

CASCADE CORP  
Form 10-Q  
September 05, 2008  
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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, 2008

OR

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

For the transition period from      to

Commission file number 1-12557

# CASCADE CORPORATION

(Exact name of registrant as specified in its charter)

**Oregon**

(State or other jurisdiction of incorporation or organization)

**93-0136592**

(I.R.S. Employer Identification No.)

**2201 N.E. 201st Ave.**

**Fairview, Oregon**

(Address of principal executive office)

**97024-9718**

(Zip Code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 20, 2008 was 10,852,530.

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**CASCADE CORPORATION**

**FORM 10-Q**

**Quarter Ended July 31, 2008**



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**Forward-Looking Statements**

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

- Cost and availability of raw materials;
- Fluctuations in lift truck orders or deliveries;
- Competitive factors in, and the cyclical nature of, the materials handling and construction equipment industries;
- Effectiveness of our reorganization plans, capital expenditures and cost reduction initiatives;
- General business and economic conditions in North America, Europe, Asia Pacific and China;
- Risks associated with international operations;
- Foreign currency fluctuations;
- Assumptions relating to pension and other postretirement costs;
- Fluctuations in interest rates;
- Impact of acquisitions;
- Environmental matters.

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.

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**PART I FINANCIAL INFORMATION**



**Item 1. Financial Statements**

## CASCADE CORPORATION

## CONSOLIDATED STATEMENTS OF INCOME

(Unaudited in thousands, except per share amounts)

|   | Three Months Ended<br>July 31 |            | Six Months Ended<br>July 31 |            |
|---|-------------------------------|------------|-----------------------------|------------|
|   | 2008                          | 2007       | 2008                        | 2007       |
| Net sales                                   | \$ 150,103                    | \$ 143,183 | \$ 299,970                  | \$ 278,683 |
| Cost of goods sold                          | 107,402                       | 97,897     | 214,921                     | 190,168    |
| Gross profit                                | 42,701                        | 45,286     | 85,049                      | 88,515     |
| Selling and administrative expenses         | 23,490                        | 22,054     | 47,296                      | 43,186     |
| Loss (gain) on disposition of assets, net   | 30                            | (1,137)    | 145                         | (1,172)    |
| Amortization                                | 667                           | 844        | 1,342                       | 1,642      |
| Insurance litigation recovery, net          |                               |            |                             | (15,977)   |
| Operating income                            | 18,514                        | 23,525     | 36,266                      | 60,836     |
| Interest expense                            | 1,110                         | 922        | 2,241                       | 1,917      |
| Interest income                             | (160)                         | (225)      | (267)                       | (382)      |
| Other expense, net                          | 506                           | 224        | 627                         | 302        |
| Income before provision for income taxes    | 17,058                        | 22,604     | 33,665                      | 58,999     |
| Provision for income taxes                  | 6,563                         | 7,460      | 12,312                      | 20,059     |
| Net income                                  | \$ 10,495                     | \$ 15,144  | \$ 21,353                   | \$ 38,940  |
| Basic earnings per share                    | \$ 0.97                       | \$ 1.27    | \$ 1.98                     | \$ 3.26    |
| Diluted earnings per share                  | \$ 0.94                       | \$ 1.21    | \$ 1.92                     | \$ 3.11    |
| Basic weighted average shares outstanding   | 10,793                        | 11,930     | 10,788                      | 11,948     |
| Diluted weighted average shares outstanding | 11,109                        | 12,479     | 11,109                      | 12,513     |

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

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## CASCADE CORPORATION

## CONSOLIDATED BALANCE SHEETS

(Unaudited - in thousands, except per share amounts)

|  | July 31<br>2008 | January 31<br>2008 |
|--|-----------------|--------------------|
| <b>ASSETS</b>  |                 |                    |
| Current assets:  |                 |                    |
| Cash and cash equivalents  | \$ 27,911       | \$ 21,223          |
| Accounts receivable, less allowance for doubtful accounts of \$1,474 and \$1,623                         | 97,651          | 93,117             |
| Inventories  | 100,587         | 85,049             |
| Deferred income taxes  | 5,882           | 6,213              |
| Prepaid expenses and other   | 12,936          | 10,887             |
| Total current assets   | 244,967         | 216,489            |
| Property, plant and equipment, net   | 103,078         | 98,350             |
| Goodwill   | 117,864         | 118,826            |
| Deferred income taxes  | 4,904           | 5,948              |
| Intangible assets, net   | 19,611          | 20,916             |
| Other assets   | 1,981           | 1,971              |
| Total assets   | \$ 492,405      | \$ 462,500         |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>   |                 |                    |
| Current liabilities:   |                 |                    |
| Notes payable to banks   | \$ 2,025        | \$ 2,484           |
| Current portion of long-term debt  | 417             | 423                |
| Accounts payable   | 36,458          | 32,727             |
| Accrued payroll and payroll taxes  | 10,397          | 10,148             |
| Other accrued expenses   | 15,482          | 18,736             |
| Total current liabilities  | 64,779          | 64,518             |
| Long-term debt, net of current portion   | 117,045         | 107,809            |
| Accrued environmental expenses   | 3,831           | 4,314              |
| Deferred income taxes  | 5,195           | 5,710              |
| Employee benefit obligations   | 8,695           | 8,824              |
| Other liabilities  | 4,234           | 3,300              |
| Total liabilities  | 203,779         | 194,475            |
| Commitments and contingencies (Note 7)   |                 |                    |
| Shareholders' equity:  |                 |                    |
| Common stock, \$.50 par value, 40,000 authorized shares; 10,852 and 10,840 shares issued and outstanding | 5,426           | 5,420              |
| Additional paid-in capital   | 1,263           |                    |
| Retained earnings  | 244,166         | 226,932            |
| Accumulated other comprehensive income   | 37,771          | 35,673             |
| Total shareholders' equity   | 288,626         | 268,025            |
| Total liabilities and shareholders' equity   | \$ 492,405      | \$ 462,500         |

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 (Loss) |
|   |              |          |            |            | Income (Loss) |              |               |
| <b>Balance at January 31, 2008</b>          | 10,840       | \$ 5,420 | \$         | \$ 226,932 | \$ 35,673     | \$ 268,025   |               |
| Net income                                  |              |          |            | 21,353     |               | 21,353       | \$ 21,353     |
| Dividends (\$0.38 per share)                |              |          |            | (4,119)    |               | (4,119)      |               |
| Common stock issued                         | 30           | 15       | 115        |            |               | 130          |               |
| Tax effect from vesting of restricted stock |              |          | (73)       |            |               | (73)         |               |
| Common stock repurchased                    | (18)         | (9)      | (901)      |            |               | (910)        |               |
| Share-based compensation                    |              |          | 2,122      |            |               | 2,122        |               |
| Translation adjustment                      |              |          |            |            | 2,098         | 2,098        | 2,098         |
| <b>Balance at July 31, 2008</b>             | 10,852       | \$ 5,426 | \$ 1,263   | \$ 244,166 | \$ 37,771     | \$ 288,626   | \$ 23,451     |

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

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

|   | Six Months Ended<br>July 31 |           |
|---|-----------------------------|-----------|
|   | 2008                        | 2007      |
| <b>Cash flows from operating activities:</b>                                      |                             |           |
| Net income  | \$ 21,353                   | \$ 38,940 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                             |           |
| Depreciation  | 7,209                       | 6,889     |
| Amortization  | 1,342                       | 1,642     |
| Share-based compensation  | 2,122                       | 1,928     |
| Deferred income taxes   | 1,096                       | 1,543     |
| Loss (gain) on disposition of assets, net   | 145                         | (1,172)   |
| Changes in operating assets and liabilities:                                      |                             |           |
| Accounts receivable   | (2,924)                     | (13,035)  |
| Inventories   | (13,386)                    | (9,850)   |
| Prepaid expenses and other  | (1,168)                     | 637       |
| Accounts payable and accrued expenses   | 1,648                       | 2,724     |
| Income taxes payable and receivable   | (673)                       | (751)     |
| Other assets and liabilities  | 242                         | (1,349)   |
| Net cash provided by operating activities   | 17,006                      | 28,146    |
| <b>Cash flows from investing activities:</b>                                      |                             |           |
| Capital expenditures  | (10,039)                    | (9,106)   |
| Proceeds from disposition of assets   | 388                         | 2,497     |
| Business acquisitions   |                             | (11,529)  |
| Net cash used in investing activities   | (9,651)                     | (18,138)  |
| <b>Cash flows from financing activities:</b>                                      |                             |           |
| Cash dividends paid   | (4,119)                     | (4,062)   |
| Payments on long-term debt  | (27,708)                    | (57,442)  |
| Proceeds from long-term debt  | 37,000                      | 59,500    |
| Notes payable to banks, net   | (451)                       | (3,400)   |
| Common stock issued under share-based compensation plans                          | 130                         | 3,844     |
| Common stock repurchased  | (3,220)                     | (24,496)  |
| Tax effect from share-based compensation awards                                   | (73)                        | 2,509     |
| Net cash provided by (used in) financing activities                               | 1,559                       | (23,547)  |
| Effect of exchange rate changes   | (2,226)                     | (553)     |
| Change in cash and cash equivalents   | 6,688                       | (14,092)  |
| Cash and cash equivalents at beginning of period                                  | 21,223                      | 36,593    |
| Cash and cash equivalents at end of period  | \$ 27,911                   | \$ 22,501 |

**Supplemental disclosure of cash flow information:**

See Note 9 to the consolidated financial statements

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



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**CASCADE CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 1 Description of Business**



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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 2,400 people and maintaining operations in 15 countries outside the United States.

### **Note 2 Interim Financial Information**





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The accompanying consolidated financial statements for the interim periods ended July 31, 2008 and 2007 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, 2008.

### **Note 3 Segment Information**

Our operating units have several economic characteristics and attributes, including similar products, distribution patterns and classes of customers. As a result, we aggregate our operating units into four geographic operating segments related to the manufacturing, distribution and servicing of material handling load engagement products. We evaluate the performance of each of our operating segments based on operating income, which consists of income before interest, miscellaneous income/expense and income taxes. The accounting policies of the operating segments are the same as those described in the summary of 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, 2008.

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Revenues and operating results are classified according to the country of origin. Transfers 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):

| 2008                                      | Three Months Ended July 31 |            |              |           |              |               |
|---|----------------------------|------------|--------------|-----------|--------------|---------------|
|   | North America              | Europe     | Asia Pacific | China     | Eliminations | Consolidation |
| Net sales                                 | \$ 69,841                  | \$ 48,424  | \$ 18,860    | \$ 12,978 | \$           | \$ 150,103    |
| Transfers between areas                   | 9,467                      | 443        | 63           | 6,681     | (16,654)     |               |
| Net sales and transfers                   | \$ 79,308                  | \$ 48,867  | \$ 18,923    | \$ 19,659 | \$ (16,654)  | \$ 150,103    |
| Gross profit                              | \$ 24,542                  | \$ 7,614   | \$ 4,491     | \$ 6,054  |              | \$ 42,701     |
| Selling and administrative                | 11,646                     | 7,994      | 2,459        | 1,391     |              | 23,490        |
| Loss (gain) on disposition of assets, net | 19                         | (14)       | (11)         | 36        |              | 30            |
| Amortization                              | 587                        | 80         |              |           |              | 667           |
| Operating income (loss)                   | \$ 12,290                  | \$ (446)   | \$ 2,043     | \$ 4,627  |              | \$ 18,514     |
| Total assets                              | \$ 237,700                 | \$ 148,816 | \$ 49,583    | \$ 56,306 |              | \$ 492,405    |
| Property, plant and equipment, net        | \$ 34,748                  | \$ 41,048  | \$ 7,343     | \$ 19,939 |              | \$ 103,078    |
| Capital expenditures                      | \$ 1,859                   | \$ 2,330   | \$ 707       | \$ 1,240  |              | \$ 6,136      |
| Depreciation expense                      | \$ 1,630                   | \$ 1,400   | \$ 127       | \$ 452    |              | \$ 3,609      |

| 2007                                      | Three Months Ended July 31 |            |              |           |              |               |
|---|----------------------------|------------|--------------|-----------|--------------|---------------|
|   | North America              | Europe     | Asia Pacific | China     | Eliminations | Consolidation |
| Net sales                                 | \$ 74,569                  | \$ 43,418  | \$ 15,091    | \$ 10,105 | \$           | \$ 143,183    |
| Transfers between areas                   | 8,594                      | 373        | 28           | 3,890     | (12,885)     |               |
| Net sales and transfers                   | \$ 83,163                  | \$ 43,791  | \$ 15,119    | \$ 13,995 | \$ (12,885)  | \$ 143,183    |
| Gross profit                              | \$ 29,041                  | \$ 7,924   | \$ 3,582     | \$ 4,739  |              | \$ 45,286     |
| Selling and administrative                | 12,556                     | 6,428      | 2,100        | 970       |              | 22,054        |
| Loss (gain) on disposition of assets, net | (1,120)                    |            | (17)         |           |              | (1,137)       |
| Amortization                              | 639                        | 209        |              | (4)       |              | 844           |
| Operating income                          | \$ 16,966                  | \$ 1,287   | \$ 1,499     | \$ 3,773  |              | \$ 23,525     |
| Total assets                              | \$ 231,601                 | \$ 122,083 | \$ 36,753    | \$ 42,056 |              | \$ 432,493    |
| Property, plant and equipment, net        | \$ 33,752                  | \$ 35,848  | \$ 1,953     | \$ 16,417 |              | \$ 87,970     |
| Capital expenditures                      | \$ 1,947                   | \$ 543     | \$ 262       | \$ 1,105  |              | \$ 3,857      |
| Depreciation expense                      | \$ 1,740                   | \$ 1,235   | \$ 98        | \$ 337    |              | \$ 3,410      |

| 2008                                      | Six Months Ended July 31 |           |              |           |              |               |
|---|--------------------------|-----------|--------------|-----------|--------------|---------------|
|   | North America            | Europe    | Asia Pacific | China     | Eliminations | Consolidation |
| Net sales                                 | \$ 139,161               | \$ 97,760 | \$ 38,040    | \$ 25,009 | \$           | \$ 299,970    |
| Transfers between areas                   | 17,186                   | 1,024     | 146          | 12,831    | (31,187)     |               |
| Net sales and transfers                   | \$ 156,347               | \$ 98,784 | \$ 38,186    | \$ 37,840 | \$ (31,187)  | \$ 299,970    |
| Gross profit                              | \$ 48,793                | \$ 15,006 | \$ 9,605     | \$ 11,645 |              | \$ 85,049     |
| Selling and administrative                | 24,395                   | 15,625    | 4,798        | 2,478     |              | 47,296        |
| Loss (gain) on disposition of assets, net | 139                      | (15)      | (14)         | 35        |              | 145           |
| Amortization                              | 1,184                    | 158       |              |           |              | 1,342         |
| Operating income (loss)                   | \$ 23,075                | \$ (762)  | \$ 4,821     | \$ 9,132  |              | \$ 36,266     |
| Capital expenditures                      | \$ 3,405                 | \$ 3,582  | \$ 905       | \$ 2,147  |              | \$ 10,039     |
| Depreciation expense                      | \$ 3,323                 | \$ 2,748  | \$ 258       | \$ 880    |              | \$ 7,209      |

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| 2007   | Six Months Ended July 31 |           |              |           |              |            | Consolidation |
|--|--------------------------|-----------|--------------|-----------|--------------|------------|---------------|
|  | North America            | Europe    | Asia Pacific | China     | Eliminations |            |               |
| Net sales                                    | \$ 145,951               | \$ 85,022 | \$ 28,886    | \$ 18,824 | \$           | \$ 278,683 |               |
| Transfers between areas                      | 16,903                   | 697       | 98           | 6,559     | (24,257)     |            |               |
| Net sales and transfers                      | \$ 162,854               | \$ 85,719 | \$ 28,984    | \$ 25,383 | \$ (24,257)  | \$ 278,683 |               |
| Gross profit                                 | \$ 57,197                | \$ 15,529 | \$ 7,179     | \$ 8,610  |              | \$ 88,515  |               |
| Selling and administrative                   | 24,875                   | 12,541    | 4,003        | 1,767     |              | 43,186     |               |
| Loss (gain) on disposition<br>of assets, net | (1,194)                  | 8         | (17)         | 31        |              | (1,172)    |               |
| Amortization                                 | 1,227                    | 414       |              | 1         |              | 1,642      |               |
| Insurance litigation<br>recovery, net        | (15,977)                 |           |              |           |              | (15,977)   |               |
| Operating income                             | \$ 48,266                | \$ 2,566  | \$ 3,193     | \$ 6,811  |              | \$ 60,836  |               |
| Capital expenditures                         | \$ 3,501                 | \$ 1,361  | \$ 449       | \$ 3,795  |              | \$ 9,106   |               |
| Depreciation expense                         | \$ 3,650                 | \$ 2,460  | \$ 197       | \$ 582    |              | \$ 6,889   |               |

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**Note 4 Inventories**

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During the six months ended July 31, 2008, inventories increased due to fluctuations in foreign currencies, material price increases and large volume purchases of raw materials made in advance of price increases. Inventories stated at the lower of average cost or market are presented below by major class (in thousands):

|                              | <b>July 31<br/>2008</b> | <b>January 31<br/>2008</b> |
|------------------------------|-------------------------|----------------------------|
| Finished goods               | \$ 33,906               | \$ 31,618                  |
| Raw materials and components | 66,681                  | 53,431                     |
|                              | <b>\$ 100,587</b>       | <b>\$ 85,049</b>           |

### Note 5 Goodwill

During the six months ended July 31, 2008, goodwill decreased due to fluctuations in foreign currencies. We have no goodwill recorded in China. The following table provides a breakdown of goodwill by geographic region (in thousands):

|               | <b>July 31<br/>2008</b> | <b>January 31<br/>2008</b> |
|---------------|-------------------------|----------------------------|
| North America | \$ 102,508              | \$ 103,965                 |
| Europe        | 12,399                  | 11,893                     |
| Asia Pacific  | 2,957                   | 2,968                      |
|               | <b>\$ 117,864</b>       | <b>\$ 118,826</b>          |

### Note 6 Share-Based Compensation Plans



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We have granted three types of share-based awards, stock appreciation rights (SARS), restricted stock and stock options, under our share-based compensation plans to officers, key managers and directors. The grant prices are established by our Board of Directors Compensation Committee based on the end of day market price of our common stock on the grant date. 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.

During the second quarter of fiscal 2008, our shareholders approved a proposal to amend the SARS plan to permit the issuance of restricted shares of common stock. Upon the granting of restricted stock, common shares are issued to the recipient, but the shares may not be sold, assigned, transferred, pledged, or disposed of by the recipient until vested. Regardless of vesting, restricted shares have full voting rights and any dividends declared will be paid to the restricted stock recipient. Restricted shares vest ratably over a period of three years for officers and four years for directors. The number of restricted shares issued to directors is based on the market value of our shares on the date of grant.

The amended 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, 2008, a total of 246,000 shares of common stock have been issued under the SARS plan, which includes a total of 65,000 shares of restricted stock.

Stock options provide the holder the right to receive our common shares at an established price. We have reserved 1,400,000 shares of common stock under our stock option plan. As of July 31, 2008, a total of 1,090,000 shares have been issued upon the exercise of stock options. No additional stock options can be granted under the terms of the plan. All outstanding stock options vest ratably over a four year period and have a term of ten years.



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A summary of the plans' status at July 31, 2008 together with changes during the six months then ended are 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, 2008 | 286                | \$ 13.39                                  | 815                       | \$ 34.84                                  |
| Granted                     |                    |   | 47                        | 44.24                                     |
| Exercised                   | (7)                | 18.60                                     |                           |   |
| Forfeited                   |                    |   | (56)                      | 41.16                                     |
| Balance at July 31, 2008    | 279                | \$ 13.26                                  | 806                       | \$ 34.95                                  |

|   | Restricted Stock Awards |  |
|---|-------------------------|--|
|   | Number of Shares        | Weighted Average Grant Date Fair Value Per Share |
| Unvested restricted stock at January 31, 2008 | 42                      | \$ 73.73   |
| Granted                                       | 23                      | 44.24  |
| Vested  | (14)                    | 73.73  |
| Forfeited                                     |                         |  |
| Unvested restricted stock at July 31, 2008    | 51                      | \$ 60.51   |

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 2009 | Granted Prior to Fiscal 2009 |
|--|------------------------|------------------------------|
| Risk-free interest rate                      | 3.5%                   | 2.3 - 5.1%                   |
| Expected volatility                          | 41%                    | 40 - 42%                     |
| Expected dividend yield                      | 1.8%                   | 1.0 - 2.8%                   |
| Expected life (in years)                     | 7                      | 5 - 7                        |
| Weighted average fair value at date of grant | \$ 17.57               | \$ 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, 2008.



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As of July 31, 2008, there was \$7.8 million of total unrecognized compensation cost related to nonvested share-based compensation awards granted under the plans, which is expected to be recognized over a weighted average period of 2.2 years. The following table represents as of July 31, 2008 the share-based compensation costs to be recognized in future periods (in thousands) for awards granted to date:

| Fiscal Year | Amount   |
|-------------|----------|
| 2009*       | \$ 2,302 |
| 2010        | 3,336    |
| 2011        | 1,527    |
| 2012        | 528      |
| 2013        | 93       |
|             | \$ 7,786 |

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\* Represents last six months of fiscal 2009.

*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 estimate at this time the amount of any additional loss or range of loss that is reasonably possible.

Our specific environmental matters consist of the following:

Fairview, Oregon



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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 \$4.4 million and \$4.8 million at July 31, 2008 and January 31, 2008, respectively.

Springfield, Ohio





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In 1994, we entered into a consent order with the Ohio Environmental Protection Agency, which required the installation of remediation systems for the cleanup of groundwater contamination at our Springfield, Ohio facility. The current estimate is that the remediation activities will continue through 2013. The recorded liability for ongoing remediation activities in Springfield was \$831,000 at July 31, 2008 and \$900,000 at January 31, 2008.

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Insurance Litigation



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On April 9, 2007, we entered into a settlement agreement with Employers Reinsurance Corporation with respect to litigation to recover various expenses incurred in connection with environmental and related proceedings. The recovery from the settlement, recorded during the three months ended April 30, 2007, was \$16.0 million, net of expenses. In connection with the settlement, we released all rights we might have under insurance policies issued by Employers Reinsurance Corporation and certain related entities. This concluded all litigation against our insurance companies with regard to environmental matters.

### **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**



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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 |           |
|---|----------------------------|-----------|--------------------------|-----------|
|   | 2008                       | 2007      | 2008                     | 2007      |
| <b>Basic earnings per share:</b>                            |                            |           |                          |           |
| Net income  | \$ 10,495                  | \$ 15,144 | \$ 21,353                | \$ 38,940 |
| Weighted average shares of common stock outstanding         | 10,793                     | 11,930    | 10,788                   | 11,948    |
|   | \$ 0.97                    | \$ 1.27   | \$ 1.98                  | \$ 3.26   |
| <b>Diluted earnings per share:</b>                          |                            |           |                          |           |
| Net income  | \$ 10,495                  | \$ 15,144 | \$ 21,353                | \$ 38,940 |
| Weighted average shares of common stock outstanding         | 10,793                     | 11,930    | 10,788                   | 11,948    |
| Dilutive effect of stock awards                             | 316                        | 549       | 321                      | 565       |
| Diluted weighted average shares of common stock outstanding | 11,109                     | 12,479    | 11,109                   | 12,513    |
|   | \$ 0.94                    | \$ 1.21   | \$ 1.92                  | \$ 3.11   |

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 104,000 awards and unvested restricted stock totaling 26,000 shares were excluded from the fiscal 2009 three months and six months calculations of diluted earnings per share because they were antidilutive. The remaining SARS and restricted stock and all stock options were included in our calculation of incremental shares because they are dilutive.

Table of Contents**Note 9 Supplemental Cash Flow Information**

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

|   | <b>For the Six Months Ended July 31</b> |             |
|---|---|-------------|
|   | <b>2008</b>                             | <b>2007</b> |
| <b>Cash paid during the period for:</b>                 |   |             |
| Interest  | \$ 2,418                                | \$ 1,915    |
| Income taxes  | \$ 10,809                               | \$ 16,664   |
| <b>Supplemental disclosure of investing activities:</b> |   |             |
| <b>Business acquisitions:</b>                           |   |             |
| Accounts receivable and other assets                    | \$                                      | \$ 935      |
| Inventories   |   | 818         |
| Property, plant and equipment                           |   | 296         |
| Goodwill  |   | 6,423       |
| Intangible asset - customer relationships               |   | 5,400       |
| Intangible asset - intellectual property and other      |   | 1,900       |
| Accounts payable and other liabilities assumed          |   | (708)       |
| Notes payable assumed                                   |   | (931)       |
| Deferred income tax                                     |   | (2,604)     |
| Net cash paid for acquisitions                          | \$                                      | \$ 11,529   |

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**Note 10 Benefit Plans**





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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):

|                                   | <b>Defined Benefit</b>            |              | <b>Postretirement Benefit</b>     |               |
|-----------------------------------|-----------------------------------|--------------|-----------------------------------|---------------|
|                                   | <b>Three Months Ended July 31</b> |              | <b>Three Months Ended July 31</b> |               |
|                                   | <b>2008</b>                       | <b>2007</b>  | <b>2008</b>                       | <b>2007</b>   |
| <b>Net periodic benefit cost:</b> |                                   |              |                                   |               |
| Service cost                      | \$ 6                              | \$ 15        | \$ 26                             | \$ 30         |
| Interest cost                     | 146                               | 131          | 108                               | 106           |
| Expected return on plan assets    | (131)                             | (127)        |                                   |               |
| Recognized prior service cost     |                                   |              | (19)                              | (19)          |
| Recognized net actuarial loss     | 23                                | 22           | 1                                 | 48            |
|                                   | <b>\$ 44</b>                      | <b>\$ 41</b> | <b>\$ 116</b>                     | <b>\$ 165</b> |

|                                   | <b>Defined Benefit</b>          |              | <b>Postretirement Benefit</b>   |               |
|-----------------------------------|---------------------------------|--------------|---------------------------------|---------------|
|                                   | <b>Six Months Ended July 31</b> |              | <b>Six Months Ended July 31</b> |               |
|                                   | <b>2008</b>                     | <b>2007</b>  | <b>2008</b>                     | <b>2007</b>   |
| <b>Net periodic benefit cost:</b> |                                 |              |                                 |               |
| Service cost                      | \$ 12                           | \$ 29        | \$ 52                           | \$ 60         |
| Interest cost                     | 293                             | 260          | 216                             | 211           |
| Expected return on plan assets    | (262)                           | (252)        |                                 |               |
| Recognized prior service cost     |                                 |              | (38)                            | (38)          |
| Recognized net actuarial loss     | 46                              | 44           | 2                               | 96            |
|                                   | <b>\$ 89</b>                    | <b>\$ 81</b> | <b>\$ 232</b>                   | <b>\$ 329</b> |

### Note 11 Recent Accounting Pronouncements

**SFAS 157** - In September 2006, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 157 (SFAS 157), Fair Value Measurements. SFAS 157 provides a common definition of fair value, establishes a framework for measuring fair value and expands the related disclosure requirements. In February 2008, the FASB issued final Staff Positions that will (1) defer the effective date of this statement for one year for certain nonfinancial assets and nonfinancial liabilities and (2) remove certain leasing transactions from the scope of the statement. We applied SFAS 157 to all other fair value measurements effective February 1, 2008. The adoption of SFAS 157 did not have a material impact on our financial statements.

**FSP 157-2** In February 2008, the FASB issued FASB Staff Position on Statement 157, Effective Date of FASB Statement No. 157 (FSP 157-2). FSP 157-2 delays the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed on a recurring basis, to fiscal years beginning after November 15, 2008. Our significant nonfinancial assets and liabilities that could be impacted by this deferral include assets and liabilities initially measured at fair value in a business combination and goodwill tested annually for impairment. FSP 157-2 will become effective for the fiscal year beginning February 1, 2009. We are currently evaluating the impact of the adoption of FSP 157-2 on our financial statements.

**SFAS 159** - In February 2007, the FASB issued SFAS No. 159 (SFAS 159), The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115. SFAS 159 allows companies the choice to measure many financial instruments and certain other items at fair value. Application of SFAS 159 was required for our financial statements beginning February 1, 2008. The adoption of SFAS 159 did not have a material impact on our financial statements.

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**SFAS 141(R) & SFAS 160** In December 2007, the FASB issued SFAS No. 141(R) (SFAS 141(R)), Business Combinations, and SFAS No. 160 (SFAS 160), Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51. SFAS 141(R) requires the acquiring entity in a business combination to recognize the assets acquired and liabilities assumed. Further, SFAS 141(R) also changes the accounting for acquired in-process research and development assets, contingent consideration, partial acquisitions and transaction costs. Under SFAS 160, all entities are required to report noncontrolling (minority) interests in subsidiaries as equity in the consolidated financial statements. In addition, transactions between an entity and noncontrolling interests will be treated as equity transactions. SFAS 141(R) and SFAS 160 will become effective for business combinations for which the acquisition date is on or after February 1, 2009. We are currently evaluating the impact of the adoption of these standards on our financial statements.

**SFAS 161** In March 2008, the FASB issued SFAS No. 161 (SFAS 161), Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133. SFAS 161 expands disclosures for derivative instruments by requiring entities to disclose the fair value of derivative instruments and their gains or losses in tabular format. SFAS 161 also requires disclosure of information about credit risk-related contingent features in derivative agreements, counterparty credit risk, and strategies and objectives for using derivative instruments. SFAS 161 will become effective for fiscal years beginning after November 15, 2008. We will adopt this new accounting standard on February 1, 2009. We are currently evaluating the impact of the adoption of this standard on our financial statements.

**SFAS 162** In May 2008, the FASB issued SFAS No. 162 (SFAS 162), The Hierarchy of Generally Accepted Accounting Principles. SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. SFAS 162 will become effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. We do not expect any changes to our financial accounting and reporting as a result of the adoption of this standard.

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**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):

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|  | 2008 |         | 2007 |         |
|--|------|---------|------|---------|
| Balance at January 31                            | \$   | 1,900   | \$   | 1,754   |
| Accruals for warranties issued during the period |      | 1,041   |      | 1,179   |
| Settlements during the period                    |      | (1,302) |      | (1,214) |
| Balance at July 31                               | \$   | 1,639   | \$   | 1,719   |

**Note 13 Accumulated Other Comprehensive Income**

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The following table presents the changes in and the components of accumulated other comprehensive income (in thousands):

|                             | Accumulated Other Comprehensive Income (Loss) |                           |         |            | Total  |
|-----------------------------|---|---------------------------|---------|------------|--------|
|                             | Translation Adjustment                        | Minimum Pension Liability |         | Adjustment |        |
| Balance at January 31, 2008 | \$ 37,492                                     | \$                        | (1,819) | \$         | 35,673 |
| Translation adjustment      | 2,098   |                           |         |            | 2,098  |
| Balance at July 31, 2008    | \$ 39,590                                     | \$                        | (1,819) | \$         | 37,771 |

### Note 14 Income Taxes

As of July 31, 2008 our liability for uncertain tax positions under FASB Interpretation No. 48 (FIN 48) was \$1.2 million. There were no material changes in unrecognized tax benefits during the current period. The reserve for unrecognized tax benefits as of July 31, 2008 included an accrual for interest and penalties of \$166,000.

We are subject to taxation primarily in the U.S., Canada and China, as well as various state and other foreign jurisdictions. The Internal Revenue Service (IRS) is currently reviewing our U.S. income tax return for fiscal years 2004 - 2007. The IRS has proposed an adjustment of \$5 million related to interest deductions reported on tax returns for the 2004 and 2005 tax years. These adjustments would result in an additional federal and state tax liability of approximately \$1.8 million. We are in the process of appealing the issue with the IRS and have determined that we will more-likely-than-not prevail on the issue. No amount has been recorded in our financial statements as of July 31, 2008 related to this matter. As of July 31, 2008, we remain subject to examination in various state and foreign jurisdictions for the 1998-2007 tax years.

### Note 15 - Gain on Sale of Assets

During the second quarter of fiscal 2008, we recognized a \$1.1 million gain on the sale of land in Fairview, Oregon.

### Note 16 Acquisitions

During the second quarter of fiscal 2008, we purchased 100% of the stock of American Compaction Equipment, Inc., a manufacturer of construction attachments located in San Juan Capistrano, California. The total purchase price was approximately \$11.5 million, net of assumed liabilities. Results of operations for American Compaction Equipment, Inc. have been included in our consolidated statement of income since the acquisition date of May 1, 2007.

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

Our businesses globally manufacture and distribute material handling load engagement products primarily for the lift truck industry and to a lesser extent the construction industry. We operate in four geographic segments: North America, Europe, Asia Pacific and China. All references to fiscal periods are defined as the period ended July 31, 2007 (fiscal 2008) and the period ended July 31, 2008 (fiscal 2009).

**RECENT TRENDS AND DEVELOPMENTS AFFECTING OUR RESULTS**

**European Business**

Our European business continues to provide both the biggest opportunity for improvement and the biggest challenge facing our company. Below is an update on previously reported trends and activities impacting our European business:

- The operational review of our entire European business, which includes among other things a rationalization of production capacity, is continuing. The steps to reduce our workforce in Almere, The Netherlands and to transfer the production of certain products to Verona, Italy have been completed. We incurred severance and other costs of approximately \$135,000 and \$510,000 in the second quarter and first six months of fiscal 2009, respectively, related to these activities. We are still evaluating other operational and reorganization changes which may result in additional costs.
- We are continuing to import Chinese-made products into Europe and distribution of these products is expanding. We are still working to obtain certain OEM approvals.
- We are aggressively working to lower our material costs through global sourcing from both internal and external suppliers and particularly from our own factories in North America.
- Our efforts to transition our European factories to our North American operating model and fully implement Lean Principles throughout the organization are continuing.

We believe we will see gradual improvements over time as a result of the reorganization that is in process. Improving operational performance in Europe, the world's largest lift truck market, remains our top priority.



**Material Cost Increases**

We continue to feel the pressures of increasing material costs globally. The following are some of the activities and initiatives underway to mitigate the cost increases:

- We have implemented sales price increases. Further sales price increases or surcharges may be necessary during the remainder of the year.
- We continue our efforts to lower our material costs by sourcing from alternative suppliers or purchasing larger volumes ahead of scheduled price increases. This is reflected in the increase in our overall inventory balances in the last six months. Over the long term we expect inventory levels to decrease as material costs stabilize.
- We are working to create efficiencies by improving our internal processes in manufacturing and administration that we believe will ultimately result in lower operation costs.

Table of Contents**COMPARISON OF SECOND QUARTER OF FISCAL 2009 AND FISCAL 2008****Executive Summary**

|                            | Three Months Ended July 31              |            | Change     | Change % |
|----------------------------|---|------------|------------|----------|
|                            | 2008                                    | 2007       |            |          |
|                            | (In thousands except per share amounts) |            |            |          |
| Net sales                  | \$ 150,103                              | \$ 143,183 | \$ 6,920   | 5%       |
| Operating income           | \$ 18,514                               | \$ 23,525  | \$ (5,011) | (21)%    |
| Net income                 | \$ 10,495                               | \$ 15,144  | \$ (4,649) | (31)%    |
| Diluted earnings per share | \$ 0.94                                 | \$ 1.21    | \$ (0.27)  | (22)%    |

The following are financial highlights for the second quarter of fiscal 2009:

- During the current year we posted higher levels of consolidated net sales primarily as a result of the impact of foreign currency changes. Net sales, excluding the impact of foreign currencies, decreased 1% during fiscal 2009. Lower sales volumes in North America and Europe offset the strength of markets in Asia Pacific and China. Global lift truck shipments increased 9% compared to the prior year.
- Our consolidated gross profit percentage decreased to 28% in fiscal 2009 from 32% in fiscal 2008 primarily as a result of significant material price increases experienced in all geographic segments, production inefficiencies in Europe and lower sales volumes. The current quarter gross profit percentage is consistent with the first quarter of fiscal 2009.

**North America**

|  | 2008      | Three Months Ended July 31 |           | %    | Change     | Change % |
|--|-----------|----------------------------|-----------|------|------------|----------|
|  |           |                            | 2007      |      |            |          |
|  |           | (In thousands)             |           |      |            |          |
| Net sales                                    | \$ 69,841 | 88%                        | \$ 74,569 | 90%  | \$ (4,728) | (6)%     |
| Transfers between areas                      | 9,467     | 12%                        | 8,594     | 10%  | 873        | 10%      |
| Net sales and transfers                      | 79,308    | 100%                       | 83,163    | 100% | (3,855)    | (5)%     |
| Cost of goods sold                           | 54,766    | 69%                        | 54,122    | 65%  | 644        | 1%       |
| Gross profit                                 | 24,542    | 31%                        | 29,041    | 35%  | (4,499)    | (15)%    |
| Selling and administrative                   | 11,646    | 15%                        | 12,556    | 15%  | (910)      | (7)%     |
| Loss (gain) on disposition<br>of assets, net | 19        |                            | (1,120)   | (1)% | 1,139      |          |
| Amortization                                 | 587       | 1%                         | 639       | 1%   | (52)       | (8)%     |

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|                  |    |        |     |    |        |     |    |         |       |
|------------------|----|--------|-----|----|--------|-----|----|---------|-------|
| Operating income | \$ | 12,290 | 15% | \$ | 16,966 | 20% | \$ | (4,676) | (28)% |
|------------------|----|--------|-----|----|--------|-----|----|---------|-------|

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

|                          |    | Amount  | Change % |
|--------------------------|----|---------|----------|
| Net sales decline        | \$ | (5,179) | (7)%     |
| Foreign currency changes |    | 451     | 1%       |
| Total                    | \$ | (4,728) | (6)%     |

The following are financial highlights for North America for the second quarter of fiscal 2009. All percentage comparisons to the prior year exclude the impact of foreign currencies:

- Net sales decreased 7% primarily as a result of lower sales volumes due to the downturn in the construction market. Second quarter North America lift truck industry shipments from 2008 to 2009 decreased 13%. We have found that lift truck industry statistics provide an indication of the direction of our business activity. However, changes in our net sales do not correspond directly to the percentage changes in lift truck industry shipments, because certain industry sectors of the economy use our products more than others.

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- Our gross profit percentage decreased 4% during fiscal 2009, due to higher material costs, changes in product mix, lower sales volumes and other cost increases. The current quarter gross profit percentage is consistent with the first quarter of fiscal 2009.
- Selling and administrative costs decreased 8% during the current year due to a reduction in personnel, consulting and other general costs.
- During the second quarter of fiscal 2008, we realized a \$1.1 million pre-tax gain on the sale of land in Fairview, Oregon.

**Europe**

|                                    | 2008           | Three Months Ended July 31 |           | %    | Change     | Change % |
|------------------------------------|----------------|----------------------------|-----------|------|------------|----------|
|                                    |                | %                          | 2007      |      |            |          |
|                                    | (In thousands) |                            |           |      |            |          |
| Net sales                          | \$ 48,424      | 99%                        | \$ 43,418 | 99%  | \$ 5,006   | 12%      |
| Transfers between areas            | 443            | 1%                         | 373       | 1%   | 70         | 19%      |
| Net sales and transfers            | 48,867         | 100%                       | 43,791    | 100% | 5,076      | 12%      |
| Cost of goods sold                 | 41,253         | 84%                        | 35,867    | 82%  | 5,386      | 15%      |
| Gross profit                       | 7,614          | 16%                        | 7,924     | 18%  | (310)      | (4)%     |
| Selling and administrative         | 7,994          | 17%                        | 6,428     | 15%  | 1,566      | 24%      |
| Gain on disposition of assets, net | (14)           |                            |           |      | (14)       |          |
| Amortization                       | 80             |                            | 209       |      | (129)      | (62)%    |
| Operating income (loss)            | \$ (446)       | (1)%                       | \$ 1,287  | 3%   | \$ (1,733) | (135)%   |

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

|                          | Amount   | Change % |
|--------------------------|----------|----------|
| Net sales decline        | \$ (651) | (1)%     |
| Foreign currency changes | 5,657    | 13%      |
| Total                    | \$ 5,006 | 12%      |

The following summarizes Europe's financial results for the second quarter of fiscal 2009. All percentage comparisons to the prior year exclude the impact of foreign currencies:

- Net sales decreased 1%. Lift truck industry shipments increased 14% in the current year. Given current industry statistics, we may have lost some market share in Europe. Delivery delays also factored into our lower sales.

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- The 2% decrease in current year gross profit percentage is primarily due to material price increases and operational inefficiencies.
- Selling and administrative expenses increased 10%, because of higher marketing and reorganization costs.

Table of Contents**Asia Pacific**

|                                    | 2008      | Three Months Ended July 31 |                | %    | Change   | Change % |
|------------------------------------|-----------|----------------------------|----------------|------|----------|----------|
|                                    |           |                            | (In thousands) |      |          |          |
| Net sales                          | \$ 18,860 | 100%                       | \$ 15,091      | 100% | \$ 3,769 | 25%      |
| Transfers between areas            | 63        |                            | 28             |      | 35       | 125%     |
| Net sales and transfers            | 18,923    | 100%                       | 15,119         | 100% | 3,804    | 25%      |
| Cost of goods sold                 | 14,432    | 76%                        | 11,537         | 76%  | 2,895    | 25%      |
| Gross profit                       | 4,491     | 24%                        | 3,582          | 24%  | 909      | 25%      |
| Selling and administrative         | 2,459     | 13%                        | 2,100          | 14%  | 359      | 17%      |
| Gain on disposition of assets, net | (11)      |                            | (17)           |      | 6        |          |
| Operating income                   | \$ 2,043  | 11%                        | \$ 1,499       | 10%  | \$ 544   | 36%      |

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

|                          | Amount   | Change % |
|--------------------------|----------|----------|
| Net sales growth         | \$ 2,717 | 18%      |
| Foreign currency changes | 1,052    | 7%       |
| Total                    | \$ 3,769 | 25%      |

The following are financial highlights for Asia Pacific for the second quarter of fiscal 2009. All percentage comparisons to the prior year exclude the impact of foreign currencies:

- Net sales increased 18% due to higher shipping volumes as a result of strong lift truck markets and our initiative to produce a wider selection of products in China for sale in this region. Lift truck industry shipments in Asia Pacific increased 10% in fiscal 2009 compared to fiscal 2008.
- Our gross profit percentage in Asia Pacific remained consistent at 24%. The benefits of sourcing lower cost product from China helped mitigate other material cost increases.
- Selling and administrative costs increased 8% due to higher personnel and selling expenses. However, as a percentage of net sales and transfers, selling and administrative costs decreased from 14% in fiscal 2008 to 13% in fiscal 2009.

**China**

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|                                    | 2008      | Three Months Ended July 31 |                | %    | Change   | Change % |
|------------------------------------|-----------|----------------------------|----------------|------|----------|----------|
|                                    |           |                            | (In thousands) |      |          |          |
| Net sales                          | \$ 12,978 | 66%                        | \$ 10,105      | 72%  | \$ 2,873 | 28%      |
| Transfers between areas            | 6,681     | 34%                        | 3,890          | 28%  | 2,791    | 72%      |
| Net sales and transfers            | 19,659    | 100%                       | 13,995         | 100% | 5,664    | 40%      |
| Cost of goods sold                 | 13,605    | 69%                        | 9,256          | 66%  | 4,349    | 47%      |
| Gross profit                       | 6,054     | 31%                        | 4,739          | 34%  | 1,315    | 28%      |
| Selling and administrative         | 1,391     | 7%                         | 970            | 7%   | 421      | 43%      |
| Loss on disposition of assets, net | 36        |                            |                |      | 36       |          |
| Amortization                       |           |                            | (4)            |      | 4        |          |
| Operating income                   | \$ 4,627  | 24%                        | \$ 3,773       | 27%  | \$ 854   | 23%      |

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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 growth         | \$ 1,806 | 18%      |
| Foreign currency changes | 1,067    | 10%      |
| Total                    | \$ 2,873 | 28%      |

The following are financial highlights for China for the second quarter of fiscal 2009. All percentage comparisons to the prior year exclude the impact of foreign currencies:

- Net sales increased 18% as a result of our capacity expansion in China and the growth in the lift truck industry. Lift truck industry shipments in China have increased 19% in the current year. While we believe we have maintained our market share, we are continuing to see increased competition from Chinese competitors in the lift truck attachment business.
- Transfers to other Cascade geographic areas increased during fiscal 2009 due to the export of Chinese-made products to Europe and Asia Pacific.
- The gross profit percentage decreased 3% due to material price increases, changes in product mix and higher intercompany transfers, which carry lower gross margins.
- Selling and administrative costs increased 33%, due to consulting and other additional costs to support our expanded operations in China. As a percentage of net sales and transfers, selling and administrative costs remained consistent at 7% during fiscal 2008 and 2009.

**Non-Operating Items**

The following are financial highlights for non-operating items during the second quarter of fiscal 2009:

- Interest expense increased \$188,000 during fiscal 2009 primarily due to additional borrowings as a result of our share repurchase program, our inventory increase and European operating loss. This was offset by a lower effective interest rate during the current year.
- The effective tax rate increased from 33% in the prior year to 38% in the second quarter of fiscal 2009. The change was primarily related to an increase in valuation allowances for pre-tax losses in Europe. Valuation allowances increased \$755,000 and \$268,000 in the second quarter of 2009 and 2008, respectively.



**Lift Truck Market Outlook**

Based on our review of preliminary industry data we believe the general lift truck market outlook for the remainder of fiscal 2009 is as follows:

- The market in North America is expected to be down 10-15% compared to the prior year, which is consistent with the second quarter's shipments.
- Europe's shipment levels for the remainder of the year are expected to be similar or down slightly in comparison with the second quarter.
- We expect the growth rate in the Asia Pacific market will be consistent with the second quarter.
- The market in China is expected to grow at a rate similar to that experienced in the second quarter of fiscal 2009.

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 a part of this Form 10-Q and is not incorporated by reference.

Table of Contents**COMPARISON OF THE FIRST SIX MONTHS OF FISCAL 2009 AND FISCAL 2008****Executive Summary**

|                            | <b>Six Months Ended July 31</b>                |             |               |                 |
|----------------------------|--|-------------|---------------|-----------------|
|                            | <b>2008</b>                                    | <b>2007</b> | <b>Change</b> | <b>Change %</b> |
|                            | <b>(In thousands except per share amounts)</b> |             |               |                 |
| Net sales                  | \$ 299,970                                     | \$ 278,683  | \$ 21,287     | 8%              |
| Operating income           | \$ 36,266                                      | \$ 60,836   | \$ (24,570)   | (40)%           |
| Net income                 | \$ 21,353                                      | \$ 38,940   | \$ (17,587)   | (45)%           |
| Diluted earnings per share | \$ 1.92  | \$ 3.11     | \$ (1.19)     | (38)%           |

During the first quarter of fiscal 2008 we settled an insurance litigation matter which accounted for a \$16 million increase to operating income and a \$10 million after tax increase to net income. We believe the exclusion of the insurance litigation recovery provides a more appropriate comparison with the current year results:

|  | <b>Six Months Ended July 31</b>                |             |               |                 |
|--|--|-------------|---------------|-----------------|
|  | <b>2008</b>                                    | <b>2007</b> | <b>Change</b> | <b>Change %</b> |
|  | <b>(In thousands except per share amounts)</b> |             |               |                 |
| <b>Net of insurance litigation recovery:</b> |  |             |               |                 |
| Operating income                             | \$ 36,266                                      | \$ 44,859   | \$ (8,593)    | (19)%           |
| Net income                                   | \$ 21,353                                      | \$ 28,914   | \$ (7,561)    | (26)%           |
| Diluted earnings per share                   | \$ 1.92  | \$ 2.31     | \$ (0.39)     | (17)%           |

The calculation of operating income, net income and diluted earnings per share, excluding the insurance litigation recovery settlement is as follows (in thousands, except per share amounts):

|   | <b>Six months ended<br/>July 31, 2007</b> |
|---|---|
| Operating income as reported  | \$ 60,836                                 |
| Less: insurance litigation recovery                                 | (15,977)                                  |
| Adjusted operating income, excluding insurance litigation recovery  | \$ 44,859                                 |
| Net income as reported  | \$ 38,940                                 |
| Less: insurance litigation recovery, net of income taxes of \$5,951 | (10,026)                                  |
| Adjusted net income, excluding insurance litigation recovery        | \$ 28,914                                 |
| Diluted weighted average shares outstanding                         | 12,513                                    |
| Diluted earnings per share, excluding insurance litigation recovery | \$ 2.31                                   |

The following are financial highlights for the first six months of fiscal 2009:

- During the current year we posted higher levels of consolidated net sales as a result of the impact of foreign currency changes and the strength of markets in Asia Pacific, China and Europe. Net sales, excluding the impact of foreign currencies, increased 1% during fiscal 2009. Global lift truck shipments increased 12% compared to fiscal 2008.
- Our consolidated gross profit percentage decreased to 28% in fiscal 2009 from 32% in fiscal 2008 primarily as a result of significant material price increases experienced in all geographic segments, production inefficiencies in Europe and lower sales volumes due to the general downturn in the United States economy.

Table of Contents**North America**

|   | 2008       | Six Months Ended July 31 |            | %     | Change      | Change % |
|---|------------|--------------------------|------------|-------|-------------|----------|
|   |            | %                        | 2007       |       |             |          |
| (In thousands)                            |            |                          |            |       |             |          |
| Net sales                                 | \$ 139,161 | 89%                      | \$ 145,951 | 90%   | \$ (6,790)  | (5)%     |
| Transfers between areas                   | 17,186     | 11%                      | 16,903     | 10%   | 283         | 2%       |
| Net sales and transfers                   | 156,347    | 100%                     | 162,854    | 100%  | (6,507)     | (4)%     |
| Cost of goods sold                        | 107,554    | 69%                      | 105,657    | 65%   | 1,897       | 2%       |
| Gross profit                              | 48,793     | 31%                      | 57,197     | 35%   | (8,404)     | (15)%    |
| Selling and administrative                | 24,395     | 16%                      | 24,875     | 15%   | (480)       | (2)%     |
| Loss (gain) on disposition of assets, net | 139        |                          | (1,194)    | (1)%  | 1,333       |          |
| Amortization                              | 1,184      | 1%                       | 1,227      | 1%    | (43)        | (4)%     |
| Insurance litigation recovery, net        |            |                          | (15,977)   | (10)% | 15,977      |          |
| Operating income                          | \$ 23,075  | 15%                      | \$ 48,266  | 30%   | \$ (25,191) | (52)%    |

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

|                          | Amount     | Change % |
|--------------------------|------------|----------|
| Net sales decline        | \$ (9,745) | (7)%     |
| Foreign currency changes | 2,955      | 2%       |
| Total                    | \$ (6,790) | (5)%     |

The following are financial highlights for North America for the first six months of fiscal 2009. All percentage comparisons to the prior year exclude the impact of foreign currencies:

- Net sales decreased 7% primarily as a result of lower sales volumes due to the downturn in the lift truck and construction markets. North America lift truck industry shipments from 2008 to 2009 decreased 10%. We have found that lift truck industry statistics provide an indication of the direction of our business activity. However, changes in our net sales do not correspond directly to the percentage changes in lift truck industry shipments, because certain industry sectors of the economy use our products more than others.
- Our gross profit percentage decreased 4% during fiscal 2009, due to higher material costs, changes in product mix, lower sales volumes and other cost increases.
- Selling and administrative costs decreased 4% during the current year due to a reduction in personnel, consulting and other general costs.

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- During the second quarter of fiscal 2008, we realized a \$1.1 million pre-tax gain on the sale of land in Fairview, Oregon.
- During the first quarter of fiscal 2008, we entered into a settlement agreement with Employers Reinsurance Corporation with respect to litigation to recover various expenses incurred in connection with environmental and related proceedings. The recovery from this settlement was \$16.0 million, net of expenses.

Table of Contents**Europe**

|   | Six Months Ended July 31 |      |                |      |            |        |
|---|--------------------------|------|----------------|------|------------|--------|
|   | 2008                     | %    | (In thousands) | 2007 | %          | Change |
| Net sales                                 | \$ 97,760                | 99%  | \$ 85,022      | 99%  | \$ 12,738  | 15%    |
| Transfers between areas                   | 1,024                    | 1%   | 697            | 1%   | 327        | 47%    |
| Net sales and transfers                   | 98,784                   | 100% | 85,719         | 100% | 13,065     | 15%    |
| Cost of goods sold                        | 83,778                   | 85%  | 70,190         | 82%  | 13,588     | 19%    |
| Gross profit                              | 15,006                   | 15%  | 15,529         | 18%  | (523)      | (3)%   |
| Selling and administrative                | 15,625                   | 16%  | 12,541         | 15%  | 3,084      | 25%    |
| Loss (gain) on disposition of assets, net | (15)                     |      | 8              |      | (23)       |        |
| Amortization                              | 158                      |      | 414            |      | (256)      | (62)%  |
| Operating income (loss)                   | \$ (762)                 | (1)% | \$ 2,566       | 3%   | \$ (3,328) | (130)% |

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

|                          | Amount    | Change % |
|--------------------------|-----------|----------|
| Net sales growth         | \$ 1,381  | 2%       |
| Foreign currency changes | 11,357    | 13%      |
| Total                    | \$ 12,738 | 15%      |

The following summarizes the financial results for Europe for the first six months of fiscal 2009. All percentage comparisons to the prior year exclude the impact of foreign currencies:

- Net sales increased 2%, primarily due to increased shipment volumes in the first quarter of fiscal 2009, which reflected growth in the European lift truck market. During the second quarter net sales were down slightly. Lift truck industry shipments for the same period increased 15%. Given current industry statistics, we may have lost some market share in Europe. Delivery delays also factored into our lower sales.
- The 3% decrease in current year gross profit percentage is primarily due to material price increases and operational inefficiencies. The gross margin was also negatively affected by delays in approval of Chinese-made products by European OEMs. These delays required us to continue supplying OEMs with European-made products at lower margins.
- Selling and administrative expenses increased 11%, because of higher marketing, personnel and other general costs. Included in this increase is approximately \$490,000 of costs related to our European reorganization.

**Asia Pacific**

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|                                    | 2008      | Six Months Ended July 31 |                | %    | Change   | Change % |
|------------------------------------|-----------|--------------------------|----------------|------|----------|----------|
|                                    |           |                          | (In thousands) |      |          |          |
| Net sales                          | \$ 38,040 | 100%                     | \$ 28,886      | 100% | \$ 9,154 | 32%      |
| Transfers between areas            | 146       |                          | 98             |      | 48       | 49%      |
| Net sales and transfers            | 38,186    | 100%                     | 28,984         | 100% | 9,202    | 32%      |
| Cost of goods sold                 | 28,581    | 75%                      | 21,805         | 75%  | 6,776    | 31%      |
| Gross profit                       | 9,605     | 25%                      | 7,179          | 25%  | 2,426    | 34%      |
| Selling and administrative         | 4,798     | 12%                      | 4,003          | 14%  | 795      | 20%      |
| Gain on disposition of assets, net | (14)      |                          | (17)           |      | 3        |          |
| Operating income                   | \$ 4,821  | 13%                      | \$ 3,193       | 11%  | \$ 1,628 | 51%      |

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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 growth         | \$ 6,731 | 23%      |
| Foreign currency changes | 2,423    | 9%       |
| Total                    | \$ 9,154 | 32%      |

The following are financial highlights for Asia Pacific for the first six months of fiscal 2009. All percentage comparisons to the prior year exclude the impact of foreign currencies:

- Net sales increased 23% due to higher shipping volumes as a result of strong lift truck markets and the production of additional products in China for sale in this region. Lift truck industry shipments in Asia Pacific increased 14% in fiscal 2009 compared to fiscal 2008.
- Our gross profit percentage in Asia Pacific remained consistent at 25%. The benefits of sourcing lower cost product from China were offset by increased sales of lower margin products.
- Selling and administrative costs increased 9% due to higher personnel, marketing, and other general costs. However, as a percentage of net sales and transfers, selling and administrative costs decreased from 14% in fiscal 2008 to 12% in fiscal 2009.

**China**

|                                    | 2008      |      | Six Months Ended July 31 |      | 2007     |     | Change | Change % |
|------------------------------------|-----------|------|--------------------------|------|----------|-----|--------|----------|
|                                    |           | %    | (In thousands)           | %    |          | %   |        |          |
| Net sales                          | \$ 25,009 | 66%  | \$ 18,824                | 74%  | \$ 6,185 | 33% |        |          |
| Transfers between areas            | 12,831    | 34%  | 6,559                    | 26%  | 6,272    | 96% |        |          |
| Net sales and transfers            | 37,840    | 100% | 25,383                   | 100% | 12,457   | 49% |        |          |
| Cost of goods sold                 | 26,195    | 69%  | 16,773                   | 66%  | 9,422    | 56% |        |          |
| Gross profit                       | 11,645    | 31%  | 8,610                    | 34%  | 3,035    | 35% |        |          |
| Selling and administrative         | 2,478     | 7%   | 1,767                    | 7%   | 711      | 40% |        |          |
| Loss on disposition of assets, net | 35        |      | 31                       |      | 4        |     |        |          |
| Amortization                       |           |      | 1                        |      | (1)      |     |        |          |
| Operating income                   | \$ 9,132  | 24%  | \$ 6,811                 | 27%  | \$ 2,321 | 34% |        |          |

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



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|                          | Amount   | Change % |
|--------------------------|----------|----------|
| Net sales growth         | \$ 4,313 | 23%      |
| Foreign currency changes | 1,872    | 10%      |
| Total                    | \$ 6,185 | 33%      |

The following are financial highlights for China for the first six months of fiscal 2009. All percentage comparisons to the prior year exclude the impact of foreign currencies:

- Net sales increased 23% as a result of our capacity expansion in China and the growth in the lift truck industry. Lift truck industry shipments in China have increased 23% in the current year.
- Transfers to other Cascade geographic areas increased during fiscal 2009, due to the export of Chinese-made products to Europe and Asia Pacific.
- The gross profit percentage decreased 3% due to material price increases, changes in product mix and higher intercompany transfers, which carry lower gross margins.
- Selling and administrative costs increased 30%, due to consulting and other additional costs to support our expanded operations in China. As a percentage of net sales and transfers, selling and administrative costs remained consistent at 7% during fiscal 2008 and 2009.

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**Non-Operating Items**

The following are financial highlights for non-operating items during the first six months of fiscal 2009:

- Interest expense increased \$324,000 during fiscal 2009 primarily due to additional borrowings as a result of our share repurchase program, our inventory increase and European operating loss. This was offset by a lower effective interest rate during the current year.
- The effective tax rate in the first six months of fiscal 2009 increased from 34% in the prior year to 37% in the second quarter of fiscal 2009. The change was primarily related to an increase in valuation allowances for losses in Europe. Valuation allowances increased \$1.2 million and \$855,000 in the first six months of 2009 and 2008, respectively.

**CASH FLOWS**

The statements of cash flows reflect the changes in cash and cash equivalents for the six months ended July 31, 2008 and July 31, 2007 by classifying transactions into three major categories of activities: operating, investing and financing.

**Operating**

Our primary source of liquidity is cash generated from operating activities. The major operating activity is net income 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 \$11.1 million during the first six months of fiscal 2009 compared to the prior year. The following are the major differences between the current and prior year operating activities:

- During fiscal 2008, net income was significantly higher due to the insurance litigation settlement and land sale gain.
- Inventories increased at a faster rate during fiscal 2009 due to material price increases and large volumes of raw materials purchased ahead of scheduled price increases.
- Accounts receivable increased at a slower rate during the current year due in part to our emphasis on collections.

**Investing**

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 segments were as follows (in thousands):

|               | Three Months Ended<br>July 31 |          | Six Months Ended<br>July 31 |          |
|---------------|-------------------------------|----------|-----------------------------|----------|
|               | 2008                          | 2007     | 2008                        | 2007     |
| North America | \$ 1,859                      | \$ 1,947 | \$ 3,405                    | \$ 3,501 |
| Europe        | 2,330                         | 543      | 3,582                       | 1,361    |
| Asia Pacific  | 707                           | 262      | 905                         | 449      |
| China         | 1,240                         | 1,105    | 2,147                       | 3,795    |
|               | \$ 6,136                      | \$ 3,857 | \$ 10,039                   | \$ 9,106 |

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The following are investing activity highlights during the first six months of fiscal 2009 and 2008:

- China's capital expenditures in fiscal 2008 relate primarily to the completion of two new manufacturing facilities. China's capital expenditures in fiscal 2009 relate to equipment upgrades and the initial work on a building to manufacture construction attachments.
- The increase in capital expenditures in Europe during the current year relates primarily to costs associated with the future introduction of new products and more efficient production methods.
- Capital expenditures in North America during fiscal 2009 is consistent with the prior year. The majority of these costs relate to equipment and tooling replacements.
- We expect capital expenditures for the remainder of fiscal 2009 to be approximately \$8 million. We believe this level of capital expenditures is sufficient to meet operational requirements.
- During the second quarter of fiscal 2008 we purchased 100% of the stock of American Compaction Equipment, Inc., a manufacturer of construction attachments located in San Juan Capistrano, California for \$11.5 million, net of assumed liabilities.

**Financing**

The following are major financing activities during the first six months of fiscal 2009 and fiscal 2008:

- During fiscal 2009, net borrowings made against our long-term debt and notes payable were \$8.8 million, compared to net payments of \$1.3 million during fiscal 2008. The additional borrowings in the current year are a result of the inventory increase, European operating loss and overall increase in our cash balance of \$6.7 million.
- We concluded our share repurchase program at the beginning of the first quarter of fiscal 2009. In total, we repurchased 2,435,000 shares of common stock for \$130 million over 18 months.
- We declared dividends of \$0.38 and \$0.34 per share during the first six months of fiscal 2009 and 2008, respectively.
- The issuance of common stock related to the exercise of share-based awards generated \$130,000 and \$3.8 million of cash for the first six months of fiscal 2009 and 2008, respectively.

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**FINANCIAL CONDITION AND LIQUIDITY**

The following are highlights regarding our financial condition and liquidity for the first six months of fiscal 2009:

- Our working capital, defined as current assets less current liabilities, increased from \$152.0 million at January 31, 2008 to \$180.2 million at July 31, 2008, primarily due to increases in inventory, cash and accounts receivable.
- Our current ratio increased from 3.4 to 1 at January 31, 2008 to 3.8 to 1 at July 31, 2008 due to increased inventory, cash and accounts receivable.
- Total outstanding debt, including notes payable to banks, increased from \$110.7 million at January 31, 2008 to \$119.5 million at July 31, 2008.
- Borrowing arrangements currently in place with commercial banks provide lines of credit totaling \$147.5 million, of which \$113.5 million was outstanding and an additional \$3.7 million was used to issue letters of credit at July 31, 2008. The borrowings available under the line of credit decreases \$1.25 million quarterly through the debt expiration date of December 7, 2011. The interest rate on the lines of credit, which is currently based on LIBOR plus a margin of 1%, was 3.50% and 4.66% at July 31, 2008 and January 31, 2008, respectively. The lines of credit contain certain covenants relating to net worth and leverage ratios. We were in compliance with these covenants at July 31, 2008.
- Borrowings under notes payable to banks, which includes bank overdrafts and short-term lines of credit, decreased \$459,000 from January 31, 2008 to July 31, 2008. The average interest rate on these notes was 3.5% and 4.3% at July 31, 2008 and January 31, 2008, respectively.
- Our current plans are to fund our existing postretirement obligation as costs are incurred. Any defined benefit obligations will be funded to meet minimum statutory funding requirements or any additional funding requirements which we have committed to in specific plan agreements. Currently, these additional funding requirements are limited to annual contributions of \$400,000 through fiscal year 2011 to a defined benefit plan in England.
- 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 expenditure and debt retirement requirements for the next twelve months.

**OTHER MATTERS**

The U.S. dollar weakened in the first six months of fiscal 2009 in comparison to some foreign currencies used by our significant foreign operations, including the Euro and Chinese Yuan. The U.S. dollar strengthened slightly in the first six months of fiscal 2009 compared to the Canadian Dollar and British Pound. As a result, foreign currency translation adjustments increased shareholders' equity by \$2.1 million in the first six months of fiscal 2009.

**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, 2008.

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**OFF BALANCE SHEET ARRANGEMENTS**

At July 31, 2008, 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**





**SFAS 157** - In September 2006, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 157 (SFAS 157), Fair Value Measurements. SFAS 157 provides a common definition of fair value, establishes a framework for measuring fair value and expands the related disclosure requirements. In February 2008, the FASB issued final Staff Positions that will (1) defer the effective date of this statement for one year for certain nonfinancial assets and nonfinancial liabilities and (2) remove certain leasing transactions from the scope of the statement. We applied SFAS 157 to all other fair value measurements effective February 1, 2008. The adoption of SFAS 157 did not have a material impact on our financial statements.

**FSP 157-2** In February 2008, the FASB issued FASB Staff Position on Statement 157, Effective Date of FASB Statement No. 157 (FSP 157-2). FSP 157-2 delays the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed on a recurring basis, to fiscal years beginning after November 15, 2008. Our significant nonfinancial assets and liabilities that could be impacted by this deferral include assets and liabilities initially measured at fair value in a business combination and goodwill tested annually for impairment. FSP 157-2 will become effective for the fiscal year beginning February 1, 2009. We are currently evaluating the impact of the adoption of FSP 157-2 on our financial statements.

**SFAS 159** - In February 2007, the FASB issued SFAS No. 159 (SFAS 159), The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115. SFAS 159 allows companies the choice to measure many financial instruments and certain other items at fair value. Application of SFAS 159 was required for our financial statements beginning February 1, 2008. The adoption of SFAS 159 did not have a material impact on our financial statements.

**SFAS 141(R) & SFAS 160** In December 2007, the FASB issued SFAS No. 141(R) (SFAS 141(R)), Business Combinations, and SFAS No. 160 (SFAS 160), Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 . SFAS 141(R) requires the acquiring entity in a business combination to recognize the assets acquired and liabilities assumed. Further, SFAS 141(R) also changes the accounting for acquired in-process research and development assets, contingent consideration, partial acquisitions and transaction costs. Under SFAS 160, all entities are required to report noncontrolling (minority) interests in subsidiaries as equity in the consolidated financial statements. In addition, transactions between an entity and noncontrolling interests will be treated as equity transactions. SFAS 141(R) and SFAS 160 will become effective for business combinations for which the acquisition date is on or after February 1, 2009. We are currently evaluating the impact of the adoption of these standards on our financial statements.

**SFAS 161** In March 2008, the FASB issued SFAS No. 161 (SFAS 161), Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133. SFAS 161 expands disclosures for derivative instruments by requiring entities to disclose the fair value of derivative instruments and their gains or losses in tabular format. SFAS 161 also requires disclosure of information about credit risk-related contingent features in derivative agreements, counterparty credit risk, and strategies and objectives for using derivative instruments. SFAS 161 will become effective for fiscal years beginning after November 15, 2008. We will adopt this new accounting standard on February 1, 2009. We are currently evaluating the impact of the adoption of this standard on our financial statements.

**SFAS 162** In May 2008, the FASB issued SFAS No. 162 (SFAS 162), The Hierarchy of Generally Accepted Accounting Principles. SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. SFAS 162 will become effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. We do not expect any changes to our financial accounting and reporting as a result of the adoption of this standard.

Table of Contents**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 2009 resulting from a 10% weaker U.S. dollar during the quarter, measured against foreign currencies that affect our operations (in millions):

|  |    |     |
|--|----|-----|
| Euro   | \$ | 3.8 |
| Chinese yuan   |    | 1.3 |
| British pound  |    | 0.9 |
| Japanese yen   |    | 0.8 |
| Canadian dollar  |    | 0.7 |
| Other currencies (representing 9% of consolidated net sales) |    | 1.3 |

A 10% weaker U.S. dollar during the quarter, measured against foreign currencies that affect our operations, would have increased our operating income by \$1.4 million. The majority of this increase would be the result of the Chinese yuan (\$587,000) and Canadian dollar (\$577,000).

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, Swedish krona and British pounds. Our foreign currency forward exchange contracts have terms lasting up to six months, but generally less than one month. We do not enter into derivatives or other financial instruments for trading or speculative purposes.

A majority of our products are manufactured using steel as the primary raw material and steel based components as purchased parts. As such, our cost of goods sold is sensitive to fluctuations in steel prices, either directly through the purchase of steel as raw material or indirectly through the purchase of steel based components. Presuming that the full impact of commodity steel cost increases is reflected in all steel and steel based component purchases, we estimate our gross profit percentage sensitivity to be approximately 0.3% for each 1.0% increase in commodity steel cost without offsetting sales price increases. Based on our statement of income for the quarter ended July 31, 2008, a 1% increase in commodity steel costs would have decreased consolidated gross profit by approximately \$430,000.

During the second quarter of fiscal 2009, we continued to experience increases in prices for steel and steel components, which comprise approximately 40% of our total product cost. We have continued to move aggressively to offset these increases through a variety of means, including sales price increases, cost reduction activities and alternative sourcing arrangements. Unfortunately, we have been unable to mitigate the full impact of the material cost increases, thus resulting in some erosion of gross profit.

Manufacturing of our products includes the purchase of various raw materials and components. Certain of these items are provided worldwide by a limited number of suppliers. We have experienced some delays in obtaining certain raw materials and components, but the impact on our

operations to date has not been significant. We are currently obtaining alternative sourcing arrangements for these items.

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Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures



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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





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There has been no change in the internal control over financial reporting that occurred during the three months ended July 31, 2008 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**



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There are no material changes from risk factors previously disclosed in our Form 10-K for the year ended January 31, 2008.

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





None

**Item 3. Defaults Upon Senior Securities**



None



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



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At our Annual Meeting of Shareholders held June 3, 2008, the following matters were submitted to a vote of common shareholders:

### Election of directors to terms expiring in 2011

| <b>Nominee</b>        | <b>Votes for</b> | <b>Votes Withheld</b> |
|-----------------------|------------------|-----------------------|
| Peter D. Nickerson    | 9,016,847        | 71,041                |
| Robert C. Warren, Jr. | 8,988,392        | 99,496                |
| Henry W. Wessinger II | 8,662,316        | 425,572               |

The following individuals continue to serve as directors:

| <b>Director</b>            | <b>Term Expires</b> |
|----------------------------|---------------------|
| Duane C. McDougall         | 2009                |
| James S. Osterman          | 2009                |
| Nicholas R. Lardy, Ph.D    | 2010                |
| Nancy A. Wilgenbusch, Ph.D | 2010                |

### Shareholder Proposals

| <b>Proposal</b>   | <b>Votes for</b> | <b>Votes Against</b> | <b>Abstain</b> |
|---|------------------|----------------------|----------------|
| Proposal to approve an amendment to Cascade Corporation's Articles of Incorporation increasing the number of authorized shares of common stock from 20,000,000 to 40,000,000. | 7,795,711        | 1,289,716            | 2,460          |
| Proposal to ratify the appointment of PricewaterhouseCoopers LLP as the independent registered public accounting firm for the fiscal year ending January 31, 2009.            | 9,019,206        | 66,718               | 1,963          |

### **Item 5. Other Information**

None



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**Item 6. Exhibits**



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The following exhibits are included with this report:

| <b>Exhibit No.</b> | <b>Description</b>   |
|--------------------|--|
| 3.1                | Restated Articles of Incorporation.  |
| 31.1               | Certification of Chief Executive Officer of Cascade Corporation.   |
| 31.2               | Certification of Chief Financial Officer of Cascade Corporation.   |
| 32                 | Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350. |

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**SIGNATURES**



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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.

September 5, 2008

CASCADE CORPORATION

/s/ JOSEPH G. POINTER  
Joseph G. Pointer  
*Chief Financial Officer*  
*(Principal Financial and Accounting Officer)*

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**EXHIBIT INDEX**

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