |
| Commitments and contingencies (Note 7) | | |
| Shareholders' equity: | | |
| Common stock, \$.50 par value, 40,000 authorized shares; 10,961 and 10,885 shares issued and outstanding | 5,481 | 5,443 |
| Additional paid-in capital | 8,734 | 7,119 |
| Retained earnings | 187,879 | 179,747 |
| Accumulated other comprehensive income | 27,993 | 23,453 |

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| | | |
|--|------------|------------|
| Total shareholders' equity | 230,087 | 215,762 |
| Total liabilities and shareholders' equity | \$ 354,858 | \$ 341,931 |

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

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CASCADE CORPORATION

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited in thousands, except per share amounts)

| | Common Stock | | Additional | Retained | Accumulated | Total | Year-To-Date |
|------------------------------------|--------------|----------|------------|------------|---------------|---------------|---------------|
| | Shares | Amount | Paid-In | Earnings | Other | Shareholders' | Comprehensive |
| | | | Capital | | Comprehensive | Equity | Income |
| | | | | | Income | | |
| Balance at January 31, 2010 | 10,885 | \$ 5,443 | \$ 7,119 | \$ 179,747 | \$ 23,453 | \$ 215,762 | |
| Net income | | | | 8,898 | | 8,898 | \$ 8,898 |
| Dividends (\$ 0.07 per share) | | | | (766) | | (766) | |
| Common stock issued | 76 | 38 | (24) | | | 14 | |
| Share-based compensation | | | 1,639 | | | 1,639 | |
| Currency translation adjustment | | | | | 4,540 | 4,540 | 4,540 |
| Balance at July 31, 2010 | 10,961 | \$ 5,481 | \$ 8,734 | \$ 187,879 | \$ 27,993 | \$ 230,087 | \$ 13,438 |

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

Table of Contents**CASCADE CORPORATION****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited - in thousands)

| | Six Months Ended July 31 | |
|--|-----------------------------|-------------|
| | 2010 | 2009 |
| Cash flows from operating activities: | | |
| Net income (loss) | \$ 8,898 | \$ (24,376) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Fixed asset write off due to restructuring | 13 | 4,885 |
| Depreciation | 4,973 | 6,091 |
| Amortization | 84 | 233 |
| Share-based compensation | 1,639 | 2,143 |
| Deferred income taxes | 918 | (1,688) |
| Loss on disposition of assets, net | 6 | 34 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (13,600) | 17,955 |
| Inventories | (277) | 22,520 |
| Prepaid expenses and other | (3,731) | 2,333 |
| Accounts payable and accrued expenses | 2,337 | (225) |
| Income taxes payable and receivable | 2,494 | 2,539 |
| Other assets and liabilities | (383) | (995) |
| Net cash provided by operating activities | 3,371 | 31,449 |
| Cash flows from investing activities: | | |
| Capital expenditures | (1,905) | (1,831) |
| Proceeds from disposition of assets | 117 | 130 |
| Net cash used in investing activities | (1,788) | (1,701) |
| Cash flows from financing activities: | | |
| Cash dividends paid | (766) | (1,087) |
| Payments on long-term debt | (32,999) | (55,735) |
| Proceeds from long-term debt | 31,500 | 19,500 |
| Notes payable to banks, net | (906) | (1,172) |
| Common stock issued under share-based compensation plans | 14 | |
| Net cash used in financing activities | (3,157) | (38,494) |
| Effect of exchange rate changes | 3,736 | (4,612) |
| Change in cash and cash equivalents | 2,162 | (13,358) |
| Cash and cash equivalents at beginning of period | 20,201 | 31,185 |
| Cash and cash equivalents at end of period | \$ 22,363 | \$ 17,827 |

Supplemental disclosure of cash flow information:

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See Note 9 to the consolidated financial statements

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

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CASCADE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 Description of Business

Cascade Corporation is an international company engaged in the manufacture of materials handling products that are widely used on industrial fork lift trucks and, to a lesser extent, construction, mining and agricultural vehicles. Accordingly, our sales are largely dependent on sales of lift trucks and replacement parts. Our sales are made throughout the world. We are headquartered in Fairview, Oregon, employing approximately 1,700 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, 2010 and 2009 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, 2010.

Note 3 Segment Information

Our operating units have several similar economic characteristics and attributes, including products, distribution patterns and classes of customers. As a result, we aggregate our operating units into four geographic operating segments related to the manufacturing, distribution and servicing of material handling load engagement products. We evaluate the performance of each of our operating segments based on income 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, 2010.

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Revenues and operating results are classified according to the country of origin. Transfers between areas represent sales between our geographic operating segments. The costs of our corporate office are included in North America. 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)

| 2010 | Three Months Ended July 31 | | | | | Consolidated |
|------------------------------------|----------------------------|------------|--------------|-----------|--------------|--------------|
| | North America | Europe | Asia Pacific | China | Eliminations | |
| 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 | 4,273 | 2,337 | 1,179 | | 19,113 |
| European restructuring costs | | (6) | | | | (6) |
| 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 |

| 2009 | Three Months Ended July 31 | | | | | Consolidated |
|------------------------------------|----------------------------|-------------|--------------|-----------|--------------|--------------|
| | North America | Europe | Asia Pacific | China | Eliminations | |
| Net sales | \$ 37,085 | \$ 20,740 | \$ 10,946 | \$ 7,872 | | \$ 76,643 |
| Transfers between areas | 4,444 | 773 | 14 | 2,576 | (7,807) | |
| Net sales and transfers | \$ 41,529 | \$ 21,513 | \$ 10,960 | \$ 10,448 | \$ (7,807) | \$ 76,643 |
| Gross profit | \$ 11,781 | \$ 308 | \$ 2,804 | \$ 3,640 | | 18,533 |
| Selling and administrative | 10,092 | 4,608 | 1,938 | 944 | | 17,582 |
| European restructuring costs | | 11,589 | | | | 11,589 |
| Operating income (loss) | \$ 1,689 | \$ (15,889) | \$ 866 | \$ 2,696 | | \$ (10,638) |
| Total assets | \$ 172,795 | \$ 103,294 | \$ 35,607 | \$ 44,561 | | \$ 356,257 |
| Property, plant and equipment, net | \$ 32,185 | \$ 28,310 | \$ 9,255 | \$ 18,994 | | \$ 88,744 |
| Capital expenditures | \$ 316 | \$ 222 | \$ 324 | \$ 185 | | \$ 1,047 |
| Depreciation expense | \$ 1,426 | \$ 1,003 | \$ 142 | \$ 486 | | \$ 3,057 |

| 2010 | Six Months Ended July 31 | | | | | Consolidated |
|-------------------------|--------------------------|-----------|--------------|-----------|--------------|--------------|
| | North America | Europe | Asia Pacific | China | Eliminations | |
| 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 |

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| | | | | | | |
|--------------------------------|------------------|-------------------|-----------------|------------------|--|------------------|
| Gross profit | \$ 31,686 | \$ 4,956 | \$ 7,513 | \$ 13,079 | | 57,234 |
| Selling and administrative | 21,634 | 8,737 | 4,665 | 2,226 | | 37,262 |
| European restructuring costs | | 69 | | | | 69 |
| 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 |

| 2009 | Six Months Ended July 31 | | | | | Consolidated |
|--------------------------------|--------------------------|--------------------|------------------|------------------|--------------------|--------------------|
| | North America | Europe | Asia Pacific | China | Eliminations | |
| Net sales | \$ 74,967 | \$ 41,617 | \$ 21,666 | \$ 14,709 | | \$ 152,959 |
| Transfers between areas | 6,761 | 1,277 | 15 | 4,887 | (12,940) | |
| Net sales and transfers | \$ 81,728 | \$ 42,894 | \$ 21,681 | \$ 19,596 | \$ (12,940) | \$ 152,959 |
| Gross profit (loss) | \$ 22,627 | \$ (1,720) | \$ 5,394 | \$ 6,701 | | 33,002 |
| Selling and administrative | 20,869 | 9,881 | 3,559 | 1,964 | | 36,273 |
| European restructuring costs | | 16,366 | | | | 16,366 |
| Operating income (loss) | \$ 1,758 | \$ (27,967) | \$ 1,835 | \$ 4,737 | | \$ (19,637) |
| Capital expenditures | \$ 834 | \$ 292 | \$ 367 | \$ 338 | | \$ 1,831 |
| Depreciation expense | \$ 2,824 | \$ 2,030 | \$ 266 | \$ 971 | | \$ 6,091 |

Table of Contents**Note 4 Inventories**

During the six months ended July 31, 2010, inventories decreased primarily due to fluctuations in foreign currencies. Inventories stated at the lower of average cost or market are presented below by major class (in thousands):

| | July 31 2010 | January 31 2010 |
|------------------------------|-----------------|--------------------|
| Finished goods | \$ 24,694 | \$ 24,573 |
| Raw materials and components | 38,283 | 38,893 |
| | \$ 62,977 | \$ 63,466 |

Note 5 Goodwill

During the six months ended July 31, 2010, goodwill increased primarily 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 2010 | January 31 2010 |
|---------------|-----------------|--------------------|
| North America | \$ 73,045 | \$ 70,259 |
| Europe | 10,292 | 10,892 |
| Asia Pacific | 2,966 | 2,971 |
| | \$ 86,303 | \$ 84,122 |

Note 6 Share-Based Compensation Plans

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

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

Our SARS plan also permits the issuance of restricted shares of common stock. Upon the granting of restricted stock, common shares are issued to the recipient, but the shares may not be sold, assigned, transferred, pledged, or disposed of by the recipient until vested. Regardless of vesting, restricted shares have full voting rights and any dividends declared will be paid to the restricted stock recipient. Restricted shares 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. The number of restricted shares issued to directors is based on the market value of our shares on the date of grant.

The SARS plan provides for the issuance of a maximum of 750,000 shares of common stock upon the exercise of SARS or issuance of restricted stock. As of July 31, 2010, a total of 315,000 shares of common stock have been issued under the SARS plan, which includes 120,000 shares of restricted stock. An additional 140,000 shares of common stock would be issued if all outstanding SARS at July 31, 2010 were exercised, based on the end of day share price of \$38.17 on July 31, 2010.

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Stock options provide the holder the right to receive our common shares at an established price. We have reserved 1,400,000 shares of common stock under our stock option plan. As of July 31, 2010, a total of 1,130,000 shares have been issued upon the exercise of stock options. No additional stock options can be granted under the terms of the plan. All outstanding stock options are fully vested and have a term of ten years.

A summary of the plans' status at July 31, 2010 together with changes during the six months then ended is presented in the following tables (in thousands, except per share amounts):

| | Stock Options | | Stock Appreciation Rights | |
|---------------------------------|--------------------|---|---------------------------|---|
| | Outstanding Awards | Weighted Average Exercise Price Per Share | Outstanding Awards | Weighted Average Exercise Price Per Share |
| Balance at January 31, 2010 | 279 | \$ 13.26 | 828 | \$ 34.33 |
| Granted | | | 44 | 32.01 |
| Exercised | (58) | 10.27 | (40) | 27.69 |
| Forfeited | | | (5) | 50.31 |
| Balance at July 31, 2010 | 221 | \$ 14.04 | 827 | \$ 34.42 |

| | Restricted Stock Awards | |
|---|-------------------------|--|
| | Number of Shares | Weighted Average Grant Date Fair Value Per Share |
| Unvested restricted stock at January 31, 2010 | 60 | \$ 40.73 |
| Granted | 24 | 32.01 |
| Vested | (28) | 50.80 |
| Forfeited | | |
| Unvested restricted stock at July 31, 2010 | 56 | \$ 31.85 |

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 2011 | Granted Prior to Fiscal 2011 |
|--|------------------------|------------------------------|
| Risk-free interest rate | 2.4% | 2.3 - 5.1% |
| Expected volatility | 53% | 40 - 48% |
| Expected dividend yield | 0.6% | 0.8 - 2.8% |
| Expected life (in years) | 6 | 5 - 7 |
| Weighted average fair value at date of grant | \$ 16.16 | \$4.16 - \$33.31 |

We calculate share-based compensation cost for restricted stock by multiplying the fair market value of our common shares on the grant date by the number of restricted shares expected to vest. Share-based compensation is expensed ratably over the applicable vesting period. Additional information regarding the assumptions used to calculate fair value of our share-based compensation plans is presented in Note 2 to our consolidated financial statements included in our Form 10-K for the year ended January 31, 2010.

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As of July 31, 2010, there was \$3.4 million of total unrecognized compensation cost related to nonvested share-based compensation awards granted under the plans. The following table represents as of July 31, 2010 the share-based compensation costs to be recognized in future periods (in thousands) for awards granted to date:

| Fiscal Year | Amount |
|--------------------|---------------|
| 2011* | 1,035 |
| 2012 | 1,341 |
| 2013 | 687 |
| 2014 | 297 |
| 2015 | 57 |
| | \$ 3,417 |

* Represents last six months of fiscal 2011.

Note 7 Commitments and Contingencies**Environmental Matters**

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

It is reasonably possible that changes in estimates will occur in the near term and the related adjustments to environmental liabilities may have a material impact on our operating results. Unasserted claims are not currently reflected in our environmental remediation liabilities. It is also reasonably possible that these claims may also have a material impact on our operating results if asserted. We cannot predict when the additional expense will be necessary or the amount of any additional loss or range of loss that may reasonably be possible.

Our specific environmental matters consist of the following:

Fairview, Oregon

In 1996, the Oregon Department of Environmental Quality issued two Records of Decision affecting our Fairview, Oregon manufacturing facility. The Records of Decision required us to initiate remedial activities related to the cleanup of groundwater contamination at and near the facility. Remediation activities have been conducted since 1996 and current estimates provide for some level of activity to continue through 2019. Costs of certain remediation activities at the facility are shared with The Boeing Company, with Cascade paying 70% of these costs. The recorded liability for ongoing remediation activities at our Fairview facility was \$2.8 million and \$3.2 million at July 31, 2010 and January 31, 2010, respectively.

Springfield, Ohio

In March 2010 we signed a Facility Lead Corrective Action Agreement (Action Agreement) with the Ohio Environmental Protection Agency (EPA), 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. During the fourth quarter of fiscal 2010 we accrued an additional \$1.1 million of costs related to remediation activities related to the Action Agreement. The current estimate is that the remediation activities will continue through 2019. The recorded liability for ongoing remediation activities in Springfield was \$1.8 million and \$1.9 million at July 31, 2010 and January 31, 2010, respectively.

Table of Contents**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 (loss) per share (in thousands, except per share amounts):

| | Three Months Ended July 31 | | Six Months Ended July 31 | |
|---|----------------------------|-------------|--------------------------|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| Basic earnings (loss) per share: | | | | |
| Net income (loss) | \$ 3,232 | \$ (12,303) | \$ 8,898 | \$ (24,376) |
| Weighted average shares of common stock outstanding | 10,889 | 10,814 | 10,860 | 10,807 |
| | \$ 0.30 | \$ (1.14) | \$ 0.82 | \$ (2.26) |
| Diluted earnings (loss) per share: | | | | |
| Net income (loss) | \$ 3,232 | \$ (12,303) | \$ 8,898 | \$ (24,376) |
| Weighted average shares of common stock outstanding | 10,889 | 10,814 | 10,860 | 10,807 |
| Dilutive effect of stock awards | 200 | | 199 | |
| Diluted weighted average shares of common stock outstanding | 11,089 | 10,814 | 11,059 | 10,807 |
| | \$ 0.29 | \$ (1.14) | \$ 0.80 | \$ (2.26) |

Basic earnings per share is based on the weighted average number of common shares outstanding for the period. Diluted weighted average common shares includes the incremental shares that would be issued upon the assumed exercise of stock options and stock appreciation rights and the amount of unvested restricted stock. Unexercised SARs totaling 572,000 awards were excluded from the calculation of diluted earnings per share for fiscal 2011 because they were antidilutive. The assumed exercise of stock awards and vesting of restricted stock was not included in the fiscal 2010 calculations as the impact would have been antidilutive.

Note 9 Supplemental Cash Flow Information

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

| | For the Six Months Ended July 31 | |
|----------------------------------|----------------------------------|----------|
| | 2010 | 2009 |
| Cash paid during the period for: | | |
| Interest | \$ 1,139 | \$ 891 |
| Income taxes | \$ 5,838 | \$ 2,773 |

Table of Contents**Note 10 Benefit Plans**

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

| | Defined Benefit | | Postretirement Benefit | |
|--------------------------------|------------------------------------|-------|------------------------------------|--------|
| | Three Months Ended July 31 2010 | 2009 | Three Months Ended July 31 2010 | 2009 |
| Net periodic benefit cost: | | | | |
| Service cost | \$ 5 | \$ 5 | \$ 31 | \$ 27 |
| Interest cost | 111 | 116 | 110 | 113 |
| Expected return on plan assets | (104) | (94) | | |
| Recognized prior service cost | | | (19) | (19) |
| Recognized net actuarial loss | 29 | 12 | | |
| | \$ 41 | \$ 39 | \$ 122 | \$ 121 |

| | Defined Benefit | | Postretirement Benefit | |
|--------------------------------|----------------------------------|-------|----------------------------------|--------|
| | Six Months Ended July 31 2010 | 2009 | Six Months Ended July 31 2010 | 2009 |
| Net periodic benefit cost: | | | | |
| Service cost | \$ 10 | \$ 10 | \$ 62 | \$ 54 |
| Interest cost | 225 | 221 | 220 | 226 |
| Expected return on plan assets | (210) | (179) | | |
| Recognized prior service cost | | | (38) | (38) |
| Recognized net actuarial loss | 58 | 23 | | |
| | \$ 83 | \$ 75 | \$ 244 | \$ 242 |

Note 11 Recent Accounting Pronouncements

Subsequent events - In February 2010, the FASB amended its May 2009 guidance that established standards of accounting for and disclosure of subsequent events. The amended guidance (1) eliminates the requirement for an SEC filer to disclose the date through which it has evaluated subsequent events, (2) clarifies the period through which conduit bond obligors must evaluate subsequent events, and (3) refines the scope of the disclosure requirements for reissued financial statements. We adopted this new accounting guidance for our financial statements for the quarter ended April 30, 2010. The adoption of this guidance did not have an impact on our financial statements.

Note 12 Warranty Obligations

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

| | 2010 | 2009 |
|--|----------|----------|
| Balance at January 31 | \$ 1,348 | \$ 1,312 |
| Accruals for warranties issued during the period | 981 | 968 |
| Accruals for pre-existing warranties | 100 | 582 |
| Settlements during the period | (1,049) | (1,572) |
| Foreign currency changes | (3) | 81 |

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| | | |
|--------------------|----------|----------|
| Balance at July 31 | \$ 1,377 | \$ 1,371 |
|--------------------|----------|----------|

Table of Contents**Note 13 Accumulated Other Comprehensive Income**

During the six months ended July 31, 2010, accumulated other comprehensive income increased due to fluctuations in foreign currencies, primarily the Canadian Dollar. The following table presents the changes in and the components of accumulated other comprehensive income (in thousands):

| | Accumulated Other Comprehensive Income (Loss) | | |
|---------------------------------|---|--------------------------------------|-----------|
| | Translation Adjustment | Minimum Pension Liability Adjustment | Total |
| Balance at January 31, 2010 | \$ 25,412 | \$ (1,959) | \$ 23,453 |
| Currency translation adjustment | 4,561 | (21) | 4,540 |
| Balance at July 31, 2010 | \$ 29,973 | \$ (1,980) | \$ 27,993 |

Note 14 Income Taxes

Income tax expense during the first six months of fiscal 2011 includes amounts related to recording valuation allowances against deferred tax assets and changes in the tax treatment of Medicare Part D subsidy receipts.

The provision for income taxes in the second quarter of fiscal 2011 includes a \$3.4 million provision for recording valuation allowances against deferred tax assets in Italy and England. We have recorded the valuation allowances due to uncertainties related to our ability to realize these deferred tax assets, which relate to net operating losses in these countries.

During the first quarter of the current year, we recorded a tax expense of \$555,000 as a result of changes in the tax treatment of Medicare Part D subsidy receipts under the Patient Protection and Affordable Care Act of 2010. In the past, Medicare Part D subsidy receipts have been non-taxable, however payments received after 2012 will be subject to federal income taxes.

The provision for income taxes during fiscal 2010 was primarily a result of taxes due in countries where we generated income. We were unable to realize a tax benefit in several European countries where we incurred losses.

As of July 31, 2010 our liability for uncertain tax positions was \$1.3 million which included an accrual for interest and penalties of \$225,000. There were no material changes in uncertain tax positions during the current period.

We are subject to taxation primarily in the U.S., Canada and China, as well as various state and other foreign jurisdictions. The Internal Revenue Service (IRS) recently completed its review of our U.S. income tax returns for fiscal years 2004 - 2007. The IRS proposed adjustments of approximately \$5 million related to interest deductions reported on tax returns for the 2004 and 2005 tax years. If sustained by the IRS, these adjustments would result in an additional federal and state tax liability of approximately \$1.8 million. We are in the process of appealing this issue with the IRS and have determined that it is more-likely-than-not that we will prevail on this issue. As such, no amount has been recorded in our financial statements as of July 31, 2010 related to this matter. As of July 31, 2010, we remain subject to examination in various state and foreign jurisdictions for the 2004 - 2009 tax years.

Table of Contents**Note 15 Restructuring Activities**

During the first six months of fiscal 2011 and 2010 we incurred costs related to our European restructuring activities. The following table outlines the restructuring costs incurred during those periods (in thousands):

| | For the Three Months Ended July 31 | | For the Six Months Ended July 31 | |
|-----------------------------|------------------------------------|-----------|----------------------------------|-----------|
| | 2010 | 2009 | 2010 | 2009 |
| Employee wages and benefits | \$ 5 | \$ 7,282 | \$ (153) | \$ 10,615 |
| Facility closures | 35 | 160 | 255 | 239 |
| Professional fees | (46) | 74 | (46) | 185 |
| Other restructuring | | 100 | | 442 |
| Fixed asset write downs | | 3,973 | 13 | 4,885 |
| Total costs | \$ (6) | \$ 11,589 | \$ 69 | \$ 16,366 |

As of July 31, 2010, \$1.4 million of accrued restructuring costs are included on the consolidated balance sheet. We anticipate paying these costs by the end of fiscal 2011.

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

| | For the Three Months Ended July 31 | | For the Six Months Ended July 31 | |
|-----------------|------------------------------------|-----------|----------------------------------|-----------|
| | 2010 | 2009 | 2010 | 2009 |
| Germany | \$ 61 | \$ 406 | \$ 406 | \$ 4,550 |
| France | (61) | 116 | (48) | 4,550 |
| England | (6) | | (289) | |
| The Netherlands | | 11,473 | | 11,816 |
| Total costs | \$ (6) | \$ 11,589 | \$ 69 | \$ 16,366 |

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

Our businesses globally manufacture and distribute material handling load engagement products primarily for the lift truck industry and to a lesser extent the construction industry. We operate in four geographic segments: North America, Europe, Asia Pacific and China. All references to fiscal periods are defined as the period ended July 31, 2009 (fiscal 2010) and the period ended July 31, 2010 (fiscal 2011).

RECENT TRENDS AND DEVELOPMENTS AFFECTING OUR RESULTS**Global Economic & Lift Truck Market Conditions**

We are seeing a level of sustained recovery from the global economic recession with increased sales in all regions and increased lift truck market order and shipment rates during fiscal 2011. However, it is difficult to predict if and when markets will fully recover and if growth rates seen in the first two quarters are sustainable. Based on the current conditions, we believe the following:

North America, Europe and Asia Pacific will continue at its current level for the remainder of the year.

The market in China will level off during the second half of the year.

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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.

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Europe Restructuring

We have taken a number of steps over the last 18 months to change the structure of our European business and improve operational efficiencies with the goal of achieving a sustainable level of operating income. These steps included closing production facilities in Germany, The Netherlands and France, changes in management personnel, other workforce reductions within Europe and movement of certain production activities to Italy.

During the first half of fiscal 2011, we have seen progress as a result of our restructuring efforts, as we experienced our highest gross profit margin percentage since fiscal 2009. In addition, our gross profit margin percentage increased from the first quarter to the second quarter of fiscal 2011. We are still experiencing higher than expected freight and warehousing costs and the market for certain products continues to be very competitive.

We are continuing to review our existing production capacity and are evaluating additional steps to improve our European operations. We remain confident that over the long-term our objective of sustained profitability in Europe will be met.

Table of Contents**COMPARISON OF SECOND QUARTER OF FISCAL 2011 AND FISCAL 2010****Executive Summary**

| | Three Months Ended July 31 | | Change | Change % |
|-----------------------------------|---|-------------|-----------|----------|
| | 2010 | 2009 | | |
| | (In thousands except per share amounts) | | | |
| Net sales | \$ 97,741 | \$ 76,643 | \$ 21,098 | 28% |
| Operating income (loss) | \$ 10,413 | \$ (10,638) | \$ 21,051 | |
| Income (loss) before taxes | \$ 9,662 | \$ (11,103) | \$ 20,765 | |
| Provision for income taxes | \$ 6,430 | \$ 1,200 | \$ 5,230 | 436% |
| Effective tax rate | 67% | (11%) | | |
| Net income (loss) | \$ 3,232 | \$ (12,303) | \$ 15,535 | |
| Diluted earnings (loss) per share | \$ 0.29 | \$ (1.14) | \$ 1.43 | |

The following is an overview for the second quarter of fiscal 2011. All percentage comparisons to the prior year exclude the impact of foreign currencies:

Consolidated net sales increased 28% due to higher sales volumes as a result of improving economic conditions and a strong lift truck market. Global lift truck shipments increased 47% compared to the prior year. We have found that while lift truck industry shipments provide an indication of the long-term direction of our business activity, changes in our quarterly net sales do not correspond directly to the quarterly percentage changes in lift truck shipments or orders.

Our consolidated gross profit percentage increased from 24% to 30% during fiscal 2011 primarily as a result of improved cost absorption due to increased sales volumes in all regions and the benefit of cost cutting measures implemented during fiscal 2010. Our consolidated gross profit percentage was 29% during the first quarter of fiscal 2011.

We incurred restructuring costs of \$11.6 million during fiscal 2010, primarily as a result of the closure of our manufacturing facility in the Netherlands.

The income tax expense during fiscal 2011 includes \$3.4 million of expense as a result of recording valuation allowances against deferred tax assets in Italy and England.

The income tax expense during fiscal 2010 was a result of taxes due in countries where we generated income. We were unable to realize a tax benefit in several European countries where we incurred losses.

Table of Contents**North America**

| | Three Months Ended July 31 | | | | Change | Change % |
|----------------------------|----------------------------|------|-----------|------|-----------|----------|
| | 2010 | % | 2009 | % | | |
| | (In thousands) | | | | | |
| Net sales | \$ 48,177 | 89% | \$ 37,085 | 89% | \$ 11,092 | 30% |
| Transfers between areas | 6,227 | 11% | 4,444 | 11% | 1,783 | 40% |
| Net sales and transfers | 54,404 | 100% | 41,529 | 100% | 12,875 | 31% |
| Cost of goods sold | 38,285 | 70% | 29,748 | 72% | 8,537 | 29% |
| Gross profit | 16,119 | 30% | 11,781 | 28% | 4,338 | 37% |
| Selling and administrative | 11,324 | 21% | 10,092 | 24% | 1,232 | 12% |
| Operating income | \$ 4,795 | 9% | \$ 1,689 | 4% | \$ 3,106 | 184% |

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

| | Amount | Change % |
|-------------------------|-----------|----------|
| Net sales change | \$ 10,724 | 29% |
| Foreign currency change | 368 | 1% |
| Total | \$ 11,092 | 30% |

The following summarizes financial results for North America for the second quarter of fiscal 2011. All percentage comparisons to the prior year exclude the impact of foreign currencies:

Net sales increased 29% primarily due to higher sales volumes as a result of improving economic conditions. Lift truck industry shipments decreased by 7% compared to the prior year. However, recent lift truck industry order and shipment rates are strong.

Transfers to other Cascade locations increased due to increased demand in Asia Pacific and China.

Our gross profit percentage increased due to improved cost absorption as a result of higher sales volumes during the current year and a reduction of overhead costs as a result of headcount reductions and other cost cutting measures implemented in the prior year. Our gross profit during the second quarter of fiscal 2011 was consistent with the first quarter of fiscal 2011.

Selling and administrative costs increased by 11% primarily due to higher executive incentive and other personnel costs in the current year.

Table of Contents**Europe**

| | Three Months Ended July 31 | | | | Change | Change % |
|------------------------------|----------------------------|------|-------------|-------|-----------|----------|
| | 2010 | % | 2009 | % | | |
| | (In thousands) | | | | | |
| Net sales | \$ 21,887 | 100% | \$ 20,740 | 96% | \$ 1,147 | 6% |
| Transfers between areas | 96 | | 773 | 4% | (677) | (88%) |
| Net sales and transfers | 21,983 | 100% | 21,513 | 100% | 470 | 2% |
| Cost of goods sold | 19,030 | 87% | 21,205 | 99% | (2,175) | (10%) |
| Gross profit | 2,953 | 13% | 308 | 1% | 2,645 | |
| Selling and administrative | 4,273 | 19% | 4,608 | 21% | (335) | (7%) |
| European restructuring costs | (6) | | 11,589 | 54% | (11,595) | (100%) |
| Operating loss | \$ (1,314) | (6%) | \$ (15,889) | (74%) | \$ 14,575 | 92% |

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

| | Amount | Change % |
|-------------------------|----------|----------|
| Net sales change | \$ 3,114 | 15% |
| Foreign currency change | (1,967) | (9%) |
| Total | \$ 1,147 | 6% |

The following summarizes financial results for Europe for the second quarter of fiscal 2011. All percentage comparisons to the prior year exclude the impact of foreign currencies:

Net sales increased 15% primarily due to higher sales volumes as a result of a stronger lift truck market. Lift truck industry shipments for the quarter increased 24% when compared with the prior year.

During the second quarter of fiscal 2011, our gross profit margin was the highest in Europe since fiscal 2009, as a result of our recent restructuring efforts, which included closing production facilities in Germany, The Netherlands and France, changes in management personnel, other workforce reductions within Europe, the movement of certain production activities to Italy.

Restructuring costs in the prior year were primarily a result of the cessation of production at our facility in the Netherlands. These costs included severance costs of \$7.3 million, fixed asset write downs of \$4.0 million and legal and other restructuring costs of \$0.3 million.

Asia Pacific

| | Three Months Ended July 31 | | | | Change | Change % |
|--|----------------------------|---|------|---|--------|----------|
| | 2010 | % | 2009 | % | | |
| | (In thousands) | | | | | |

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| | | | | | | |
|----------------------------|-----------|------|-----------|------|----------|-----|
| Net sales | \$ 14,243 | 100% | \$ 10,946 | 100% | \$ 3,297 | 30% |
| Transfers between areas | 61 | | 14 | | 47 | |
| Net sales and transfers | 14,304 | 100% | 10,960 | 100% | 3,344 | 31% |
| Cost of goods sold | 10,558 | 74% | 8,156 | 74% | 2,402 | 29% |
| Gross profit | 3,746 | 26% | 2,804 | 26% | 942 | 34% |
| Selling and administrative | 2,337 | 16% | 1,938 | 18% | 399 | 21% |
| Operating income | \$ 1,409 | 10% | \$ 866 | 8% | \$ 543 | 63% |

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

| | Amount | Change % |
|-------------------------|-----------------|------------|
| Net sales change | \$ 2,188 | 20% |
| Foreign currency change | 1,109 | 10% |
| Total | \$ 3,297 | 30% |

The following summarizes financial results for Asia Pacific for the second quarter of fiscal 2011. All percentage comparisons to the prior year exclude the impact of foreign currencies:

Net sales increased 20% primarily due to higher sales volumes as a result of an improvement in economic conditions and a strong lift truck market. Lift truck industry shipments for the quarter increased 47% when compared with the prior year.

Our gross profit percentage remained consistent compared to the prior year, however it decreased slightly compared to the first quarter of fiscal 2011 due primarily to fluctuations in foreign currency rates.

Selling and administrative costs are 9% higher due to warranty and other general costs.

China

| | Three Months Ended July 31 | | | | Change | Change % |
|--------------------------------|----------------------------|-------------|-----------------|-------------|-----------------|-------------|
| | 2010 | % | 2009 | % | | |
| | (In thousands) | | | | | |
| Net sales | \$ 13,434 | 67% | \$ 7,872 | 75% | \$ 5,562 | 71% |
| Transfers between areas | 6,598 | 33% | 2,576 | 25% | 4,022 | 156% |
| Net sales and transfers | 20,032 | 100% | 10,448 | 100% | 9,584 | 92% |
| Cost of goods sold | 13,330 | 67% | 6,808 | 65% | 6,522 | 96% |
| Gross profit | 6,702 | 33% | 3,640 | 35% | 3,062 | 84% |
| Selling and administrative | 1,179 | 6% | 944 | 9% | 235 | 25% |
| Operating income | \$ 5,523 | 27% | \$ 2,696 | 26% | \$ 2,827 | 105% |

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

| | Amount | Change % |
|-------------------------|-----------------|------------|
| Net sales change | \$ 5,516 | 70% |
| Foreign currency change | 46 | 1% |
| Total | \$ 5,562 | 71% |

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The following summarizes financial results for China for the second quarter of fiscal 2011. All percentage comparisons to the prior year exclude the impact of foreign currencies:

Net sales increased 70% primarily due to higher sales volumes as a result of the recovery of the Chinese economy and lift truck market. Lift truck industry shipments within China for the quarter increased 93% when compared with the prior year.

Transfers to other Cascade locations increased due to higher customer demand in Europe and Asia Pacific.

Our gross profit percentage decreased due to changes in product mix and higher intercompany transfers, which carry lower gross margins.

Sales and administrative costs increased 24% due to higher selling and engineering costs.

Table of Contents**Non-Operating Items**

The following are financial highlights for non-operating items during the second quarter of fiscal 2011:

Interest expense increased \$204,000 during fiscal 2011 primarily due to renegotiated loan covenants at the end of the second quarter of fiscal 2010 which resulted in higher interest rates in the current year.

The effective tax rate for fiscal 2011 is 67% compared to a (11%) tax rate in the prior year. The provision for income taxes in the second quarter of fiscal 2011 includes a \$3.4 million provision for recording valuation allowances against deferred tax assets in Italy and England. These deferred tax assets related to net operating losses in these countries. The provision for income taxes in the second quarter of fiscal 2010 was primarily a result of taxes due in countries where we generated income. We were unable to realize a tax benefit in several European countries where we incurred losses.

COMPARISON OF THE FIRST SIX MONTHS OF FISCAL 2011 AND FISCAL 2010**Executive Summary**

| | Six Months Ended July 31 | | Change | Change % |
|-----------------------------------|--|-------------|---------------|-----------------|
| | 2010 | 2009 | | |
| | (In thousands except per share amounts) | | | |
| Net sales | \$ 192,133 | \$ 152,959 | \$ 39,174 | 26% |
| Operating income (loss) | \$ 19,903 | \$ (19,637) | \$ 39,540 | |
| Income (loss) before taxes | \$ 18,314 | \$ (20,415) | \$ 38,729 | |
| Provision for income taxes | \$ 9,416 | \$ 3,961 | \$ 5,455 | 138% |
| Effective tax rate | 51% | (19%) | | |
| Net income (loss) | \$ 8,898 | \$ (24,376) | \$ 33,274 | |
| Diluted earnings (loss) per share | \$ 0.80 | \$ (2.26) | \$ 3.06 | |

The following is an overview for the first six months of fiscal 2011. All percentage comparisons to the prior year exclude the impact of foreign currencies:

Consolidated net sales increased 24% due to higher sales volumes as a result of improving economic conditions and a strong lift truck market. Global lift truck shipments increased 32% compared to the prior year. We have found that while lift truck industry statistics provide an indication of the long-term direction of our business activity, changes in our net sales on a short-term basis do not correspond directly to the short-term percentage changes in lift truck shipments or orders.

Our consolidated gross profit percentage increased from 22% to 30% during fiscal 2011 primarily as a result of improved cost absorption due to increased sales volumes in all regions and the benefit of cost cutting measures implemented during fiscal 2010.

We incurred restructuring costs of \$16.4 million during fiscal 2010, primarily as a result of the cessation of production at our facility in The Netherlands and the closure of our fork facility in France.

The income tax expense during fiscal 2011 includes \$3.4 million of expense as a result of recording valuation allowances against deferred tax assets in Italy and England.

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The income tax expense in fiscal 2010 was a result of taxes due in countries where we generated income. We were unable to realize a tax benefit in several European countries where we incurred losses.

Table of Contents**North America**

| | Six Months Ended July 31 | | | | Change | Change % |
|----------------------------|--------------------------|------|-----------|------|-----------|----------|
| | 2010 | % | 2009 | % | | |
| | (In thousands) | | | | | |
| Net sales | \$ 93,470 | 88% | \$ 74,967 | 92% | \$ 18,503 | 25% |
| Transfers between areas | 12,629 | 12% | 6,761 | 8% | 5,868 | 87% |
| Net sales and transfers | 106,099 | 100% | 81,728 | 100% | 24,371 | 30% |
| Cost of goods sold | 74,413 | 70% | 59,101 | 72% | 15,312 | 26% |
| Gross profit | 31,686 | 30% | 22,627 | 28% | 9,059 | 40% |
| Selling and administrative | 21,634 | 21% | 20,869 | 26% | 765 | 4% |
| Operating income | \$ 10,052 | 9% | \$ 1,758 | 2% | \$ 8,294 | 472% |

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

| | Amount | Change % |
|-------------------------|-----------|----------|
| Net sales change | \$ 17,445 | 23% |
| Foreign currency change | 1,058 | 2% |
| Total | \$ 18,503 | 25% |

The following summarizes financial results for North America for the first six months of fiscal 2011. All percentage comparisons to the prior year exclude the impact of foreign currencies:

Net sales increased 23% primarily due to higher sales volumes as a result of improving economic conditions. Lift truck industry shipments decreased by 17% compared to the prior year. However, recent lift truck industry order and shipment rates are strong.

Transfers to other Cascade locations increased during the current year due to increased global customer demand.

Our gross profit percentage increased due to improved cost absorption as a result of higher sales volumes during the current year and a reduction of overhead costs as a result of headcount reductions and other cost cutting measures implemented in the prior year.

Selling and administrative costs increased 2% due to higher executive incentive and other personnel costs in the current year.

Table of Contents**Europe**

| | Six Months Ended July 31 | | | | Change | Change % |
|------------------------------|--------------------------|------|-------------|-------|-----------|----------|
| | 2010 | % | 2009 | % | | |
| | (In thousands) | | | | | |
| Net sales | \$ 44,257 | 100% | \$ 41,617 | 97% | \$ 2,640 | 6% |
| Transfers between areas | 198 | | 1,277 | 3% | (1,079) | (84%) |
| Net sales and transfers | 44,455 | 100% | 42,894 | 100% | 1,561 | 4% |
| Cost of goods sold | 39,499 | 89% | 44,614 | 104% | (5,115) | (11%) |
| Gross profit (loss) | 4,956 | 11% | (1,720) | (4%) | 6,676 | (388%) |
| Selling and administrative | 8,737 | 20% | 9,881 | 23% | (1,144) | (12%) |
| European restructuring costs | 69 | | 16,366 | 38% | (16,297) | (100%) |
| Operating loss | \$ (3,850) | (9%) | \$ (27,967) | (65%) | \$ 24,117 | (86%) |

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

| | Amount | Change % |
|-------------------------|----------|----------|
| Net sales change | \$ 3,740 | 9% |
| Foreign currency change | (1,100) | (3%) |
| Total | \$ 2,640 | 6% |

The following summarizes financial results for Europe for the first six months of fiscal 2011. All percentage comparisons to the prior year exclude the impact of foreign currencies:

Net sales increased 9% primarily due to higher sales volumes as a result of a stronger lift truck market. Lift truck industry shipments increased 3% for the current year.

Our gross profit margin increased as a result of our restructuring efforts in fiscal 2010, which included closing production facilities in Germany, The Netherlands and France, other workforce reductions within Europe and the movement of certain production activities to Italy.

Selling and administrative costs decreased 10% primarily due to lower personnel costs as a result of headcount reductions made during our European restructuring activities.

Restructuring costs in the prior year were primarily a result of our plan to cease production activities at our facility in The Netherlands and the closure of our fork manufacturing facility in France. These costs included severance costs of \$10.6 million, fixed asset write downs of \$4.9 million and legal and other restructuring costs of \$0.9 million.

Table of Contents**Asia Pacific**

| | Six Months Ended July 31 | | | | Change | Change % |
|----------------------------|--------------------------|------|-----------|------|----------|----------|
| | 2010 | % | 2009 | % | | |
| | (In thousands) | | | | | |
| Net sales | \$ 28,053 | 100% | \$ 21,666 | 100% | \$ 6,387 | 29% |
| Transfers between areas | 110 | | 15 | | 95 | 633% |
| Net sales and transfers | 28,163 | 100% | 21,681 | 100% | 6,482 | 30% |
| Cost of goods sold | 20,650 | 73% | 16,287 | 75% | 4,363 | 27% |
| Gross profit | 7,513 | 27% | 5,394 | 25% | 2,119 | 39% |
| Selling and administrative | 4,665 | 17% | 3,559 | 17% | 1,106 | 31% |
| Operating income | \$ 2,848 | 10% | \$ 1,835 | 8% | \$ 1,013 | 55% |

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

| | Amount | Change % |
|-------------------------|----------|----------|
| Net sales change | \$ 3,154 | 14% |
| Foreign currency change | 3,233 | 15% |
| Total | \$ 6,387 | 29% |

The following summarizes financial results for Asia Pacific for the first six months of fiscal 2011. All percentage comparisons to the prior year exclude the impact of foreign currencies:

Net sales increased 14% primarily due to higher sales volumes as a result of an improvement in economic conditions and a strong lift truck market. Lift truck industry shipments for the year increased 32% when compared with the prior year.

Our gross profit percentage increased due to the benefit of improved cost absorption as a result of higher sales volumes and fluctuations in foreign currency rates.

Selling and administrative costs increased 16% due to higher warranty, personnel and other general costs.

China

| | Six Months Ended July 31 | | | | Change | Change % |
|-------------------------|--------------------------|------|-----------|------|-----------|----------|
| | 2010 | % | 2009 | % | | |
| | (In thousands) | | | | | |
| Net sales | \$ 26,353 | 70% | \$ 14,709 | 75% | \$ 11,644 | 79% |
| Transfers between areas | 11,433 | 30% | 4,887 | 25% | 6,546 | 134% |
| Net sales and transfers | 37,786 | 100% | 19,596 | 100% | 18,190 | 93% |

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| | | | | | | |
|----------------------------|-----------|-----|----------|-----|----------|------|
| Cost of goods sold | 24,707 | 65% | 12,895 | 66% | 11,812 | 92% |
| Gross profit | 13,079 | 35% | 6,701 | 34% | 6,378 | 95% |
| Selling and administrative | 2,226 | 6% | 1,964 | 10% | 262 | 13% |
| Operating income | \$ 10,853 | 29% | \$ 4,737 | 24% | \$ 6,116 | 129% |

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

| | Amount | Change % |
|-------------------------|------------------|------------|
| Net sales change | \$ 11,575 | 79% |
| Foreign currency change | 69 | 0% |
| Total | \$ 11,644 | 79% |

The following summarizes financial results for China for the first six months of fiscal 2011. All percentage comparisons to the prior year exclude the impact of foreign currencies:

Net sales increased 79% primarily due to higher sales volumes as a result of the recovery of the Chinese economy and a strong lift truck market. Lift truck industry shipments within China for fiscal 2011 increased 97% when compared with the prior year.

Transfers to other Cascade locations increased due to higher customer demand in Europe and Asia Pacific.

Our gross profit percentage increased due to improved cost absorption as a result of higher sales volumes in the current year, which was primarily offset by changes in product mix and higher intercompany transfers, which carry lower gross margins.

Non-Operating Items

The following are financial highlights for non-operating items during the first six months of fiscal 2011:

Interest expense increased \$357,000 during fiscal 2011 primarily due to renegotiated loan covenants during the prior year which resulted in higher interest rates in the current year.

The provision for income taxes in fiscal 2011 includes a \$3.4 million provision for recording valuation allowances against deferred tax assets in Italy and England. These deferred tax assets relate to net operating losses in these countries.

The provision for income taxes in fiscal 2010 was primarily a result of taxes due in countries where we were generating income. We were unable to realize a tax benefit in several European countries where we incurred losses.

Table of Contents**CASH FLOWS****Free Cash Flow**

Free cash flow, a non-GAAP measure, is defined as cash flow from operating activities less capital expenditures. Free cash flow is considered a liquidity measure and provides useful information to management and investors about the amount of cash generated after capital expenditures, which can then be used for strategic opportunities including, among others, investing in our business, making strategic acquisitions and strengthening the balance sheet. A limitation of free cash flow is that it does not represent the total increase or decrease in the cash balance for the period.

In addition, management refers to this measure to facilitate internal and external comparisons to our historical operating results, in making operating decisions, for budget planning purposes, and to form the basis upon which management is compensated. This measure should be considered in addition to, not as a substitute for, or superior to, gross profit, income from operations, cash flow from operating activities, or other measures of financial performance prepared in accordance with generally accepted accounting principles. The following table presents a summary of our free cash flow:

| | Three Months Ended July 31 | | Six Months Ended July 31 | |
|-------------------------------------|-----------------------------------|-------------|---------------------------------|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| | (In thousands) | | (In thousands) | |
| Cash flow from operating activities | 3,139 | 16,378 | 3,371 | 31,449 |
| Capital expenditures | (1,150) | (1,047) | (1,905) | (1,831) |
| Free cash flow | \$ 1,989 | \$ 15,331 | \$ 1,466 | \$ 29,618 |

The decrease in free cash flow during fiscal 2011 is primarily a result of higher levels of accounts receivable due to increased sales volumes. Free cash flow levels in fiscal 2010 were primarily the result of a lower accounts receivable balance and inventory reductions.

Statements of Cash Flows

The statements of cash flows reflect the changes in cash and cash equivalents for the six months ended July 31, 2010 and July 31, 2009 by classifying transactions into three major categories of activities: operating, investing and financing.

The following table presents a summary of our cash flows:

| | For the Three Months Ended July 31 | | For the Six Months Ended July 31 | |
|---------------------------------|---|-------------|---|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| | (In thousands) | | (In thousands) | |
| Operating activities | \$ 3,139 | \$ 16,378 | \$ 3,371 | \$ 31,449 |
| Investing activities | (1,053) | (953) | (1,788) | (1,701) |
| Financing activities | (3,232) | (16,493) | (3,157) | (38,494) |
| Effect of exchange rate changes | 2,188 | (3,113) | 3,736 | (4,612) |
| Net change in cash | \$ 1,042 | \$ (4,181) | \$ 2,162 | \$ (13,358) |

Table of Contents**Operating Activities**

Our primary source of liquidity is cash generated from operating activities, which is measured as net income or loss adjusted for changes in working capital and non-cash operating items such as depreciation, amortization and share-based compensation.

Net cash provided by operating activities decreased from \$31.4 million in fiscal 2010 to \$3.4 million in fiscal 2011 due to the following:

The net loss in fiscal 2010 was a result of significant restructuring charges, a substantial decrease in sales volumes and lower gross margins.

Inventories increased \$277,000 during the current year compared to a decrease of \$22.5 million in fiscal 2010. During fiscal 2010, we focused on lowering inventory by limiting purchases of materials and maintaining lower levels of finished goods to reflect lower customer demand.

During fiscal 2011, accounts receivable increased \$13.6 million compared to a decrease of \$18.0 million in fiscal 2010. The increase in the current year is primarily a result of higher sales.

Investing Activities

Our primary investing activity is capital expenditures, which are primarily for equipment and tooling related to product improvements, more efficient production methods and replacement for normal wear and tear. Capital expenditures by geographic segment were as follows (in thousands):

| | Three Months Ended July 31 | | Six Months Ended July 31 | |
|---------------|-------------------------------|----------|-----------------------------|----------|
| | 2010 | 2009 | 2010 | 2009 |
| North America | \$ 623 | \$ 316 | \$ 1,017 | \$ 834 |
| Europe | 19 | 222 | 222 | 292 |
| Asia Pacific | 209 | 324 | 265 | 367 |
| China | 299 | 185 | 401 | 338 |
| | \$ 1,150 | \$ 1,047 | \$ 1,905 | \$ 1,831 |

The following are investing activity highlights:

Capital expenditures during fiscal 2011 and 2010 are below historical levels as we have limited spending to only critical projects. We expect to continue spending at a reduced level through the end of fiscal 2011.

We expect capital expenditures for the remainder of fiscal 2011 to be approximately \$4 million.

Financing Activities

The following are major financing activities:

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Net payments made against our long-term debt and notes payable were \$2.4 million during the first six months of fiscal 2011 compared to net payments of \$37.4 million during the first six months of fiscal 2010. We continue to be focused on paying down our debt with available cash. During the current year we have been unable to paydown debt at the same rate as the prior year due to working capital requirements with increased sales levels in the current year.

We declared dividends totaling \$766,000 (\$0.07 per share) and \$1.1 million (\$0.10 per share) during the first six months of fiscal 2011 and 2010, respectively.

Table of Contents**FINANCIAL CONDITION AND LIQUIDITY**

The following are highlights regarding our financial condition and liquidity for the first six months of fiscal 2011:

Our working capital, defined as current assets less current liabilities, increased from \$112.4 million at January 31, 2010 to \$127.1 million at July 31, 2010. Our current ratio, defined as current assets divided by current liabilities, increased from 3.3 to 1 at January 31, 2010 to 3.6 to 1 at July 31, 2010.

Total outstanding debt, including notes payable to banks, decreased from \$59.4 million at January 31, 2010 to \$57.2 million at July 31, 2010.

Our loan agreement with Bank of America and Union Bank requires that we maintain certain ratios. The following are details on these ratios, which are calculated quarterly, based on actual results from the previous twelve months:

Fixed charge coverage ratio requires earnings before interest, taxes, depreciation, amortization and other non-cash charges (EBITDA), adjusted for cash taxes paid, an established level of capital expenditures and cash dividends, to be 1.5 times required debt service payments, principal and interest on outstanding debt. The actual fixed charge coverage ratio at July 31, 2010 was 8.4.

Leverage ratio requires outstanding debt and other funded debt to be less than 3.0 times EBITDA. The actual leverage ratio at July 31, 2010 was 1.5.

We were in compliance with our debt covenants at July 31, 2010. We believe our cash and cash equivalents, existing credit facilities and cash flows from operations will be sufficient to satisfy our expected working capital, capital expenditures and debt payment requirements for the next twelve months.

As of July 31, 2010, outstanding borrowings under our loan agreement totaled \$51.3 million and an additional \$1.6 million was used to issue letters of credit. The additional amount that may be borrowed under our loan agreement at July 31, 2010, based on our leverage ratio, was \$56.3 million. No principal payments are required until December 2011. The interest rate on the line of credit, which was based on LIBOR plus a margin of 2.5% at July 31, 2010 was 2.8%.

OTHER MATTERS

The following table represents the three-month percentage change from April 30, 2010 to July 31, 2010 and the six-month percentage change from January 31, 2010 to July 31, 2010 in the end of month foreign currency rates compared to the U.S. dollar used by our significant operations. As a result of these changes, foreign currency translation adjustments increased shareholders' equity by \$1.0 million during the quarter ended July 31, 2010 and \$4.5 million during the first six months of fiscal 2011.

| Currency | Change for Three Months Ended July 31, 2010 | Change for Six Months Ended July 31, 2010 |
|-------------------|---|---|
| Japanese Yen | 9% | 4% |
| British Pound | 3% | (2%) |
| Canadian Dollar | (1%) | 4% |
| Australian Dollar | (2%) | 2% |
| Euro | (2%) | (6%) |
| Korean Won | (6%) | (2%) |

Table of Contents**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Management's discussion and analysis of financial condition 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, impairment of goodwill, warranty obligations, environmental liabilities, benefit plans, share-based compensation 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 in our Annual Report on Form 10-K for the year ended January 31, 2010.

OFF BALANCE SHEET ARRANGEMENTS

At July 31, 2010, 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

Subsequent events - In February 2010, the FASB amended its May 2009 guidance that established standards of accounting for and disclosure of subsequent events. The amended guidance (1) eliminates the requirement for an SEC filer to disclose the date through which it has evaluated subsequent events, (2) clarifies the period through which conduit bond obligors must evaluate subsequent events, and (3) refines the scope of the disclosure requirements for reissued financial statements. We adopted this new accounting guidance for our financial statements for the quarter ended April 30, 2010. The adoption of this guidance did not have an impact on our 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 net sales 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 second quarter of fiscal 2011 resulting from a 10% weaker U.S. dollar against foreign currencies which impact our operations (in millions):

| | |
|--|--------|
| Euro | \$ 1.8 |
| Chinese Yuan | 1.3 |
| Japanese Yen | 0.6 |
| Canadian Dollar | 0.5 |
| Australian Dollar | 0.4 |
| British Pound | 0.4 |
| Other currencies (representing 4% of consolidated net sales) | 0.4 |

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A 10% weaker U.S. dollar during the quarter, measured against foreign currencies that affect our operations, would have increased our operating income by \$872,000.

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, Chinese Yuan, Korean Won, Swedish Krona and British Pounds. Our foreign currency forward exchange contracts have terms lasting up to three 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 specialty steel. As such, our cost of goods sold is sensitive to fluctuations in specialty steel prices, either directly through the purchase of raw materials or indirectly through the purchase of components. However, due to the nature of specialty steel, we are not impacted by changes in commodity steel prices to the extent others might be.

Presuming that the full impact of steel price increases is reflected in all steel and steel based component purchases, we estimate our gross profit percentage would decrease by approximately 0.4% for each 1.0% increase in steel prices. Based on our statement of operations for the three months ended July 31, 2010, a 1.0% increase in steel prices would have decreased consolidated gross profit by approximately \$341,000.

The majority of our debt as of July 31, 2010 had a variable interest rate, which was 2.8% at July 31, 2010 and was based on LIBOR plus a margin of 2.5%. Based on the July 31, 2010 outstanding balance of our variable rate debt of \$51.3 million, a 1% increase in our interest rate would result in a \$513,000 increase in annual interest expense.

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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 July 31, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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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, 2010.

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

None

Item 3. Defaults Upon Senior Securities

None

Item 5. Other Information

None

Item 6. Exhibits

A list of exhibits filed or furnished with this report on Form 10-Q (or incorporated by reference to exhibits previously filed or furnished by Cascade) is provided in the accompanying Exhibit Index.

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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.

CASCADE CORPORATION

September 7, 2010

/s/ JOSEPH G. POINTER
Joseph G. Pointer
Chief Financial Officer

(Principal Financial and Accounting Officer)

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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. |