

CASCADE CORP  
Form 10-Q  
September 05, 2012  
Table of Contents

**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, 2012

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**

Edgar Filing: CASCADE CORP - Form 10-Q

(Exact name of registrant as specified in its charter)

**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 16, 2012 was 11,195,419.

**Table of Contents**

**CASCADE CORPORATION**

**FORM 10-Q**

**Quarter Ended July 31, 2012**

**TABLE OF CONTENTS**

	Page
<b><u>Part I Financial Information:</u></b>	
<b><u>Item 1. Financial Statements (unaudited):</u></b>	
<u>Consolidated Statements of Income</u>	4
<u>Consolidated Statements of Comprehensive Income</u>	5
<u>Consolidated Balance Sheets</u>	6
<u>Consolidated Statement of Changes in Shareholders' Equity</u>	7
<u>Consolidated Statements of Cash Flows</u>	8
<u>Notes to Consolidated Financial Statements</u>	9
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	31
<u>Item 4. Controls and Procedures</u>	32
<b><u>Part II Other Information</u></b>	33
<b><u>Signatures</u></b>	34
<b><u>Exhibit Index</u></b>	35

**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 or statements of expectations 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;

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;

Impact of acquisitions;

Environmental matters;

Cost and availability of raw materials; and

Assumptions relating to pension and other postretirement costs.

We undertake no obligation to publicly revise or update forward-looking statements to reflect events or circumstances that arise after the date of this report. See Risk Factors under Item 1A in our Annual Report on Form 10-K for the year ended January 31, 2012, 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)**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>July 31</b>		<b>July 31</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Net sales	\$ 136,410	\$ 135,642	\$ 277,645	\$ 271,819
Cost of goods sold	94,350	92,331	192,291	184,135
<b>Gross profit</b>	<b>42,060</b>	<b>43,311</b>	<b>85,354</b>	<b>87,684</b>
Selling and administrative expenses	21,997	22,334	44,604	42,200
<b>Operating income</b>	<b>20,063</b>	<b>20,977</b>	<b>40,750</b>	<b>45,484</b>
Interest expense, net	127	206	211	457
Foreign currency loss	225	463	235	659
Income before provision for income taxes	19,711	20,308	40,304	44,368
Provision for income taxes	7,072	6,457	12,457	14,093
<b>Net income</b>	<b>\$ 12,639</b>	<b>\$ 13,851</b>	<b>\$ 27,847</b>	<b>\$ 30,275</b>
<b>Basic earnings per share</b>	<b>\$ 1.14</b>	<b>\$ 1.26</b>	<b>\$ 2.51</b>	<b>\$ 2.76</b>
<b>Diluted earnings per share</b>	<b>\$ 1.11</b>	<b>\$ 1.23</b>	<b>\$ 2.45</b>	<b>\$ 2.68</b>
<b>Basic weighted average shares outstanding</b>	<b>11,112</b>	<b>10,994</b>	<b>11,073</b>	<b>10,960</b>
<b>Diluted weighted average shares outstanding</b>	<b>11,378</b>	<b>11,302</b>	<b>11,374</b>	<b>11,288</b>
<b>Cash dividends per share</b>	<b>\$ .35</b>	<b>\$ .20</b>	<b>\$ .70</b>	<b>\$ .40</b>

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

**Table of Contents**

**CASCADE CORPORATION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(Unaudited - in thousands)

	Three Months Ended July 31		Six Months Ended July 31	
	2012	2011	2012	2011
Net income	\$ 12,639	\$ 13,851	\$ 27,847	\$ 30,275
Other comprehensive income, net of tax:				
Currency translation adjustment	(4,731)	230	(3,990)	9,719
Comprehensive income	\$ 7,908	\$ 14,081	\$ 23,857	\$ 39,994

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 2012	January 31 2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 39,349	\$ 24,928
Accounts receivable, less allowance for doubtful accounts of \$1,332 and \$1,211	83,624	77,752
Inventories	88,740	86,660
Deferred income taxes	3,825	3,822
Assets available for sale	7,120	7,572
Prepaid expenses and other	12,243	11,353
<b>Total current assets</b>	<b>234,901</b>	<b>212,087</b>
Property, plant and equipment, net	71,394	71,439
Goodwill	87,574	88,174
Deferred income taxes	22,025	18,964
Other assets	4,279	3,895
<b>Total assets</b>	<b>\$ 420,173</b>	<b>\$ 394,559</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Notes payable to banks	\$	\$ 99
Current portion of long-term debt		590
Accounts payable	26,016	28,280
Accrued payroll and payroll taxes	9,715	9,473
Accrued incentive pay	1,424	2,496
Other accrued expenses	13,047	15,580
<b>Total current liabilities</b>	<b>50,202</b>	<b>56,518</b>
Long-term debt, net of current portion	15,000	4,950
Accrued environmental expenses	1,669	2,279
Deferred income taxes and other tax liabilities	11,433	8,626
Employee benefit obligations	8,345	8,228
Other liabilities	3,001	3,231
<b>Total liabilities</b>	<b>89,650</b>	<b>83,832</b>
Commitments and contingencies (Note 7)		
Shareholders' equity:		
Common stock, \$.50 par value, 40,000 authorized shares; 11,195 and 11,088 shares issued and outstanding	5,598	5,544
Additional paid-in capital	16,936	13,252
Retained earnings	271,328	251,280
Accumulated other comprehensive income	36,661	40,651
<b>Total shareholders' equity</b>	<b>330,523</b>	<b>310,727</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 420,173</b>	<b>\$ 394,559</b>

Edgar Filing: CASCADE CORP - Form 10-Q

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



Table of Contents

## CASCADE CORPORATION

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited in thousands, except per share amounts)

	Common Stock		Additional	Retained	Accumulated	Total
	Shares	Amount	Paid-In	Earnings	Other	Shareholders
			Capital		Comprehensive	Equity
					Income	
<b>Balance at January 31, 2012</b>	11,088	\$ 5,544	\$ 13,252	\$ 251,280	\$ 40,651	\$ 310,727
Net income				27,847		27,847
Dividends (\$.70 per share)				(7,799)		(7,799)
Common stock issued	107	54	754			808
Share-based compensation			1,356			1,356
Tax effect on stock-based compensation			1,574			1,574
Currency translation adjustment					(3,990)	(3,990)
<b>Balance at July 31, 2012</b>	11,195	\$ 5,598	\$ 16,936	\$ 271,328	\$ 36,661	\$ 330,523

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)

	Three Months Ended July 31		Six Months Ended July 31	
	2012	2011	2012	2011
<b>Cash flows from operating activities:</b>				
Net income	\$ 12,639	\$ 13,851	\$ 27,847	\$ 30,275
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	2,664	2,493	5,206	4,886
Share-based compensation	735	746	1,356	1,345
Deferred income taxes	(1,419)	349	(3,290)	190
Tax effect on share-based compensation	(121)	(700)	(1,574)	(700)
Loss (gain) on disposition of assets, net	9	(119)	(30)	(136)
Changes in operating assets and liabilities, net of effects of acquisition:				
Accounts receivable	2,900	2,403	(7,512)	(17,239)
Inventories	(2,851)	(8,194)	(3,019)	(12,281)
Prepaid expenses and other	563	(2,872)	(1,088)	(4,571)
Accounts payable and accrued expenses	(3,230)	5,305	(2,863)	7,773
Income taxes payable and receivable	(1,117)	(3,135)	(99)	(2,373)
Other assets and liabilities	2,156	750	2,220	2,068
Net cash provided by operating activities	12,928	10,877	17,154	9,237
<b>Cash flows from investing activities:</b>				
Capital expenditures	(2,654)	(3,406)	(5,757)	(5,708)
Proceeds from disposition of assets	16	1,001	111	1,052
Business acquisition	(18)		(1,198)	
Net cash used in investing activities	(2,656)	(2,405)	(6,844)	(4,656)
<b>Cash flows from financing activities:</b>				
Cash dividends paid	(7,799)	(4,421)	(7,799)	(4,421)
Payments on long-term debt	(19,234)	(27,040)	(96,073)	(40,277)
Proceeds from long-term debt	28,700	28,500	105,700	46,500
Notes payable to banks, net	(440)	(2,966)	(98)	
Common stock issued under share-based compensation plans		210	808	809
Tax effect on share-based compensation	121	700	1,574	700
Net cash provided by (used in) financing activities	1,348	(5,017)	4,112	3,311
Effect of exchange rate changes	825	1,827	(1)	(786)
Change in cash and cash equivalents	12,445	5,282	14,421	7,106
Cash and cash equivalents at beginning of period	26,904	26,861	24,928	25,037
Cash and cash equivalents at end of period	\$ 39,349	\$ 32,143	\$ 39,349	\$ 32,143

**Supplemental disclosure of cash flow information:**

See Note 9 to the consolidated financial statements

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



**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 material 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 17 countries outside the United States.

**Note 2 Interim Financial Information**

The accompanying consolidated financial statements for the interim periods ended July 31, 2012 and 2011 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 Form 10-K for the fiscal year ended January 31, 2012.

**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, 2012.

**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 the segments are located. Net sales and transfers, operating results and identifiable assets by geographic operating segment were as follows (in thousands):

**Segment Information**

(In thousands)

2012	Three Months Ended July 31					Consolidated
	Americas	Europe	Asia Pacific	China	Eliminations	
Net sales	\$ 76,042	\$ 23,119	\$ 21,717	\$ 15,532	\$	\$ 136,410
Transfers between areas	6,447	261	24	8,000	(14,732)	
Net sales and transfers	\$ 82,489	\$ 23,380	\$ 21,741	\$ 23,532	\$ (14,732)	\$ 136,410
Gross profit	\$ 24,201	\$ 4,732	\$ 6,156	\$ 6,971		\$ 42,060
Selling and administrative	13,315	4,090	2,915	1,677		21,997
Operating income	\$ 10,886	\$ 642	\$ 3,241	\$ 5,294		\$ 20,063
Total assets	\$ 210,501	\$ 84,570	\$ 57,104	\$ 67,998		\$ 420,173
Property, plant and equipment, net	\$ 30,054	\$ 9,721	\$ 12,442	\$ 19,177		\$ 71,394
Capital expenditures	\$ 1,266	\$ 432	\$ 421	\$ 535		\$ 2,654
Depreciation expense	\$ 1,346	\$ 451	\$ 231	\$ 551		\$ 2,579

2011	Three Months Ended July 31					Consolidated
	Americas	Europe	Asia Pacific	China	Eliminations	
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

2012	Six Months Ended July 31					Consolidated
	Americas	Europe	Asia Pacific	China	Eliminations	
Net sales	\$ 152,285	\$ 50,027	\$ 42,393	\$ 32,940	\$	\$ 277,645
Transfers between areas	13,696	450	40	16,559	(30,745)	
Net sales and transfers	\$ 165,981	\$ 50,477	\$ 42,433	\$ 49,499	\$ (30,745)	\$ 277,645
Gross profit	\$ 49,047	\$ 10,297	\$ 11,895	\$ 14,115		\$ 85,354

Edgar Filing: CASCADE CORP - Form 10-Q

Selling and administrative	27,030	8,430	5,806	3,338	44,604
Operating income	\$ 22,017	\$ 1,867	\$ 6,089	\$ 10,777	\$ 40,750
Capital expenditures	\$ 3,017	\$ 641	\$ 1,153	\$ 946	\$ 5,757
Depreciation expense	\$ 2,562	\$ 902	\$ 454	\$ 1,130	\$ 5,048

2011	Six Months Ended July 31					Consolidated
	Americas	Europe	Asia Pacific	China	Eliminations	
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

**Table of Contents****Note 4 Inventories**

During the six months ended July 31, 2012, inventories increased primarily due to additional product needed to meet increased customer demand and a business acquisition in Brazil. Inventories stated at the lower of average cost or market are presented below by major class (in thousands):

	<b>July 31 2012</b>	<b>January 31 2012</b>
Finished goods	\$ 34,902	\$ 31,913
Raw materials and components	53,838	54,747
	<b>\$ 88,740</b>	<b>\$ 86,660</b>

**Note 5 Goodwill**

During the six months ended July 31, 2012, goodwill decreased due to the impact of changes in foreign currencies. We have no goodwill recorded in China. The following table provides a breakdown of goodwill by geographic region (in thousands):

	<b>July 31 2012</b>	<b>January 31 2012</b>
Americas	\$ 74,862	\$ 74,914
Europe	9,781	10,332
Asia Pacific	2,931	2,928
	<b>\$ 87,574</b>	<b>\$ 88,174</b>

**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 have issued new common shares upon the exercise of all share-based awards, although we have the option of satisfying SARs exercised with cash.

SARS provide the holder the right to receive an amount, payable in our common shares, or at our election in cash, 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 from date of grant.

**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, 2012 (in thousands):

	Stock Options	SARS and Restricted Stock
Common stock previously issued	1,258	218
Restricted stock previously issued		203
Shares issuable upon exercise of SARS, based on \$47.11 share price at July 31, 2012		233
Shares issuable upon exercise of stock options	93	
<b>Estimated shares to be issued</b>	<b>1,351</b>	<b>654</b>
Maximum shares of common stock to be issued per plan document	1,400	1,000 *

\* - The maximum number of shares of common stock to be issued under our SARS and Restricted Stock Plan was increased from 750,000 shares to 1 million shares on June 6, 2012.

A summary of the status of our plans at July 31, 2012, 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, 2012	151	\$ 14.72	855	\$ 35.85
Granted			117	50.12
Exercised	(58)	14.05	(12)	27.19
Balance at July 31, 2012	93	\$ 15.14	960	\$ 37.69

	Restricted Stock Awards	
	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Unvested restricted stock at January 31, 2012	62	\$ 41.14
Granted	44	45.42
Vested	(33)	39.44
Unvested restricted stock at July 31, 2012	73	\$ 44.52



**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 is as follows:

	<b>Granted in Fiscal 2013</b>	<b>Granted Prior to Fiscal 2013</b>
Risk-free interest rate	1.6%	2.1% - 5.1%
Expected volatility	60.0%	40.0% - 56.0%
Expected dividend yield	2.8%	0.6% - 2.8%
Expected life (in years)	6	5 - 7
Weighted average fair value at date of grant	\$ 22.44	\$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, 2012.

The following table shows the share-based compensation costs to be recognized in future periods for awards granted to date as of July 31, 2012 (in thousands):

<b>Fiscal Year</b>	<b>Amount</b>
2013*	\$ 1,517
2014	2,560
2015	1,787
2016	869
2017	97
	\$ 6,830

\* Represents last six months of fiscal 2013.

**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 remediation 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 \$1.9 million at July 31, 2012 and \$2.4 million at January 31, 2012.

**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 \$1.1 million at July 31, 2012 and January 31, 2012.

As of July 31, 2012 and January 31, 2012, a total of \$1.3 million of environmental costs are included on the consolidated balance sheet as a component of other accrued expenses.

**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	
	2012	2011	2012	2011
<b>Basic earnings per share:</b>				
Net income	\$ 12,639	\$ 13,851	\$ 27,847	\$ 30,275
<b>Weighted average shares outstanding</b>	<b>11,112</b>	<b>10,994</b>	<b>11,073</b>	<b>10,960</b>
	\$ 1.14	\$ 1.26	\$ 2.51	\$ 2.76
<b>Diluted earnings per share:</b>				
Net income	\$ 12,639	\$ 13,851	\$ 27,847	\$ 30,275
<b>Weighted average shares outstanding</b>	<b>11,112</b>	<b>10,994</b>	<b>11,073</b>	<b>10,960</b>
Dilutive effect of stock awards	266	308	301	328
<b>Diluted weighted average shares outstanding</b>	<b>11,378</b>	<b>11,302</b>	<b>11,374</b>	<b>11,288</b>
	\$ 1.11	\$ 1.23	\$ 2.45	\$ 2.68

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

Edgar Filing: CASCADE CORP - Form 10-Q

unvested restricted stock. All unvested restricted stock was included in our calculation of incremental shares for the three and six months ended July 31, 2012

**Table of Contents**

because they were dilutive. The number of unexercised SARS that were not included in the calculation as the impact would be antidilutive are as follows (in thousands):

	Three Months Ended July 31		Six Months Ended July 31	
	2012	2011	2012	2011
Excluded Awards:				
Unexercised SARS Awards	265	149	265	149

**Note 9 Supplemental Cash Flow Information**

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

	Three Months Ended July 31		Six Months Ended July 31	
	2012	2011	2012	2011
Cash paid during the period for:				
Interest	\$ 241	\$ 308	\$ 359	\$ 626
Income taxes	\$ 7,436	\$ 9,937	\$ 13,046	\$ 14,151

**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		Three Months Ended July 31	
	2012	2011	2012	2011
Net periodic benefit cost:				
Service cost	\$ 4	\$ 4	\$ 27	\$ 22
Interest cost	94	117	85	95
Expected return on plan assets	(116)	(120)		
Recognized prior service cost			(19)	(19)
Recognized net actuarial loss	8	30	6	
	\$ (10)	\$ 31	\$ 99	\$ 98

	Defined Benefit		Postretirement Benefit	
	Six Months Ended July 31		Six Months Ended July 31	
	2012	2011	2012	2011
Net periodic benefit cost:				
Service cost	\$ 8	\$ 8	\$ 54	\$ 44
Interest cost	189	233	170	190
Expected return on plan assets	(234)	(239)		
Recognized prior service cost			(38)	(38)
Recognized net actuarial loss	16	59	12	
	\$ (21)	\$ 61	\$ 198	\$ 196

**Table of Contents****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 have adopted this guidance by presenting a separate statement of comprehensive income.

**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 defective products. Our warranty obligations, which are recorded in other accrued expenses on the consolidated balance sheets, were as follows (in thousands):

	2012	2011
Balance at January 31	\$ 1,723	\$ 1,339
Accruals for warranties issued during the period	1,283	1,226
Accruals for pre-existing warranties	169	103
Settlements during the period	(1,448)	(1,162)
Foreign currency changes	(24)	46
Balance at July 31	\$ 1,703	\$ 1,552

**Note 13 Accumulated Other Comprehensive Income**

During the six months ended July 31, 2012, accumulated other comprehensive income decreased due to fluctuations in foreign currencies, primarily the Euro. 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, 2012	\$ 41,530	\$ (879)	\$ 40,651
Currency translation adjustment	(3,988)	(2)	(3,990)
Balance at July 31, 2012	\$ 37,542	\$ (881)	\$ 36,661

## **Table of Contents**

### **Note 14 Income Taxes**

The effective tax rate for the six months ended July 31, 2012 was 31% compared to 32% for the six months ended July 31, 2011 and 27% for the fiscal year ended January 31, 2012. For the first six months of fiscal 2013, our effective tax rate was less than the US tax rate of 35% primarily due to lower tax rates in foreign jurisdictions where we earned income and the first quarter release of a \$1.7 million valuation allowance recorded against deferred tax assets in The Netherlands. The effective tax for the six months ended July 31, 2012 is higher than the effective tax rate for the full year ended January 31, 2012 mostly due to the release of a \$3.6 million valuation allowance relating to improved financial performance in The Netherlands in fiscal 2012.

In recent years, we have recorded significant deferred tax assets related to net operating losses in Europe. In assessing the realizability of these deferred tax assets, we considered whether it is more-likely-than-not that some portion or all of our deferred tax assets will not be realized through the generation of future taxable income. Management quarterly assesses the need for valuation allowances on deferred tax assets based on all available positive and negative evidence. The primary negative evidence is continuing operating losses. Positive evidence consists of improved financial performance over time due to market conditions, restructuring activities and expected future taxable income. If the estimates of future taxable income vary from actual results, our assessment regarding the realization of these deferred tax assets could change. Future changes in the estimated amount of deferred taxes expected to be realized will be reflected in the Company's financial statements in the period the estimate is changed, with a corresponding adjustment to operating results. Changes in estimates may occur often and can have a significant favorable or unfavorable impact on the Company's operating results period-to-period.

At July 31, 2012, we continue to provide valuation allowances of \$23.6 million against deferred tax assets relating to net operating loss carryforwards generated in Europe that we currently do not expect to realize.

As of July 31, 2012, our liability for uncertain tax positions was \$5.7 million, excluding interest and penalties. We recognize interest and penalties related to uncertain tax positions in income tax expense. As of July 31, 2012, we had approximately \$2.2 million of accrued interest and penalties related to uncertain tax positions.

We are subject to taxation primarily in the jurisdictions where we have operations. As of July 31, 2012, 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 rainfall in the Queensland, Australia region. During fiscal 2012, we restored our operations to pre-flood conditions.

The flood resulted in charges of \$2.6 million during the first six months of fiscal 2012. We have not incurred any charges during fiscal 2013. We received \$5.1 million of insurance proceeds during the first six months of fiscal 2012. During fiscal 2013, we expect to receive additional insurance proceeds of up to \$3 million for capital expenditures related to equipment not yet placed in service; however, we have not yet received any insurance proceeds during the current year.

**Table of Contents**

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

	Three Months Ended July 31, 2011	Six Months Ended July 31, 2011
<b><u>Cost of Goods Sold Related</u></b>		
Flood-related costs	\$ 305	\$ 639
Insurance proceeds	(1,603)	(2,666)
Net recovery	(1,298)	(2,027)
<b><u>Selling, General &amp; Administrative Related</u></b>		
Flood-related costs	354	1,999
Insurance proceeds		(2,397)
Net expense (recovery)	354	(398)
<b><u>Total Flood Related</u></b>		
Flood-related costs	659	2,638
Insurance proceeds	(1,603)	(5,063)
Net recovery	\$ (944)	\$ (2,425)

**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 equivalents, trade receivables and payables and notes payable to banks approximates fair value due to the short maturity of these instruments. The long-term debt balance recorded on the Company's balance sheet as of July 31, 2012 and January 31, 2012 approximates fair value, due to the variable interest rate on the debt and consideration of credit risk, and is a level 2 liability in the fair value hierarchy.

**Note 17 Acquisition**

In March 2012, we purchased the assets, including inventory, accounts receivable and intangible assets, of our exclusive distributor located in Santos, Brazil. The total purchase price was \$1.2 million.

**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, 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, 2012 ( fiscal 2012 ) and the year ending January 31, 2013 ( fiscal 2013 ).

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

Volatility in the global lift truck market is continuing. The Americas, Europe and Asia Pacific markets experienced flat to moderate growth. China's shipments were well below prior year shipments, which were at record levels.

The following tables show the quarter-over-quarter percent change in global lift truck shipments and orders by region:

	<b>Lift Truck Shipments</b> <b>Q2 Fiscal 2013 vs 2012</b>	<b>Lift Truck Orders</b> <b>Q2 Fiscal 2013 vs 2012</b>
Americas	2%	3%
Europe	4%	(7%)
Asia Pacific	14%	7%
China	(19%)	(17%)
Global	(2%)	(5%)

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](http://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.



**Table of Contents****COMPARISON OF SECOND QUARTER OF FISCAL 2013 AND FISCAL 2012****Executive Summary**

	Three Months Ended July 31		Change	Change %
	2012	2011		
	(In thousands except per share amounts)			
Net sales	\$ 136,410	\$ 135,642	\$ 768	1%
Gross profit %	31%	32%		
Operating income	\$ 20,063	\$ 20,977	\$ (914)	(4%)
Operating Income %	15%	15%		
Income before taxes	\$ 19,711	\$ 20,308	\$ (597)	(3%)
Provision for income taxes	7,072	\$ 6,457	\$ 615	10%
Effective tax rate	36%	32%		
Net income	\$ 12,639	\$ 13,851	\$ (1,212)	(9%)
Diluted earnings per share	\$ 1.11	\$ 1.23	\$ (0.12)	(10%)

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

	Amount	Change %
Net sales change	\$ 5,273	4%
Foreign currency change	(4,505)	(3%)
Total	\$ 768	1%

The following is an overview for the three months ended July 31, 2012 and 2011. All percentage change comparisons to the prior year exclude the impact of foreign currencies:

Consolidated net sales increased 4% due to higher sales volumes of products related to the construction industry and strong lift truck markets in the Asia Pacific region.

Our consolidated gross profit percentage decreased slightly during the second quarter of fiscal 2013. The prior year gross profit includes net flood insurance proceeds of \$1.3 million. Without these insurance proceeds, the gross profit percentage would have been 31% for both years.

During the second quarter of fiscal 2012, we received \$1.6 million of insurance proceeds related to the Australia flood, which was offset by \$.7 million of flood related costs incurred during the quarter. The after-tax impact of the flood recovery was \$.7 million (\$.06 per diluted share).

The effective tax rate of 36% in the second quarter of fiscal 2013 was higher than the effective tax rate in the second quarter of fiscal 2012 primarily due to a \$.7 million increase in our accrual for state tax matters during the current quarter.

**Table of Contents****Americas**

	Three Months Ended July 31			
	2012	2011	Change	Change %
Net sales	\$ 76,042	\$ 67,025	\$ 9,017	13%
Transfers between areas	6,447	7,952	(1,505)	-19%
Net sales and transfers	82,489	74,977	7,512	10%
Cost of goods sold	58,288	53,194	5,094	10%
Gross profit	24,201	21,783	2,418	11%
Gross profit %	29%	29%		
Selling and administrative	13,315	12,686	629	5%
Operating income	\$ 10,886	\$ 9,097	\$ 1,789	20%
Operating income %	13%	12%		

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

	Amount	Change %
Net sales change	\$ 9,568	14%
Foreign currency change	(551)	(1%)
Total	\$ 9,017	13%

The following summarizes financial results for the Americas for the second quarter of fiscal 2013. All percentage change comparisons to the prior year exclude the impact of foreign currencies:

Net sales increased 14% primarily due to higher sales volumes of products to the construction industry.

Our gross profit percentage remained consistent with the prior year as the benefit of higher sales volumes was offset by increased sales of lower margin products to the construction industry.

Selling and administrative costs increased due primarily to consulting, personnel, product liability and other general costs.

**Table of Contents****Europe**

	Three Months Ended July 31			
	2012	2011	Change	Change %
Net sales	\$ 23,119	\$ 29,344	\$ (6,225)	(21%)
Transfers between areas	261	187	74	40%
Net sales and transfers	23,380	29,531	(6,151)	(21%)
Cost of goods sold	18,648	22,860	(4,212)	(18%)
Gross profit	4,732	6,671	(1,939)	(29%)
Gross profit %	20%	23%		
Selling and administrative	4,090	4,864	(774)	(16%)
Operating income	\$ 642	\$ 1,807	\$ (1,165)	(64%)
Operating income %	3%	6%		

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

	Amount	Change %
Net sales change	\$ (3,035)	(10%)
Foreign currency change	(3,190)	(11%)
Total	\$ (6,225)	(21%)

The following summarizes financial results for Europe for the second quarter of fiscal 2013. All percentage change comparisons to the prior year exclude the impact of foreign currencies:

Net sales decreased 10% primarily as a result of a weakening lift truck market, due to economic conditions in Europe.

The decrease in our gross profit percentage is a result of lower cost absorption due to decreased sales volumes and higher product costs from changes in foreign currency rates.

Selling and administrative costs decreased during the current year primarily due to foreign currency rate changes.

**Asia Pacific**

	Three Months Ended July 31			
	2012	2011	Change	Change %
Net sales	\$ 21,717	\$ 21,167	\$ 550	3%
Transfers between areas	24	8	16	200%
Net sales and transfers	21,741	21,175	566	3%
Cost of goods sold	15,585	13,903	1,682	12%

Edgar Filing: CASCADE CORP - Form 10-Q

Gross profit	6,156	7,272	(1,116)	(15%)
<i>Gross profit %</i>	28%	34%		
Selling and administrative	2,915	3,293	(378)	(11%)
Operating income	\$ 3,241	\$ 3,979	\$ (738)	(19%)
<i>Operating income %</i>	15%	19%		

**Table of Contents**

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

	Amount	Change %
Net sales change	\$ 1,592	8%
Foreign currency change	(1,042)	(5%)
<b>Total</b>	<b>\$ 550</b>	<b>3%</b>

The following summarizes financial results for Asia Pacific for the second quarter of fiscal 2013. All percentage change comparisons to the prior year exclude the impact of foreign currencies:

Net sales increased 8% primarily due to higher sales volumes as a result of strong lift truck markets.

Our prior year gross profit percentage included net insurance proceeds of \$1.3 million related to the Australia flood. Without these insurance proceeds, the gross profit percentage would have been 28% for both years.

Operating income during the second quarter of fiscal 2012 reflects \$0.9 million from net flood insurance proceeds. We did not receive any insurance proceeds and did not incur any significant flood related costs during the second quarter of fiscal 2013.

**China**

	Three Months Ended July 31		Change	Change %
	2012	2011		
Net sales	\$ 15,532	\$ 18,106	\$ (2,574)	(14%)
Transfers between areas	8,000	8,771	(771)	(9%)
<b>Net sales and transfers</b>	<b>23,532</b>	<b>26,877</b>	<b>(3,345)</b>	<b>(12%)</b>
Cost of goods sold	16,561	19,292	(2,731)	(14%)
Gross profit	6,971	7,585	(614)	(8%)
<i>Gross profit %</i>	<i>30%</i>	<i>28%</i>		
Selling and administrative	1,677	1,491	186	12%
Operating income	\$ 5,294	\$ 6,094	\$ (800)	(13%)
<i>Operating income %</i>	<i>22%</i>	<i>23%</i>		

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

	Amount	Change %
Net sales change	\$ (2,852)	(16%)
Foreign currency change	278	2%
<b>Total</b>	<b>\$ (2,574)</b>	<b>(14%)</b>

## Edgar Filing: CASCADE CORP - Form 10-Q

The following summarizes financial results for China for the second quarter of fiscal 2013. All percentage change comparisons to the prior year exclude the impact of foreign currencies:

Net sales decreased 16% primarily due to a slowdown in the Chinese economy and the lift truck industry.

**Table of Contents**

Our gross profit percentage increased due to a higher percentage of higher margin product sales and a reduction in the cost of steel.

**COMPARISON OF THE FIRST SIX MONTHS OF FISCAL 2013 AND FISCAL 2012****Executive Summary**

	Six Months Ended July 31		Change	Change %
	2012	2011		
	(In thousands except per share amounts)			
Net sales	\$ 277,645	\$ 271,819	\$ 5,826	2%
Gross profit %	31%	32%		
Operating income	\$ 40,750	\$ 45,484	\$ (4,734)	(10%)
Operating income %	15%	17%		
Income before taxes	\$ 40,304	\$ 44,368	\$ (4,064)	(9%)
Provision for income taxes	\$ 12,457	\$ 14,093	\$ (1,636)	(12%)
Effective tax rate	31%	32%		
Net income	\$ 27,847	\$ 30,275	\$ (2,428)	(8%)
Diluted earnings per share	\$ 2.45	\$ 2.68	\$ (0.23)	(9%)

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

	Amount	Change %
Net sales change	\$ 11,074	4%
Foreign currency change	(5,248)	(2%)
<b>Total</b>	<b>\$ 5,826</b>	<b>2%</b>

The following is an overview for the six months ended July 31, 2012 and 2011. All percentage change comparisons to the prior year exclude the impact of foreign currencies:

Consolidated net sales increased 4% due to higher sales volumes as a result of a strong lift truck market and sales price increases in the Americas and Asia Pacific regions.

Our consolidated gross profit percentage decreased slightly during fiscal 2013. The prior year gross profit includes net flood insurance proceeds of \$2 million.

During the first six months of fiscal 2012, we received net insurance proceeds related to the Australia flood of \$2.4 million. These proceeds increased net income by \$1.7 million (\$0.15 diluted share).

Operating income was impacted during the current year by an 8% increase in selling and administrative costs primarily due to higher personnel costs, professional and legal expenses, consulting fees, product liability costs and warranty charges.

**Table of Contents****Americas**

	Six Months Ended July 31			
	2012	2011	Change	Change %
Net sales	\$ 152,285	\$ 138,729	\$ 13,556	10%
Transfers between areas	13,696	16,029	(2,333)	(15%)
Net sales and transfers	165,981	154,758	11,223	7%
Cost of goods sold	116,934	108,069	8,865	8%
Gross profit	49,047	46,689	2,358	5%
Gross profit %	30%	30%		
Selling and administrative	27,030	24,642	2,388	10%
Operating income	\$ 22,017	\$ 22,047	\$ (30)	(0%)
Operating income %	13%	14%		

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

	Amount	Change %
Net sales change	\$ 14,256	10%
Foreign currency change	(700)	0%
Total	\$ 13,556	10%

The following summarizes financial results for the Americas for the first six months of fiscal 2013. All percentage change comparisons to the prior year exclude the impact of foreign currencies:

Net sales increased 10% due to higher sales volumes as a result of a strong lift truck market in the Americas, higher sales of products to the construction industry and sales price increases.

Our gross profit percentage remained consistent with the prior year as the benefit of higher sales volumes was offset by higher sales of lower margin product.

Selling and administrative costs increased due primarily to consulting, personnel, warranty, professional fees, product liability and other general costs.



**Table of Contents****Europe**

	<b>Six Months Ended July 31</b>			
	<b>2012</b>	<b>2011</b>	<b>Change</b>	<b>Change %</b>
Net sales	\$ 50,027	\$ 56,783	\$ (6,756)	(12%)
Transfers between areas	450	641	(191)	(30%)
<b>Net sales and transfers</b>	<b>50,477</b>	<b>57,424</b>	<b>(6,947)</b>	<b>(12%)</b>
Cost of goods sold	40,180	44,902	(4,722)	(11%)
<b>Gross profit</b>	<b>10,297</b>	<b>12,522</b>	<b>(2,225)</b>	<b>(18%)</b>
<i>Gross profit %</i>	<i>20%</i>	<i>22%</i>		
Selling and administrative	8,430	9,415	(985)	(10%)
<b>Operating income</b>	<b>\$ 1,867</b>	<b>\$ 3,107</b>	<b>\$ (1,240)</b>	<b>(40%)</b>
<i>Operating income %</i>	<i>4%</i>	<i>5%</i>		

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

	<b>Amount</b>	<b>Change %</b>
Net sales change	\$ (2,052)	(4%)
Foreign currency change	(4,704)	(8%)
<b>Total</b>	<b>\$ (6,756)</b>	<b>(12%)</b>

The following summarizes financial results for Europe for the first six months of fiscal 2013. All percentage change comparisons to the prior year exclude the impact of foreign currencies:

Net sales decreased 4% primarily as a result of a weakening lift truck market, due to uncertain economic conditions in the region.

The decrease in our gross profit percentage is a result of lower cost absorption due to decreased sales volumes and higher product costs from changes in foreign currency rates.

**Table of Contents****Asia Pacific**

	Six Months Ended July 31			
	2012	2011	Change	Change %
Net sales	\$ 42,393	\$ 39,259	\$ 3,134	8%
Transfers between areas	40	88	(48)	(55%)
Net sales and transfers	42,433	39,347	3,086	8%
Cost of goods sold	30,538	26,274	4,264	16%
Gross profit	11,895	13,073	(1,178)	(9%)
Gross profit %	28%	33%		
Selling and administrative	5,806	5,161	645	12%
Operating income	\$ 6,089	\$ 7,912	\$ (1,823)	(23%)
Operating income %	14%	20%		

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

	Amount	Change %
Net sales change	\$ 3,908	10%
Foreign currency change	(774)	(2%)
Total	\$ 3,134	8%

The following summarizes financial results for Asia Pacific for the first six months of fiscal 2013. All percentage change comparisons to the prior year exclude the impact of foreign currencies:

Net sales increased 10% primarily due to higher sales volumes as a result of a strong lift truck market throughout the region.

Our prior year gross profit percentage included net insurance proceeds of \$2.0 million related to the Australia flood. Without these insurance proceeds, the gross profit percentage would have been 28% for both years.

During the first six months of fiscal 2012, operating income reflects \$2.4 million from net flood insurance proceeds related to the Australia flood. We did not receive any insurance proceeds and did not incur any significant flood related costs during the first six months of fiscal 2013.

**Table of Contents****China**

	Six Months Ended July 31		Change	Change %
	2012	2011		
Net sales	\$ 32,940	\$ 37,048	\$ (4,108)	(11%)
Transfers between areas	16,559	16,059	500	3%
Net sales and transfers	49,499	53,107	(3,608)	(7%)
Cost of goods sold	35,384	37,707	(2,323)	(6%)
Gross profit	14,115	15,400	(1,285)	(8%)
Gross profit %	29%	29%		
Selling and administrative	3,338	2,982	356	12%
Operating income	\$ 10,777	\$ 12,418	\$ (1,641)	(13%)
Operating income %	22%	23%		

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

	Amount	Change %
Net sales change	\$ (5,038)	(14%)
Foreign currency change	930	3%
Total	\$ (4,108)	(11%)

The following summarizes financial results for China for the first six months of fiscal 2013. All percentage change comparisons to the prior year exclude the impact of foreign currencies:

Net sales decreased 14% primarily due to a slowdown in the Chinese economy and the lift truck industry.

Our gross profit percentage remained consistent with the prior year as sales volumes of lower margin product decreased during the current year.

**CASH FLOWS****Statements of Cash Flows**

The statements of cash flows reflect the changes in cash and cash equivalents for the three and six months ended July 31, 2012 and July 31, 2011 by classifying transactions into three major categories of activities: operating, investing and financing.

The following table presents a summary of our cash flows:

Three Months Ended July 31		Six Months Ended July 31	
2012	2011	2012	2011
(In thousands)		(In thousands)	

Edgar Filing: CASCADE CORP - Form 10-Q

Operating activities	\$ 12,928	\$ 10,877	\$ 17,154	\$ 9,237
Investing activities	(2,656)	(2,405)	(6,844)	(4,656)
Financing activities	1,348	(5,017)	4,112	3,311
Effect of exchange rate changes	825	1,827	(1)	(786)
Net change in cash and cash equivalents	\$ 12,445	\$ 5,282	\$ 14,421	\$ 7,106

**Table of Contents****Operating Activities**

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

The following are operating activity highlights:

Net income was lower during fiscal 2013 compared to fiscal 2012 primarily due to flood insurance proceeds received in the prior year.

Inventories increased \$3 million during fiscal 2013 primarily due to product needed to meet customer demand and a business acquisition in Brazil, compared to an increase of \$12 million during fiscal 2012 as a result of a significant increase in customer demand.

During the first six months of fiscal 2013 and fiscal 2012, accounts receivable increased primarily as a result of higher sales. However, the accounts receivable increase during fiscal 2012 was significantly higher.

**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	
	2012	2011	2012	2011
Americas	\$ 1,266	\$ 1,221	\$ 3,017	\$ 2,095
Europe	432	447	641	772
Asia Pacific	421	636	1,153	1,150
China	535	1,102	946	1,691
	\$ 2,654	\$ 3,406	\$ 5,757	\$ 5,708

The following are investing activity highlights:

We expect capital expenditures for the remainder of fiscal 2013 to be approximately \$11 million. This includes \$9 million for routine expenditures and \$2 million to replace equipment damaged in the Australia flood last year.

We acquired the assets, primarily inventory, accounts receivable and intangible assets, of our Brazilian distributor during the first quarter of fiscal 2013 for \$1.2 million.

**Financing Activities**

The following are financing activity highlights:

We declared and paid dividends totaling \$7.8 million (\$0.70 per share) during fiscal 2013 and \$4.4 million (\$0.40 per share) during fiscal 2012.



---

**Table of Contents**

**FINANCIAL CONDITION AND LIQUIDITY**

The following are highlights regarding our financial condition and liquidity for the first six months of fiscal 2013:

Total outstanding debt at July 31, 2012, was \$15 million, an increase of approximately \$9 million compared to our January 31, 2012 debt balance. Our cash balance at July 31, 2012 was \$39 million, an increase of \$14 million compared to our January 31, 2012 cash balance. We anticipate paying down debt during the remainder of fiscal 2013, as we are able to repatriate funds from certain foreign subsidiaries without adverse tax consequences.

As of July 31, 2012, outstanding borrowings under our \$100 million credit facility totaled \$15 million with an additional \$.6 million used to issue letters of credit. Based on these borrowings, the additional amount that may be borrowed under our credit facility is \$84.4 million.

We were in compliance with our debt covenants at July 31, 2012. 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 at least the next twelve months.

**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 inventory reserves, impairment of long-lived assets, impairment of goodwill, environmental liabilities, benefit plans, share-based compensation and income 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, 2012.

**OFF BALANCE SHEET ARRANGEMENTS**

At July 31, 2012, 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, that 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**

**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

**Table of Contents**

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 have adopted this guidance by presenting a separate statement of comprehensive income.

**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 following table represents the three-month percentage change from April 30, 2012 to July 31, 2012 and the six-month percentage change from January 31, 2012 to July 31, 2012 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 \$4.7 million during the quarter ended July 31, 2012 and \$4.0 million during the first six months of fiscal 2013.

Currency	Change for Three Months Ended July 31, 2012	Change for Six Months Ended July 31, 2012
Japanese Yen	2%	(2%)
Australian Dollar	1%	(1%)
Korean Won	0%	(1%)
Chinese Yuan	(1%)	(1%)
Canadian Dollar	(2%)	0%
British Pound	(3%)	(1%)
Euro	(7%)	(6%)

The table below illustrates the hypothetical increase in net sales for the second quarter of fiscal 2013 resulting from a 10% weaker U.S. dollar against foreign currencies which impact our operations (in millions):

Euro	\$ 1.7
Chinese Yuan	1.6
Japanese Yen	0.8
Australian Dollar	0.8
Canadian Dollar	0.7
Korean Won	0.5
British Pound	0.5
Other currencies (representing 2% of consolidated net sales)	0.3
	<b>\$ 6.9</b>

A 10% weaker U.S. dollar during the quarter, measured against foreign currencies that affect our operations, would have increased our operating income by approximately \$1.5 million.

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, Australian Dollars 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 and we do not record our derivatives under hedge accounting.



## **Table of Contents**

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 as directly as 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 income for the three months ended July 31, 2012, a 1.0% increase in steel prices would have decreased consolidated gross profit by approximately \$0.5 million.

### **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, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents**

**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, 2012.

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

None

**Item 3. Defaults Upon Senior Securities**

None

**Item 4. Mine Safety Disclosures**

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.

**Table of Contents**

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 5, 2012

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

*(Principal Financial and Accounting Officer)*

**Table of Contents**

**EXHIBIT INDEX**

<b>Exhibit</b>	
<b>No.</b>	<b>Description</b>
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.
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*

\* XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.