CASCADE CORP
Form 10-Q
June 08, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended April 30, 2006

OR

o **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 x No o

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

Large accelerated filer o Accelerated filer x Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).Yes o No x

The number of shares outstanding of the registrant s common stock as of May 22, 2006 was 12,552,573.

Forward-Looking Statements

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

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

We undertake no obligation to publicly revise or update forward-looking statements to reflect events or circumstances that arise after the date of this report.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

CASCADE CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited in thousands, except per share amounts)

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

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

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

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

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

CASCADE CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY
(Unaudited in thousands, except per share amounts)

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

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

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

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

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

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CASCADE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 Description of Business

Cascade Corporation is an international company engaged in the manufacture of materials handling products that are widely used on industrial fork lift trucks and, to a lesser extent, construction, mining and agricultural vehicles. Accordingly, our sales are largely dependent on sales of lift trucks and on the sales of replacement parts. Our sales are made throughout the world, but primarily in North America and Europe. We are headquartered in Fairview, Oregon, employing approximately 1,900 people and maintaining operations in 15 countries outside the United States.

Note 2 Interim Financial Information

The accompanying consolidated financial statements for the interim periods ended April 30, 2006 and 2005 are unaudited. In the opinion of management, the accompanying consolidated financial statements reflect normal recurring adjustments necessary for a fair statement of the financial position, results of operations and cash flows for those interim periods. Results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year, and these financial statements do not contain the detail or footnote disclosures concerning accounting policies and other matters that would be included in full fiscal year financial statements. Therefore, these statements should be read in conjunction with our audited financial statements included on Form 10-K in our Annual Report for the fiscal year ended January 31, 2006.

Note 3 Segment Information

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

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

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

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

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

Note 4 Goodwill

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

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

Note 5 Marketable Securities

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

Note 6 Inventories

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

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

Note 7 Share-Based Compensation Plans

We have granted two types of awards, stock options and stock appreciation rights (SARS), under our share-based compensation plans to officers, key managers and directors. Stock options provide the holder the right to receive our common shares at an established price. SARS provide the holder the right to receive an amount, payable in our common shares, equal to the excess of the market value of our common shares on the date of exercise (intrinsic value) over the base price at the time the right was granted. The base price may not be less than the market price of our common shares on the date of grant. The prices for all awards are established by our Board of Directors Compensation Committee at the time the awards are granted. All awards vest ratably over a four year period and have a term of ten years.

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 8 Commitments and Contingencies

Environmental Matters

We are subject to environmental laws and regulations, which include obligations to remove or mitigate environmental effects of past disposal and release of certain wastes and substances at various sites. We record liabilities for affected sites when environmental assessments indicate probable cleanup and the costs can be reasonably estimated. Our liabilities for environmental costs, other than for costs of assessments themselves, are generally determined after the completion of investigations and studies or our commitment to a formal plan of action, such as an approved remediation plan, and are based on our best estimate of undiscounted future costs using currently available technology, applying current regulations, as well as our own historical experience regarding environmental cleanup costs. The reliability and precision of the loss estimates are affected by numerous factors, such as different stages of site evaluation and reevaluation of the degree of remediation required. We adjust our liabilities as new remediation requirements are defined, as information becomes available permitting reasonable estimates to be made and to reflect new and changing facts.

It is reasonably possible that changes in estimates will occur in the near term and the related adjustments to environmental liabilities may have a material impact on our net income and operating cash flows. Unasserted claims are not currently reflected in our environmental liabilities. It is also reasonably possible that these changes or claims may also have a material impact on our net income and operating cash flows if asserted. We cannot estimate the impact of these potential changes or claims at this time.

Our specific environmental matters consist of the following:

Fairview, Oregon

In 1996, the Oregon Department of Environmental Quality issued two Records of Decision affecting our Fairview, Oregon manufacturing facility. The Records of Decision required us to initiate remedial activities related to the cleanup of groundwater contamination at and near the facility. Remediation activities have been conducted since 1996 and current estimates provide for some level of activity to continue through 2021. Costs of certain remediation activities at the facility are shared with The Boeing Company, with Cascade paying 70% of these costs. We have a liability for the ongoing remediation activities at our Fairview facility of $6.5 million and $6.7 million at April 30, 2006 and January 31, 2006, respectively.

Springfield, Ohio

In 1994, we entered into a consent order with the Ohio Environmental Protection Agency, which required the installation of remediation systems for the cleanup of groundwater contamination at our Springfield, Ohio facility. The current estimate is that the remediation activities will continue through 2013. Our liability for ongoing remediation activities at our Springfield facility was $1.1 million at both April 30, 2006 and January 31, 2006.

Insurance Litigation

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

On May 17, 2006, the Oregon Court of Appeals ruled in our favor and reversed the trial court judgment in part. The Court of Appeals ruling would obligate ERC to pay 100% of our unreimbursed environmental expenses up to its policy limits, plus increased interest and attorneys fees. We estimate the Court of Appeals ruling could result in an eventual recovery of up to $14.0 million, in addition to the increased interest and attorneys fees and unreimbursed costs of environmental defense. However, any determination of our ultimate recovery is subject to possible discretionary review of the Court of Appeals decision by the Oregon Supreme Court as well as further proceedings at the trial court level. We have not recorded any amounts that may be recovered from ERC in our consolidated financial statements.

Legal Proceedings

We are subject to legal proceedings, claims and litigation, in addition to the environmental matters previously discussed, arising in the ordinary course of business. While the outcome of these matters is currently not determinable, management does not expect the ultimate costs to be material to our consolidated financial position, result of operations, or cash flows.

Lease Guarantee

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

Note 9 Earnings Per Share

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

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

Basic earnings per share is based on the weighted average number of common shares outstanding for the period. Diluted weighted average common shares includes the incremental shares that would be issued upon the assumed exercise of stock options and stock appreciation rights. All stock options and stock appreciation rights are included in our calculation of incremental share because they are dilutive.

Note 10 Supplemental Cash Flow Information

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

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

Note 11 Benefit Plans