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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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(Mark One)

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

For the Quarterly Period Ended October 31, 2010

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-12557

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**CASCADE CORPORATION**

(Exact name of registrant as specified in its charter)

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**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**

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

The number of shares outstanding of the registrant's common stock as of November 17, 2010 was 10,961,238.

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**CASCADE CORPORATION**  
**FORM 10-Q**  
**Quarter Ended October 31, 2010**

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## Forward-Looking Statements

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

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

We undertake no obligation to publicly revise or update forward-looking statements to reflect events or circumstances that arise after the date of this report. See “Risk Factors” under Item 1A in our Annual Report on Form 10-K for the year ended January 31, 2010, as such risk factors may be updated in our Quarterly Reports on Form 10-Q from time to time, for additional information on risk factors with the potential to impact our business.

**PART I—FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**CASCADE CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Unaudited — in thousands, except per share amounts)

|   | Three Months Ended |                | Nine Months Ended |                    |
|---|--------------------|----------------|-------------------|--------------------|
|   | October 31,        |                | October 31,       |                    |
|   | 2010               | 2009           | 2010              | 2009               |
| Net sales                                       | \$107,377          | \$80,822       | \$299,510         | \$233,781          |
| Cost of goods sold                              | 73,585             | 61,147         | 208,484           | 181,104            |
| Gross profit                                    | 33,792             | 19,675         | 91,026            | 52,677             |
| Selling and administrative expenses             | 18,390             | 17,144         | 55,652            | 53,417             |
| European restructuring costs                    | (54)               | 1,514          | 15                | 17,880             |
| Operating income (loss)                         | 15,456             | 1,017          | 35,359            | (18,620)           |
| Interest expense                                | 502                | 586            | 1,656             | 1,383              |
| Interest income                                 | (57)               | (73)           | (142)             | (243)              |
| Foreign currency loss, net                      | 232                | 133            | 752               | 284                |
| Income (loss) before provision for income taxes | 14,779             | 371            | 33,093            | (20,044)           |
| Provision for income taxes                      | 5,995              | 214            | 15,411            | 4,175              |
| Net income (loss)                               | <u>\$ 8,784</u>    | <u>\$ 157</u>  | <u>\$ 17,682</u>  | <u>\$ (24,219)</u> |
| Basic earnings (loss) per share                 | <u>\$ 0.81</u>     | <u>\$ 0.01</u> | <u>\$ 1.63</u>    | <u>\$ (2.24)</u>   |
| Diluted earnings (loss) per share               | <u>\$ 0.79</u>     | <u>\$ 0.01</u> | <u>\$ 1.60</u>    | <u>\$ (2.24)</u>   |
| Basic weighted average shares outstanding       | 10,906             | 10,824         | 10,876            | 10,813             |
| Diluted weighted average shares outstanding     | 11,092             | 11,004         | 11,083            | 10,813             |

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

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

|  | <u>October 31,</u><br><u>2010</u> | <u>January 31,</u><br><u>2010</u> |
|--|-----------------------------------|-----------------------------------|
| <b>ASSETS</b>  |                                   |                                   |
| Current assets:  |                                   |                                   |
| Cash and cash equivalents  | \$ 26,197                         | \$ 20,201                         |
| Accounts receivable, less allowance for doubtful accounts of \$1,444 and \$1,328                         | 74,072                            | 50,910                            |
| Inventories  | 66,516                            | 63,466                            |
| Deferred income taxes  | 4,350                             | 4,230                             |
| Assets available for sale  | 9,379                             | 9,125                             |
| Prepaid expenses and other   | 9,882                             | 12,334                            |
| Total current assets   | <u>190,396</u>                    | <u>160,266</u>                    |
| Property, plant and equipment, net   | 69,637                            | 73,408                            |
| Goodwill   | 87,511                            | 84,122                            |
| Deferred income taxes  | 18,450                            | 21,022                            |
| Intangible assets, net   | 644                               | 763                               |
| Other assets   | 2,950                             | 2,350                             |
| Total assets   | <u>\$369,588</u>                  | <u>\$341,931</u>                  |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                                   |                                   |
| Current liabilities:   |                                   |                                   |
| Notes payable to banks   | \$ 743                            | \$ 2,927                          |
| Current portion of long-term debt  | 559                               | 499                               |
| Accounts payable   | 23,807                            | 20,542                            |
| Accrued payroll and payroll taxes  | 7,972                             | 7,683                             |
| Accrued restructuring costs  | 807                               | 5,260                             |
| Other accrued expenses   | 15,478                            | 10,977                            |
| Total current liabilities  | <u>49,366</u>                     | <u>47,888</u>                     |
| Long-term debt, net of current portion   | 55,495                            | 55,990                            |
| Accrued environmental expenses   | 3,410                             | 4,161                             |
| Deferred income taxes  | 4,218                             | 4,839                             |
| Employee benefit obligations   | 9,561                             | 9,120                             |
| Other liabilities  | 4,955                             | 4,171                             |
| Total liabilities  | <u>127,005</u>                    | <u>126,169</u>                    |
| Commitments and contingencies (Note 8)   |                                   |                                   |
| Shareholders' equity:  |                                   |                                   |
| Common stock, \$.50 par value, 40,000 authorized shares; 10,961 and 10,885 shares issued and outstanding | 5,481                             | 5,443                             |
| Additional paid-in capital   | 8,840                             | 7,119                             |
| Retained earnings  | 195,566                           | 179,747                           |
| Accumulated other comprehensive income   | 32,696                            | 23,453                            |
| Total shareholders' equity   | <u>242,583</u>                    | <u>215,762</u>                    |
| Total liabilities and shareholders' equity   | <u>\$369,588</u>                  | <u>\$341,931</u>                  |

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  |                | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Total<br>Shareholders'<br>Equity | Year-To-Date<br>Comprehensive<br>Income |
|--|---------------|----------------|----------------------------------|----------------------|---|----------------------------------|---|
|  | Shares        | Amount         |                                  |                      |   |                                  |   |
| <b>Balance at January 31, 2010</b>     | 10,885        | \$5,443        | \$ 7,119                         | \$179,747            | \$ 23,453                                       | \$ 215,762                       |   |
| Net income                             | —             | —              | —                                | 17,682               | —   | 17,682                           | \$ 17,682                               |
| Dividends (\$ 0.17 per share)          | —             | —              | —                                | (1,863)              | —   | (1,863)                          | —                                       |
| Common stock issued                    | 76            | 38             | (24)                             | —                    | —   | 14                               | —                                       |
| Share-based compensation               | —             | —              | 2,138                            | —                    | —   | 2,138                            | —                                       |
| Tax effect on stock-based compensation | —             | —              | (393)                            | —                    | —   | (393)                            | —                                       |
| Currency translation adjustment        | —             | —              | —                                | —                    | 9,243   | 9,243                            | 9,243                                   |
| <b>Balance at October 31, 2010</b>     | <u>10,961</u> | <u>\$5,481</u> | <u>\$ 8,840</u>                  | <u>\$195,566</u>     | <u>\$ 32,696</u>                                | <u>\$ 242,583</u>                | <u>\$ 26,925</u>                        |

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

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

|  | Nine Months Ended<br>October 31, |                  |
|--|----------------------------------|------------------|
|  | 2010                             | 2009             |
| <b>Cash flows from operating activities:</b>   |                                  |                  |
| Net income (loss)  | \$ 17,682                        | \$(24,219)       |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |                                  |                  |
| Fixed asset write off due to restructuring   | 215                              | 4,829            |
| Depreciation   | 7,508                            | 9,064            |
| Amortization   | 119                              | 356              |
| Share-based compensation   | 2,138                            | 2,852            |
| Deferred income taxes  | 1,774                            | 1,736            |
| Loss (gain) on disposition of assets, net  | (20)                             | 90               |
| Changes in operating assets and liabilities:   |                                  |                  |
| Accounts receivable  | (20,995)                         | 15,477           |
| Inventories  | (1,577)                          | 27,281           |
| Prepaid expenses and other   | (2,735)                          | 862              |
| Accounts payable and accrued expenses  | 1,887                            | (73)             |
| Income taxes payable and receivable  | 6,165                            | (2,138)          |
| Other assets and liabilities   | (166)                            | (901)            |
| Net cash provided by operating activities  | <u>11,995</u>                    | <u>35,216</u>    |
| <b>Cash flows from investing activities:</b>   |                                  |                  |
| Capital expenditures   | (3,715)                          | (3,257)          |
| Proceeds from disposition of assets  | 1,182                            | 166              |
| Net cash used in investing activities  | <u>(2,533)</u>                   | <u>(3,091)</u>   |
| <b>Cash flows from financing activities:</b>   |                                  |                  |
| Cash dividends paid  | (1,863)                          | (1,087)          |
| Common stock issued under share-based compensation plans                                 | 14                               | —                |
| Tax effect on share-based compensation   | (393)                            | —                |
| Payments on long-term debt   | (54,634)                         | (76,859)         |
| Proceeds from long-term debt   | 53,750                           | 36,000           |
| Notes payable to banks, net  | (2,266)                          | 838              |
| Net cash used in financing activities  | <u>(5,392)</u>                   | <u>(41,108)</u>  |
| Effect of exchange rate changes  | 1,926                            | (6,662)          |
| Change in cash and cash equivalents  | 5,996                            | (15,645)         |
| Cash and cash equivalents at beginning of period   | 20,201                           | 31,185           |
| Cash and cash equivalents at end of period   | <u>\$ 26,197</u>                 | <u>\$ 15,540</u> |

**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.

**CASCADE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**Note 1—Description of Business**

Cascade Corporation is an international company engaged in the manufacture of materials handling products that are widely used on industrial fork lift trucks and, to a lesser extent, construction, mining and agricultural vehicles. Accordingly, our sales are largely dependent on sales of lift trucks and replacement parts. Our sales are made throughout the world. We are headquartered in Fairview, Oregon, employing approximately 1,700 people and maintaining operations in 16 countries outside the United States.

**Note 2—Interim Financial Information**

The accompanying consolidated financial statements for the interim periods ended October 31, 2010 and 2009 are unaudited. In the opinion of management, the accompanying consolidated financial statements reflect normal recurring adjustments necessary for a fair statement of the financial position, results of operations and cash flows for those interim periods. Results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year, and these financial statements do not contain the detail or footnote disclosures concerning accounting policies and other matters that would be included in full fiscal year financial statements. Therefore, these statements should be read in conjunction with our audited financial statements included in our Annual Report on Form 10-K for the fiscal year ended January 31, 2010.

**Note 3—Segment Information**

Our operating units have several similar economic characteristics and attributes, including products, distribution patterns and classes of customers. As a result, we aggregate our operating units into four geographic operating segments related to the manufacturing, distribution and servicing of material handling load engagement products. We evaluate the performance of each of our operating segments based on income or loss before interest, foreign currency gains or losses and income taxes. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies contained in Note 2 of our consolidated financial statements included in our Form 10-K for the fiscal year ended January 31, 2010.

Revenues and operating results are classified according to the country of origin. Transfers between areas represent sales between our geographic operating segments. The costs of our corporate office are included in North America. Identifiable assets are attributed to the geographic location in which they are located. Net sales and transfers, operating results and identifiable assets by geographic operating segment were as follows (in thousands):

### Segment Information

(In thousands)

| 2010                               | Three Months Ended October 31 |           |              |           |              |              |
|------------------------------------|-------------------------------|-----------|--------------|-----------|--------------|--------------|
|                                    | North America                 | Europe    | Asia Pacific | China     | Eliminations | Consolidated |
| Net sales                          | \$ 53,615                     | \$ 22,653 | \$ 16,353    | \$ 14,756 | \$ —         | \$ 107,377   |
| Transfers between areas            | 6,433                         | 180       | 9            | 6,012     | (12,634)     | —            |
| Net sales and transfers            | \$ 60,048                     | \$ 22,833 | \$ 16,362    | \$ 20,768 | \$ (12,634)  | \$ 107,377   |
| Gross profit                       | \$ 18,933                     | \$ 3,409  | \$ 4,601     | \$ 6,849  | —            | \$ 33,792    |
| Selling and administrative         | 10,365                        | 4,273     | 2,500        | 1,252     | —            | 18,390       |
| European restructuring costs       | —                             | (54)      | —            | —         | —            | (54)         |
| Operating income (loss)            | \$ 8,568                      | \$ (810)  | \$ 2,101     | \$ 5,597  | —            | \$ 15,456    |
| Total assets                       | \$ 179,545                    | \$ 84,546 | \$ 48,559    | \$ 56,938 | —            | \$ 369,588   |
| Property, plant and equipment, net | \$ 28,885                     | \$ 11,218 | \$ 11,458    | \$ 18,076 | —            | \$ 69,637    |
| Capital expenditures               | \$ 697                        | \$ 4      | \$ 736       | \$ 373    | —            | \$ 1,810     |
| Depreciation expense               | \$ 1,288                      | \$ 546    | \$ 165       | \$ 536    | —            | \$ 2,535     |

| 2009                               | Three Months Ended October 31 |            |              |           |              |              |
|------------------------------------|-------------------------------|------------|--------------|-----------|--------------|--------------|
|                                    | North America                 | Europe     | Asia Pacific | China     | Eliminations | Consolidated |
| Net sales                          | \$ 40,215                     | \$ 18,555  | \$ 11,886    | \$ 10,166 | \$ —         | \$ 80,822    |
| Transfers between areas            | 4,097                         | 567        | 112          | 2,576     | (7,352)      | —            |
| Net sales and transfers            | \$ 44,312                     | \$ 19,122  | \$ 11,998    | \$ 12,742 | \$ (7,352)   | \$ 80,822    |
| Gross profit (loss)                | \$ 13,772                     | \$ (2,113) | \$ 3,283     | \$ 4,733  | —            | \$ 19,675    |
| Selling and administrative         | 9,377                         | 4,657      | 2,029        | 1,081     | —            | 17,144       |
| European restructuring costs       | —                             | 1,514      | —            | —         | —            | 1,514        |
| Operating income (loss)            | \$ 4,395                      | \$ (8,284) | \$ 1,254     | \$ 3,652  | —            | \$ 1,017     |
| Total assets                       | \$ 175,227                    | \$ 100,194 | \$ 38,021    | \$ 44,134 | —            | \$ 357,576   |
| Property, plant and equipment, net | \$ 31,314                     | \$ 28,677  | \$ 9,672     | \$ 18,667 | —            | \$ 88,330    |
| Capital expenditures               | \$ 399                        | \$ 787     | \$ 92        | \$ 148    | —            | \$ 1,426     |
| Depreciation expense               | \$ 1,423                      | \$ 911     | \$ 152       | \$ 487    | —            | \$ 2,973     |

| 2010                         | Nine Months Ended October 31 |            |              |           |              |              |
|------------------------------|------------------------------|------------|--------------|-----------|--------------|--------------|
|                              | North America                | Europe     | Asia Pacific | China     | Eliminations | Consolidated |
| Net sales                    | \$ 147,085                   | \$ 66,910  | \$ 44,406    | \$ 41,109 | \$ —         | \$ 299,510   |
| Transfers between areas      | 19,062                       | 378        | 119          | 17,445    | (37,004)     | —            |
| Net sales and transfers      | \$ 166,147                   | \$ 67,288  | \$ 44,525    | \$ 58,554 | \$ (37,004)  | \$ 299,510   |
| Gross profit                 | \$ 50,619                    | \$ 8,365   | \$ 12,114    | \$ 19,928 | —            | \$ 91,026    |
| Selling and administrative   | 31,999                       | 13,010     | 7,165        | 3,478     | —            | 55,652       |
| European restructuring costs | —                            | 15         | —            | —         | —            | 15           |
| Operating income (loss)      | \$ 18,620                    | \$ (4,660) | \$ 4,949     | \$ 16,450 | —            | \$ 35,359    |
| Capital expenditures         | \$ 1,714                     | \$ 226     | \$ 1,001     | \$ 774    | —            | \$ 3,715     |
| Depreciation expense         | \$ 3,874                     | \$ 1,584   | \$ 474       | \$ 1,576  | —            | \$ 7,508     |

| 2009                         | Nine Months Ended October 31 |             |              |           |              |              |
|------------------------------|------------------------------|-------------|--------------|-----------|--------------|--------------|
|                              | North America                | Europe      | Asia Pacific | China     | Eliminations | Consolidated |
| Net sales                    | \$ 115,182                   | \$ 60,172   | \$ 33,552    | \$ 24,875 | \$ —         | \$ 233,781   |
| Transfers between areas      | 10,858                       | 1,844       | 127          | 7,463     | (20,292)     | —            |
| Net sales and transfers      | \$ 126,040                   | \$ 62,016   | \$ 33,679    | \$ 32,338 | \$ (20,292)  | \$ 233,781   |
| Gross profit (loss)          | \$ 36,399                    | \$ (3,833)  | \$ 8,677     | \$ 11,434 | —            | \$ 52,677    |
| Selling and administrative   | 30,246                       | 14,538      | 5,588        | 3,045     | —            | 53,417       |
| European restructuring costs | —                            | 17,880      | —            | —         | —            | 17,880       |
| Operating income (loss)      | \$ 6,153                     | \$ (36,251) | \$ 3,089     | \$ 8,389  | —            | \$ (18,620)  |
| Capital expenditures         | \$ 1,233                     | \$ 1,079    | \$ 459       | \$ 486    | —            | \$ 3,257     |
| Depreciation expense         | \$ 4,247                     | \$ 2,941    | \$ 418       | \$ 1,458  | —            | \$ 9,064     |



#### Note 4—Inventories

During the nine months ended October 31, 2010, inventories increased primarily due to additional product needed to meet increased customer demand and fluctuations in foreign currencies. Inventories stated at the lower of average cost or market are presented below by major class (in thousands):

|                              | <u>October 31,<br/>2010</u> | <u>January 31,<br/>2010</u> |
|------------------------------|-----------------------------|-----------------------------|
| Finished goods               | \$ 25,929                   | \$ 24,573                   |
| Raw materials and components | 40,587                      | 38,893                      |
|                              | <u>\$ 66,516</u>            | <u>\$ 63,466</u>            |

#### Note 5—Goodwill

During the nine months ended October 31, 2010, goodwill increased primarily due to the strengthening of the Canadian Dollar against the U.S. Dollar. We have no goodwill recorded in China. The following table provides a breakdown of goodwill by geographic region (in thousands):

|               | <u>October 31,<br/>2010</u> | <u>January 31,<br/>2010</u> |
|---------------|-----------------------------|-----------------------------|
| North America | \$ 73,628                   | \$ 70,259                   |
| Europe        | 10,935                      | 10,892                      |
| Asia Pacific  | 2,948                       | 2,971                       |
|               | <u>\$ 87,511</u>            | <u>\$ 84,122</u>            |

#### Note 6—Share-Based Compensation Plans

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

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

Our SARS plan also permits the issuance of restricted shares of common stock. Upon the granting of restricted stock, common shares are issued to the recipient, but the shares may not be sold, assigned, transferred, pledged, or disposed of by the recipient until vested. Regardless of vesting, restricted shares have full voting rights and any dividends declared will be paid to the restricted stock recipient free of restrictions. Restricted shares granted to officers vest ratably over a period of three years. Restricted shares granted to directors prior to June 1, 2010 vest ratably over a period of four years and grants after May 31, 2010 vest after one year. The number of restricted shares issued to directors is based on the market value of our shares on the date of grant.

The SARS plan provides for the issuance of a maximum of 750,000 shares of common stock upon the exercise of SARS or issuance of restricted stock. As of October 31, 2010, a total of 315,000 shares of common stock have been issued under the SARS plan, which includes 120,000 shares of restricted stock. An additional 101,500 shares of common stock would be issued if all outstanding SARS at October 31, 2010 were exercised, based on the end of day share price of \$35.39 on October 31, 2010.

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 October 31, 2010, a total of 1,130,000 shares have been issued upon the exercise of stock options. No additional stock options can be granted under the terms of the plan. All outstanding stock options are fully vested and have a term of ten years.

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

|                             | Stock Options      |   | Stock Appreciation Rights |   |
|-----------------------------|--------------------|---|---------------------------|---|
|                             | Outstanding Awards | Weighted Average Exercise Price Per Share | Outstanding Awards        | Weighted Average Exercise Price Per Share |
| Balance at January 31, 2010 | 279                | \$ 13.26                                  | 828                       | \$ 34.33                                  |
| Granted                     | —                  | —   | 44                        | 32.01                                     |
| Exercised                   | (58)               | 10.27                                     | (40)                      | 27.69                                     |
| Forfeited                   | —                  | —   | (6)                       | 49.86                                     |
| Balance at October 31, 2010 | <u>221</u>         | \$ 14.04                                  | <u>826</u>                | \$ 34.40                                  |

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

We calculate share-based compensation cost for stock options and SARS using the Black-Scholes option pricing model. The range of assumptions used to compute share-based compensation are as follows:

|  | Granted in Fiscal 2011 | Granted Prior to Fiscal 2011 |
|--|------------------------|------------------------------|
| Risk-free interest rate                      | 2.4%                   | 2.3 - 5.1%                   |
| Expected volatility                          | 53.0%                  | 40.0 - 48.0%                 |
| Expected dividend yield                      | 0.6%                   | 0.8 - 2.8%                   |
| Expected life (in years)                     | 6                      | 5 - 7                        |
| Weighted average fair value at date of grant | \$16.16                | \$4.16 - \$33.31             |

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

As of October 31, 2010, there was \$2.9 million of total unrecognized compensation cost related to nonvested share-based compensation awards granted under the plans. The following table represents as of October 31, 2010 the share-based compensation costs to be recognized in future periods (in thousands) for awards granted to date:

| <u>Fiscal Year</u> | <u>Amount</u>  |
|--------------------|----------------|
| 2011*              | \$ 516         |
| 2012               | 1,339          |
| 2013               | 686            |
| 2014               | 297            |
| 2015               | 57             |
|                    | <u>\$2,895</u> |

\* Represents last three months of fiscal 2011.

#### **Note 7—Debt**

On October 29, 2010, we entered into an amendment of our loan agreement with Bank of America, N.A. and Union Bank of California, N.A. The amendment (i) decreases the interest rate on the loan by 25 basis points to a range from 1.25% to 2.75% over LIBOR, and (ii) decreases the commitment fee on the loan by 5 basis points to a range from 0.25% to 0.45%, with the actual rate within each range to be determined based on our consolidated leverage ratio.

#### **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. Other than for costs of assessments themselves, the timing and amount of these liabilities is determined based on the estimated costs of remediation activities and our commitment to a formal plan of action, such as an approved remediation plan. The reliability and precision of the loss estimates are affected by numerous factors, such as different stages of site evaluation and reevaluation of the degree of remediation required. We adjust our liabilities as new remediation requirements are defined, as information becomes available permitting reasonable estimates to be made and to reflect new and changing facts.

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

Our specific environmental matters consist of the following:

##### Fairview, Oregon

In 1996, the Oregon Department of Environmental Quality issued two Records of Decision affecting our Fairview, Oregon manufacturing facility. The Records of Decision required us to initiate remedial activities related to the cleanup of groundwater contamination at and near the facility. Remediation activities have been conducted since 1996 and current estimates provide for some level of activity to continue through 2019. Costs of certain remediation activities at the facility are shared with The Boeing Company, with Cascade paying 70% of these costs. The recorded liability for ongoing remediation activities at our Fairview facility was \$2.6 million and \$3.2 million at October 31, 2010 and January 31, 2010, respectively.

## Springfield, Ohio

In March 2010 we signed a Facility Lead Corrective Action Agreement (“Action Agreement”) with the Ohio Environmental Protection Agency, which outlines a more comprehensive remediation plan at our Springfield, Ohio facility. We had previously been performing our remediation activities under a consent order signed in 1994, which had required the installation of remediation systems for the cleanup of groundwater contamination. The Action Agreement specifies an action plan that would allow us to be more proactive in our environmental cleanup efforts. During the fourth quarter of fiscal 2010 we accrued an additional \$1.1 million of costs related to remediation activities related to the Action Agreement. The current estimate is that the remediation activities will continue through 2019. The recorded liability for ongoing remediation activities in Springfield was \$1.8 million and \$1.9 million at October 31, 2010 and January 31, 2010, respectively.

## 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 9—Earnings Per Share

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

|   | Three Months Ended<br>October 31 |         | Nine Months Ended<br>October 31 |            |
|---|----------------------------------|---------|---------------------------------|------------|
|   | 2010                             | 2009    | 2010                            | 2009       |
| <b>Basic earnings (loss) per share:</b>                     |                                  |         |                                 |            |
| Net income (loss)   | \$ 8,784                         | \$ 157  | \$17,682                        | \$(24,219) |
| Weighted average shares of common stock outstanding         | 10,906                           | 10,824  | 10,876                          | 10,813     |
|   | \$ 0.81                          | \$ 0.01 | \$ 1.63                         | \$ (2.24)  |
| <b>Diluted earnings (loss) per share:</b>                   |                                  |         |                                 |            |
| Net income (loss)   | \$ 8,784                         | \$ 157  | \$17,682                        | \$(24,219) |
| Weighted average shares of common stock outstanding         | 10,906                           | 10,824  | 10,876                          | 10,813     |
| Dilutive effect of stock awards                             | 186                              | 180     | 207                             | —          |
| Diluted weighted average shares of common stock outstanding | 11,092                           | 11,004  | 11,083                          | 10,813     |
|   | \$ 0.79                          | \$ 0.01 | \$ 1.60                         | \$ (2.24)  |

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.

The following table represents the number of unexercised SARS and unvested restricted stock that were excluded from the calculation of diluted earnings per share because they were antidilutive:

|                           | Three Months Ended<br>October 31 |         | Nine Months Ended<br>October 31 |         |
|---------------------------|----------------------------------|---------|---------------------------------|---------|
|                           | 2010                             | 2009    | 2010                            | 2009    |
| <b>Excluded Awards:</b>   |                                  |         |                                 |         |
| Unexercised SARS Awards   | 571,000                          | 610,000 | 571,000                         | 828,000 |
| Unvested Restricted Stock | 5,000                            | 30,000  | —                               | 60,000  |

**Note 10—Supplemental Cash Flow Information**

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

|   | <u>Nine Months Ended October 31</u> |             |
|---|-------------------------------------|-------------|
|   | <u>2010</u>                         | <u>2009</u> |
| Cash paid during the period for:  |                                     |             |
| Interest  | \$ 1,587                            | \$ 1,477    |
| Income taxes  | \$ 7,670                            | \$ 3,429    |
| Supplemental disclosure of non-cash investing and financing activities: |                                     |             |
| Dividends declared  | \$ —                                | \$ 108      |

**Note 11—Benefit Plans**

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

|                                | <u>Defined Benefit</u>               |              | <u>Postretirement Benefit</u>        |               |
|--------------------------------|--------------------------------------|--------------|--------------------------------------|---------------|
|                                | <u>Three Months Ended October 31</u> |              | <u>Three Months Ended October 31</u> |               |
|                                | <u>2010</u>                          | <u>2009</u>  | <u>2010</u>                          | <u>2009</u>   |
| Net periodic benefit cost:     |                                      |              |                                      |               |
| Service cost                   | \$ 5                                 | \$ 5         | \$ 31                                | \$ 27         |
| Interest cost                  | 116                                  | 119          | 110                                  | 113           |
| Expected return on plan assets | (108)                                | (96)         | —                                    | —             |
| Recognized prior service cost  | —                                    | —            | (19)                                 | (19)          |
| Recognized net actuarial loss  | 30                                   | 13           | —                                    | —             |
|                                | <u>\$ 43</u>                         | <u>\$ 41</u> | <u>\$ 122</u>                        | <u>\$ 121</u> |

|                                | <u>Defined Benefit</u>              |               | <u>Postretirement Benefit</u>       |               |
|--------------------------------|-------------------------------------|---------------|-------------------------------------|---------------|
|                                | <u>Nine Months Ended October 31</u> |               | <u>Nine Months Ended October 31</u> |               |
|                                | <u>2010</u>                         | <u>2009</u>   | <u>2010</u>                         | <u>2009</u>   |
| Net periodic benefit cost:     |                                     |               |                                     |               |
| Service cost                   | \$ 15                               | \$ 15         | \$ 93                               | \$ 81         |
| Interest cost                  | 341                                 | 340           | 330                                 | 339           |
| Expected return on plan assets | (318)                               | (275)         | —                                   | —             |
| Recognized prior service cost  | —                                   | —             | (57)                                | (57)          |
| Recognized net actuarial loss  | 88                                  | 36            | —                                   | —             |
|                                | <u>\$ 126</u>                       | <u>\$ 116</u> | <u>\$ 366</u>                       | <u>\$ 363</u> |

**Note 12—Recent Accounting Pronouncements**

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

### Note 13—Warranty Obligations

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

|  | 2010            | 2009            |
|--|-----------------|-----------------|
| Balance at January 31                            | \$ 1,348        | \$ 1,312        |
| Accruals for warranties issued during the period | 1,452           | 1,510           |
| Accruals for pre-existing warranties             | 30              | 682             |
| Settlements during the period                    | (1,435)         | (2,192)         |
| Foreign currency changes                         | 38              | 103             |
| Balance at October 31                            | <u>\$ 1,433</u> | <u>\$ 1,415</u> |

### Note 14—Accumulated Other Comprehensive Income

During the nine months ended October 31, 2010, accumulated other comprehensive income increased due to fluctuations in foreign currencies, primarily the Canadian Dollar, Japanese Yen, Australian Dollar and Chinese Yuan. The following table presents the changes in and the components of accumulated other comprehensive income (in thousands):

|                                 | Accumulated Other Comprehensive Income (Loss) |                                      |                 |
|---------------------------------|---|--------------------------------------|-----------------|
|                                 | Translation Adjustment                        | Minimum Pension Liability Adjustment | Total           |
| Balance at January 31, 2010     | \$ 25,412                                     | \$ (1,959)                           | \$23,453        |
| Currency translation adjustment | 9,301   | (58)                                 | 9,243           |
| Balance at October 31, 2010     | <u>\$ 34,713</u>                              | <u>\$ (2,017)</u>                    | <u>\$32,696</u> |

### Note 15—Income Taxes

The effective tax rate for the first nine months of fiscal 2011 of 47% includes a second quarter charge of \$2.8 million to record valuation allowances against deferred tax assets recorded in previous fiscal years in Italy and England.

The effective tax rate of 41% in the third quarter of fiscal 2011 reflects additional valuation allowances related to losses in Europe for which we were unable to realize tax benefits.

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

As of October 31, 2010 our liability for uncertain tax positions was \$1.5 million which included an accrual for interest and penalties of \$0.4 million. There were no material changes in uncertain tax positions during the current period.

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

**Note 16—Restructuring Activities**

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

|                             | <u>Three Months Ended October 31</u> |                 | <u>Nine Months Ended October 31</u> |                  |
|-----------------------------|--------------------------------------|-----------------|-------------------------------------|------------------|
|                             | <u>2010</u>                          | <u>2009</u>     | <u>2010</u>                         | <u>2009</u>      |
| Employee wages and benefits | \$ (119)                             | \$ 531          | \$ (272)                            | \$ 11,146        |
| Facility closures           | (137)                                | 968             | 118                                 | 1,207            |
| Professional fees           | —                                    | 184             | (46)                                | 369              |
| Other restructuring         | —                                    | (113)           | —                                   | 329              |
| Fixed asset write downs     | <u>202</u>                           | <u>(56)</u>     | <u>215</u>                          | <u>4,829</u>     |
| Total costs                 | <u>\$ (54)</u>                       | <u>\$ 1,514</u> | <u>\$ 15</u>                        | <u>\$ 17,880</u> |

As of October 31, 2010, \$0.8 million of accrued restructuring costs are included on the consolidated balance sheet. We anticipate paying these costs by the end of the second quarter of fiscal 2012.

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

|                 | <u>Three Months Ended October 31</u> |                 | <u>Nine Months Ended October 31</u> |                  |
|-----------------|--------------------------------------|-----------------|-------------------------------------|------------------|
|                 | <u>2010</u>                          | <u>2009</u>     | <u>2010</u>                         | <u>2009</u>      |
| Germany         | \$ (5)                               | \$ 63           | \$ 401                              | \$ 63            |
| France          | —                                    | 465             | (48)                                | 5,015            |
| England         | —                                    | —               | (289)                               | —                |
| The Netherlands | <u>(49)</u>                          | <u>986</u>      | <u>(49)</u>                         | <u>12,802</u>    |
| Total costs     | <u>\$ (54)</u>                       | <u>\$ 1,514</u> | <u>\$ 15</u>                        | <u>\$ 17,880</u> |

**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 October 31, 2009 (“fiscal 2010”) and the period ended October 31, 2010 (“fiscal 2011”).

## RECENT TRENDS AND DEVELOPMENTS AFFECTING OUR RESULTS

### Global Economic & Lift Truck Market Conditions

We are seeing a continued global recovery in the lift truck market with increased sales volumes in all regions. Even with these increases during the current year, lift truck shipments in the third quarter still trail 2008 shipment levels, which were prior to the economic downturn, by up to 50% in some markets. China's lift truck shipments for the third quarter were 84% above 2008 shipment levels. We believe lift truck shipment levels will continue at current levels for the remainder of the year.

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

### Europe Restructuring

The results for our European business continue to show progress as a result of our restructuring efforts. In addition, we implemented price increases for certain products which began to take effect at the end of the third quarter. The price increases will continue to be phased in through the remainder of the year as we continue to analyze the profitability of our European customer base. We are also continuing to review our existing production capacity in relation to the percentage of China-sourced products. We remain confident that we will continue to make progress to achieve profitability in Europe.

## COMPARISON OF THIRD QUARTER OF FISCAL 2011 AND FISCAL 2010

### Executive Summary

|                            | Three Months Ended October 31           |           | Change   | Change % |
|----------------------------|---|-----------|----------|----------|
|                            | 2010                                    | 2009      |          |          |
|                            | (In thousands except per share amounts) |           |          |          |
| Net sales                  | \$ 107,377                              | \$ 80,822 | \$26,555 | 33%      |
| Operating income           | \$ 15,456                               | \$ 1,017  | \$14,439 | —        |
| Income before taxes        | \$ 14,779                               | \$ 371    | \$14,408 | —        |
| Provision for income taxes | \$ 5,995                                | \$ 214    | \$ 5,781 | —        |
| Effective tax rate         | 41%                                     | 58%       |          |          |
| Net income                 | \$ 8,784                                | \$ 157    | \$ 8,627 | —        |
| Diluted earnings per share | \$ 0.79                                 | \$ 0.01   | \$ 0.78  | —        |

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

- Consolidated net sales increased 33% due to higher sales volumes as a result of improving economic conditions and global lift truck market. Global lift truck shipments increased 44% compared to the prior year. We have found that while lift truck industry shipments provide an indication of the long-term direction of our business activity, changes in our quarterly net sales do not correspond directly to the quarterly percentage changes in lift truck shipments or orders.
- Our consolidated gross profit percentage increased from 24% to 31% during fiscal 2011 primarily as a result of improved cost absorption due to increased sales volumes and the benefit of cost cutting measures implemented during fiscal 2010. Our consolidated gross profit percentage was 30% during the second quarter of fiscal 2011.
- We incurred restructuring costs of \$1.5 million during fiscal 2010, primarily related to shutting down production activities at our facility in The Netherlands.
- The effective tax rate of 41% in the third quarter of fiscal 2011 reflects additional valuation allowances related to losses in Europe for which we were unable to realize tax benefits.

## North America

|                            | Three Months Ended October 31 |      |          |      | Change   | Change % |
|----------------------------|-------------------------------|------|----------|------|----------|----------|
|                            | 2010                          | %    | 2009     | %    |          |          |
|                            | (In thousands)                |      |          |      |          |          |
| Net sales                  | \$53,615                      | 89%  | \$40,215 | 91%  | \$13,400 | 33%      |
| Transfers between areas    | 6,433                         | 11%  | 4,097    | 9%   | 2,336    | 57%      |
| Net sales and transfers    | 60,048                        | 100% | 44,312   | 100% | 15,736   | 36%      |
| Cost of goods sold         | 41,115                        | 68%  | 30,540   | 69%  | 10,575   | 35%      |
| Gross profit               | 18,933                        | 32%  | 13,772   | 31%  | 5,161    | 37%      |
| Selling and administrative | 10,365                        | 18%  | 9,377    | 21%  | 988      | 11%      |
| Operating income           | \$ 8,568                      | 14%  | \$ 4,395 | 10%  | \$ 4,173 | 95%      |

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

|                         | Amount   | Change % |
|-------------------------|----------|----------|
| Net sales change        | \$13,167 | 33%      |
| Foreign currency change | 233      | 0%       |
| Total                   | \$13,400 | 33%      |

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

- Net sales increased 33% primarily due to higher sales volumes as a result of improving economic conditions. Lift truck industry shipments increased by 25% compared to the prior year.
- Transfers to other Cascade locations increased due to increased demand in Asia Pacific and China.
- Our gross profit percentage increased due to improved cost absorption as a result of higher sales volumes during the current year. Our gross profit percentage was 30% during the second quarter of fiscal 2011.
- Selling and administrative costs increased 10% due to \$0.6 million of additional executive incentive costs and \$0.7 million of other personnel costs in the current year as a result of improved financial performance in the current year and reinstatement of previously frozen salary increases. The increases were partially offset by decreases in other costs.

## Europe

|                              | Three Months Ended October 31 |      |                   |       | Change          | Change % |
|------------------------------|-------------------------------|------|-------------------|-------|-----------------|----------|
|                              | 2010                          | %    | 2009              | %     |                 |          |
|                              | (In thousands)                |      |                   |       |                 |          |
| Net sales                    | \$22,653                      | 99%  | \$18,555          | 97%   | \$ 4,098        | 22%      |
| Transfers between areas      | 180                           | 1%   | 567               | 3%    | (387)           | (68%)    |
| Net sales and transfers      | 22,833                        | 100% | 19,122            | 100%  | 3,711           | 19%      |
| Cost of goods sold           | 19,424                        | 85%  | 21,235            | 111%  | (1,811)         | (9%)     |
| Gross profit (loss)          | 3,409                         | 15%  | (2,113)           | (11%) | 5,522           | —        |
| Selling and administrative   | 4,273                         | 19%  | 4,657             | 24%   | (384)           | (8%)     |
| European restructuring costs | (54)                          | —    | 1,514             | 8%    | (1,568)         | —        |
| Operating loss               | <u>\$ (810)</u>               | (4%) | <u>\$ (8,284)</u> | (43%) | <u>\$ 7,474</u> | —        |

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

|                         | Amount          | Change %   |
|-------------------------|-----------------|------------|
| Net sales change        | \$ 5,927        | 32%        |
| Foreign currency change | (1,829)         | (10%)      |
| Total                   | <u>\$ 4,098</u> | <u>22%</u> |

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

- Net sales increased 32% primarily due to higher sales volumes as a result of a stronger lift truck market. Lift truck industry shipments for the quarter increased 40% when compared with the prior year.
- During the third quarter of fiscal 2011, our gross profit margin was the highest we have experienced in Europe since the quarter ended October 31, 2008. This improvement is due to our restructuring efforts over the past two years and also a result of sales price increases for certain products.
- Selling and administrative costs remained flat during the current year, excluding the impact of foreign currency changes.
- Restructuring costs in the prior year were primarily a result of terminating production at our facility in the Netherlands. These costs included facility closure costs of \$1.0 million and severance costs of \$0.5 million.

## Asia Pacific

|                            | Three Months Ended October 31 |      |          |      | Change  | Change % |
|----------------------------|-------------------------------|------|----------|------|---------|----------|
|                            | 2010                          | %    | 2009     | %    |         |          |
|                            | (In thousands)                |      |          |      |         |          |
| Net sales                  | \$16,353                      | 100% | \$11,886 | 99%  | \$4,467 | 38%      |
| Transfers between areas    | 9                             | —    | 112      | 1%   | (103)   | (92%)    |
| Net sales and transfers    | 16,362                        | 100% | 11,998   | 100% | 4,364   | 36%      |
| Cost of goods sold         | 11,761                        | 72%  | 8,715    | 73%  | 3,046   | 35%      |
| Gross profit               | 4,601                         | 28%  | 3,283    | 27%  | 1,318   | 40%      |
| Selling and administrative | 2,500                         | 15%  | 2,029    | 17%  | 471     | 23%      |
| Operating income           | \$ 2,101                      | 13%  | \$ 1,254 | 10%  | \$ 847  | 68%      |

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

|                         | Amount  | Change % |
|-------------------------|---------|----------|
| Net sales change        | \$3,278 | 28%      |
| Foreign currency change | 1,189   | 10%      |
| Total                   | \$4,467 | 38%      |

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

- Net sales increased 28% primarily due to higher sales volumes as a result of an improvement in economic conditions and an improving lift truck market. Lift truck industry shipments for the quarter increased 33% when compared with the prior year.
- Our gross profit percentage increased slightly compared to the prior year, due primarily to fluctuations in foreign currency rates.
- Selling and administrative costs rose 14% due to selling and personnel costs, but were 2% lower as a percentage of net sales.

## China

|                            | Three Months Ended October 31 |      |          |      | Change   | Change % |
|----------------------------|-------------------------------|------|----------|------|----------|----------|
|                            | 2010                          | %    | 2009     | %    |          |          |
|                            | (In thousands)                |      |          |      |          |          |
| Net sales                  | \$14,756                      | 71%  | \$10,166 | 80%  | \$4,590  | 45%      |
| Transfers between areas    | 6,012                         | 29%  | 2,576    | 20%  | 3,436    | 133%     |
| Net sales and transfers    | 20,768                        | 100% | 12,742   | 100% | 8,026    | 63%      |
| Cost of goods sold         | 13,919                        | 67%  | 8,009    | 63%  | 5,910    | 74%      |
| Gross profit               | 6,849                         | 33%  | 4,733    | 37%  | 2,116    | 45%      |
| Selling and administrative | 1,252                         | 6%   | 1,081    | 8%   | 171      | 16%      |
| Operating income           | \$ 5,597                      | 27%  | \$ 3,652 | 29%  | \$ 1,945 | 53%      |

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

|                         | <u>Amount</u>  | <u>Change %</u> |
|-------------------------|----------------|-----------------|
| Net sales change        | \$4,391        | 43%             |
| Foreign currency change | 199            | 2%              |
| Total                   | <u>\$4,590</u> | <u>45%</u>      |

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

- Net sales increased 43% primarily due to higher sales volumes as a result of the recovery of the Chinese economy and a strong lift truck market. Lift truck industry shipments within China for the quarter increased 53% when compared with the prior year.
- Transfers to other Cascade locations increased due to higher customer demand in Europe and Asia Pacific.
- Our gross profit percentage decreased due to changes in product mix and higher intercompany transfers, which carry lower gross margins.
- Selling and administrative costs increased 14% primarily due to research and development costs.

#### **Non-Operating Items**

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

- The effective tax rate of 41% in the third quarter of fiscal 2011 reflects additional valuation allowances related to losses in Europe for which we were unable to realize tax benefits.
- The income tax expense in fiscal 2010 was a result of taxes due in countries where we generated income and taxes on foreign dividends related to the repatriation of cash to the U.S. We were unable to realize a tax benefit in several European countries where we incurred losses due to valuation allowances.

## COMPARISON OF THE FIRST NINE MONTHS OF FISCAL 2011 AND FISCAL 2010

### Executive Summary

|                                   | <u>Nine Months Ended October 31</u>     |             | <u>Change</u> | <u>Change %</u> |
|-----------------------------------|---|-------------|---------------|-----------------|
|                                   | <u>2010</u>                             | <u>2009</u> |               |                 |
|                                   | (In thousands except per share amounts) |             |               |                 |
| Net sales                         | \$ 299,510                              | \$ 233,781  | \$65,729      | 28%             |
| Operating income (loss)           | \$ 35,359                               | \$ (18,620) | \$53,979      | —               |
| Income (loss) before taxes        | \$ 33,093                               | \$ (20,044) | \$53,137      | —               |
| Provision for income taxes        | \$ 15,411                               | \$ 4,175    | \$11,236      | 269%            |
| Effective tax rate                | 47%                                     | (21%)       | —             |                 |
| Net income (loss)                 | \$ 17,682                               | \$ (24,219) | \$41,901      | —               |
| Diluted earnings (loss) per share | \$ 1.60                                 | \$ (2.24)   | \$ 3.84       | —               |

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

- Consolidated net sales increased 27% due to higher sales volumes as a result of improving economic conditions and global lift truck market. Global lift truck shipments increased 36% compared to the prior year. We have found that while lift truck industry statistics provide an indication of the long-term direction of our business activity, changes in our net sales on a short-term basis do not correspond directly to the short-term percentage changes in lift truck shipments or orders.
- Our consolidated gross profit percentage increased from 23% to 30% during fiscal 2011 primarily as a result of improved cost absorption due to increased sales volumes in all regions and the benefit of cost cutting measures implemented during fiscal 2010.
- We incurred restructuring costs of \$17.9 million during fiscal 2010, primarily as a result of shutting down production activities at our facility in The Netherlands and the closure of our fork facility in France.
- The effective tax rate of 47% for the first nine months of fiscal 2011 includes additional expense from recording valuation allowances against the tax benefit of current and prior year net operating losses incurred in several European countries.
- The income tax expense in fiscal 2010 was a result of taxes due in countries where we generated income and taxes on foreign dividends related to the repatriation of cash to the U.S. We were unable to realize a tax benefit in several European countries where we incurred losses.

## North America

|                            | Nine Months Ended October 31 |      |                 |      | Change          | Change % |
|----------------------------|------------------------------|------|-----------------|------|-----------------|----------|
|                            | 2010                         | %    | 2009            | %    |                 |          |
|                            | (In thousands)               |      |                 |      |                 |          |
| Net sales                  | \$147,085                    | 89%  | \$115,182       | 91%  | \$31,903        | 28%      |
| Transfers between areas    | 19,062                       | 11%  | 10,858          | 9%   | 8,204           | 76%      |
| Net sales and transfers    | 166,147                      | 100% | 126,040         | 100% | 40,107          | 32%      |
| Cost of goods sold         | 115,528                      | 70%  | 89,641          | 71%  | 25,887          | 29%      |
| Gross profit               | 50,619                       | 30%  | 36,399          | 29%  | 14,220          | 39%      |
| Selling and administrative | 31,999                       | 19%  | 30,246          | 24%  | 1,753           | 6%       |
| Operating income           | <u>\$ 18,620</u>             | 11%  | <u>\$ 6,153</u> | 5%   | <u>\$12,467</u> | 203%     |

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

|                         | Amount          | Change %   |
|-------------------------|-----------------|------------|
| Net sales change        | \$30,533        | 27%        |
| Foreign currency change | 1,370           | 1%         |
| Total                   | <u>\$31,903</u> | <u>28%</u> |

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

- Net sales increased 27% primarily due to higher sales volumes as a result of improving economic conditions. Lift truck industry shipments decreased by 5% compared to the prior year. However, recent lift truck industry order and shipment rates are strong.
- Transfers to other Cascade locations increased during the current year due to increased global customer demand.
- Our gross profit percentage increased slightly due to improved cost absorption as a result of higher sales volumes during the current year and a reduction of overhead costs as a result of headcount reductions and other cost cutting measures implemented in the prior year. This was offset by changes in product mix and higher intercompany transfers, which carry lower gross margins.
- Selling and administrative costs increased 5% due to \$1.8 million of additional executive incentive costs in the current year as a result of improved financial performance.

## Europe

|                              | Nine Months Ended October 31 |      |                    |       | Change           | Change % |
|------------------------------|------------------------------|------|--------------------|-------|------------------|----------|
|                              | 2010                         | %    | 2009               | %     |                  |          |
|                              | (In thousands)               |      |                    |       |                  |          |
| Net sales                    | \$66,910                     | 99%  | \$ 60,172          | 97%   | \$ 6,738         | 11%      |
| Transfers between areas      | 378                          | 1%   | 1,844              | 3%    | (1,466)          | (80%)    |
| Net sales and transfers      | 67,288                       | 100% | 62,016             | 100%  | 5,272            | 9%       |
| Cost of goods sold           | 58,923                       | 88%  | 65,849             | 106%  | (6,926)          | (11%)    |
| Gross profit (loss)          | 8,365                        | 12%  | (3,833)            | (6%)  | 12,198           | —        |
| Selling and administrative   | 13,010                       | 19%  | 14,538             | 23%   | (1,528)          | (11%)    |
| European restructuring costs | 15                           | —    | 17,880             | 29%   | (17,865)         | (100%)   |
| Operating loss               | <u>\$ (4,660)</u>            | (7%) | <u>\$ (36,251)</u> | (58%) | <u>\$ 31,591</u> | —        |

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

|                         | Amount          | Change %   |
|-------------------------|-----------------|------------|
| Net sales change        | \$ 9,490        | 16%        |
| Foreign currency change | (2,752)         | (5%)       |
| Total                   | <u>\$ 6,738</u> | <u>11%</u> |

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

- Net sales increased 16% primarily due to higher sales volumes as a result of an improving lift truck market. Lift truck industry shipments increased 13% for the current year.
- Our gross profit margin increased as a result of improved cost absorption due to higher sales volumes and our restructuring efforts in fiscal 2010, which included closing production facilities in Germany, The Netherlands and France, other workforce reductions within Europe and the movement of certain production activities to Italy.
- Selling and administrative costs decreased 7% primarily due to lower personnel costs as a result of headcount reductions made during our European restructuring activities.
- Restructuring costs in the prior year were primarily a result of ceasing production activities at our facility in The Netherlands and the closure of our fork manufacturing facility in France. These costs included severance costs of \$11.1 million, fixed asset write downs of \$4.8 million, costs for movement of equipment and facility shutdowns of \$1.2 million and legal and other restructuring costs of \$0.7 million.

## Asia Pacific

|                            | Nine Months Ended October 31 |      |                 |      | Change          | Change % |
|----------------------------|------------------------------|------|-----------------|------|-----------------|----------|
|                            | 2010                         | %    | 2009            | %    |                 |          |
|                            | (In thousands)               |      |                 |      |                 |          |
| Net sales                  | \$44,406                     | 100% | \$33,552        | 100% | \$10,854        | 32%      |
| Transfers between areas    | 119                          | —    | 127             | —    | (8)             | (6%)     |
| Net sales and transfers    | 44,525                       | 100% | 33,679          | 100% | 10,846          | 32%      |
| Cost of goods sold         | 32,411                       | 73%  | 25,002          | 74%  | 7,409           | 30%      |
| Gross profit               | 12,114                       | 27%  | 8,677           | 26%  | 3,437           | 40%      |
| Selling and administrative | 7,165                        | 16%  | 5,588           | 17%  | 1,577           | 28%      |
| Operating income           | <u>\$ 4,949</u>              | 11%  | <u>\$ 3,089</u> | 9%   | <u>\$ 1,860</u> | 60%      |

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

|                         | Amount          | Change %   |
|-------------------------|-----------------|------------|
| Net sales change        | \$ 6,331        | 19%        |
| Foreign currency change | 4,523           | 13%        |
| Total                   | <u>\$10,854</u> | <u>32%</u> |

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

- Net sales increased 19% primarily due to higher sales volumes as a result of an improvement in economic conditions and an improving lift truck market. Lift truck industry shipments for the year increased 32% when compared with the prior year.
- Our gross profit percentage increased slightly due to the benefit of fluctuations in foreign currency rates.
- Selling and administrative costs increased 15% due to higher warranty, personnel and selling costs.

## China

|                            | Nine Months Ended October 31 |      |                 |      | Change          | Change % |
|----------------------------|------------------------------|------|-----------------|------|-----------------|----------|
|                            | 2010                         | %    | 2009            | %    |                 |          |
|                            | (In thousands)               |      |                 |      |                 |          |
| Net sales                  | \$41,109                     | 70%  | \$24,875        | 77%  | \$16,234        | 65%      |
| Transfers between areas    | 17,445                       | 30%  | 7,463           | 23%  | 9,982           | 134%     |
| Net sales and transfers    | 58,554                       | 100% | 32,338          | 100% | 26,216          | 81%      |
| Cost of goods sold         | 38,626                       | 66%  | 20,904          | 65%  | 17,722          | 85%      |
| Gross profit               | 19,928                       | 34%  | 11,434          | 35%  | 8,494           | 74%      |
| Selling and administrative | 3,478                        | 6%   | 3,045           | 9%   | 433             | 14%      |
| Operating income           | <u>\$16,450</u>              | 28%  | <u>\$ 8,389</u> | 26%  | <u>\$ 8,061</u> | 96%      |

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

|                         | Amount          | Change %   |
|-------------------------|-----------------|------------|
| Net sales change        | \$15,969        | 64%        |
| Foreign currency change | 265             | 1%         |
| Total                   | <u>\$16,234</u> | <u>65%</u> |

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

- Net sales increased 64% primarily due to higher sales volumes as a result of the recovery of the Chinese economy and a strong lift truck market. Lift truck industry shipments within China for fiscal 2011 increased 79% when compared with the prior year.
- Transfers to other Cascade locations increased due to higher customer demand in Europe and Asia Pacific.
- Our gross profit percentage decreased slightly due to product mix and intercompany transfers, which carry lower gross margins, offset by improved cost absorption as a result of higher sales volumes in the current year.
- Selling and administrative costs increased 13% due to higher research and development, personnel, engineering and selling costs.

## Non-Operating Items

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

- Interest expense increased \$273,000 during fiscal 2011 primarily due to an amended loan agreement we entered into July 2009, which increased our interest rate and modified our loan covenants. This resulted in higher interest rates in the current year.
- The provision for income taxes in fiscal 2011 includes a provision for recording valuation allowances against deferred tax assets resulting from net operating losses in Europe.
- The provision for income taxes in fiscal 2010 was primarily a result of taxes due in countries where we were generating income.

## CASH FLOWS

### Free Cash Flow

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

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

|                                     | <u>Three Months Ended October 31</u> |                 | <u>Nine Months Ended October 31</u> |                  |
|-------------------------------------|--------------------------------------|-----------------|-------------------------------------|------------------|
|                                     | <u>2010</u>                          | <u>2009</u>     | <u>2010</u>                         | <u>2009</u>      |
|                                     | <u>(In thousands)</u>                |                 | <u>(In thousands)</u>               |                  |
| Cash flow from operating activities | \$ 8,624                             | \$ 3,767        | \$ 11,995                           | \$ 35,216        |
| Capital expenditures                | (1,810)                              | (1,426)         | (3,715)                             | (3,257)          |
| Free cash flow                      | <u>\$ 6,814</u>                      | <u>\$ 2,341</u> | <u>\$ 8,280</u>                     | <u>\$ 31,959</u> |

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

### Statements of Cash Flows

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

The following table presents a summary of our cash flows:

|                                 | <u>Three Months Ended October 31</u> |                   | <u>Nine Months Ended October 31</u> |                    |
|---------------------------------|--------------------------------------|-------------------|-------------------------------------|--------------------|
|                                 | <u>2010</u>                          | <u>2009</u>       | <u>2010</u>                         | <u>2009</u>        |
|                                 | <u>(In thousands)</u>                |                   | <u>(In thousands)</u>               |                    |
| Operating activities            | \$ 8,624                             | \$ 3,767          | \$ 11,995                           | \$ 35,216          |
| Investing activities            | (745)                                | (1,390)           | (2,533)                             | (3,091)            |
| Financing activities            | (2,235)                              | (2,614)           | (5,392)                             | (41,108)           |
| Effect of exchange rate changes | (1,810)                              | (2,050)           | 1,926                               | (6,662)            |
| Net change in cash              | <u>\$ 3,834</u>                      | <u>\$ (2,287)</u> | <u>\$ 5,996</u>                     | <u>\$ (15,645)</u> |

### Operating Activities

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

Net cash provided by operating activities for the nine months ended decreased from \$35.2 million in fiscal 2010 to \$12.0 million in fiscal 2011 due to the following:

- The increase in net income in fiscal 2011 was primarily the result of higher sales in the current year as a result of improved economic conditions.
- The net loss in the nine months ended October 31, 2009 was a result of significant restructuring charges, a substantial decrease in sales volumes and lower gross margins.
- Inventories increased \$1.6 million during the current year compared to a decrease of \$27.3 million in fiscal 2010. During fiscal 2010, we focused on lowering inventory by limiting purchases of materials and maintaining lower levels of finished goods to reflect lower customer demand.
- During fiscal 2011, accounts receivable increased \$21.0 million compared to a decrease of \$15.5 million in fiscal 2010. The increase in the current year is primarily a result of higher sales. The prior year decrease was due to lower sales during the economic downturn.

### Investing Activities

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

|               | Three Months Ended October 31 |                 | Nine Months Ended October 31 |                 |
|---------------|-------------------------------|-----------------|------------------------------|-----------------|
|               | 2010                          | 2009            | 2010                         | 2009            |
| North America | \$ 697                        | \$ 399          | \$ 1,714                     | \$ 1,233        |
| Europe        | 4                             | 787             | 226                          | 1,079           |
| Asia Pacific  | 736                           | 92              | 1,001                        | 459             |
| China         | 373                           | 148             | 774                          | 486             |
|               | <u>\$ 1,810</u>               | <u>\$ 1,426</u> | <u>\$ 3,715</u>              | <u>\$ 3,257</u> |

The following are investing activity highlights:

- Capital expenditures during fiscal 2011 and 2010 are below historical levels as we have limited spending to only critical projects. We expect to continue spending at a reduced level through the end of fiscal 2011.
- We expect capital expenditures for the remainder of fiscal 2011 to be approximately \$2.0 million.

### Financing Activities

The following are major financing activities:

- Net payments made against our long-term debt and notes payable were \$3.2 million during the first nine months of fiscal 2011 compared to net payments of \$40.0 million during the first nine months of fiscal 2010. We continue to be focused on paying down our debt with available cash. During the current year we have been unable to paydown debt at the same rate as the prior year due to working capital requirements with increased sales levels.
- We declared dividends totaling \$1.9 million (\$0.17 per share) and \$1.1 million (\$0.11 per share) during the first nine months of fiscal 2011 and 2010, respectively.

## FINANCIAL CONDITION AND LIQUIDITY

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

- Our working capital, defined as current assets less current liabilities, increased from \$112.4 million at January 31, 2010 to \$141.0 million at October 31, 2010. Our current ratio, defined as current assets divided by current liabilities, increased from 3.3 to 1 at January 31, 2010 to 3.9 to 1 at October 31, 2010.
- Total outstanding debt, including notes payable to banks, decreased from \$59.4 million at January 31, 2010 to \$56.8 million at October 31, 2010.

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

Fixed charge coverage ratio – requires earnings before interest, taxes, depreciation, amortization and other non-cash charges (“EBITDA”), adjusted for cash taxes paid, an established level of capital expenditures and cash dividends, to be 1.5 times required debt service payments, principal and interest on outstanding debt. The actual fixed charge coverage ratio at October 31, 2010 was 10.9.

Leverage ratio – requires outstanding debt and other funded debt to be less than 3.0 times EBITDA. The actual leverage ratio at October 31, 2010 was 1.3.

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

As of October 31, 2010, outstanding borrowings under our loan agreement totaled \$52.0 million and an additional \$1.7 million was used to issue letters of credit. The additional amount that may be borrowed under our loan agreement at October 31, 2010, based on our leverage ratio, was \$61 million. No principal payments are required until December 2011. The interest rate on outstanding borrowings under our loan agreement, which was based on London Interbank Offered Rate (“LIBOR”) plus a margin of 2.0% at October 31, 2010 was 2.39%.

## OTHER MATTERS

The following table represents the three-month percentage change from July 31, 2010 to October 31, 2010 and the nine-month percentage change from January 31, 2010 to October 31, 2010 in the end of month foreign currency rates compared to the U.S. dollar used by our significant operations. As a result of these changes, foreign currency translation adjustments increased shareholders' equity by \$4.7 million during the quarter ended October 31, 2010 and \$9.2 million during the first nine months of fiscal 2011.

| Currency          | Change for<br>Three Months Ended<br>October 31, 2010 | Change for<br>Nine Months Ended<br>October 31, 2010 |
|-------------------|--|---|
| Japanese Yen      | 7%   | 12%   |
| British Pound     | 2%   | —   |
| Canadian Dollar   | 1%   | 5%  |
| Australian Dollar | 8%   | 11%   |
| Euro              | 7%   | —   |
| Korean Won        | 5%   | 3%  |
| Chinese Yuan      | 2%   | 2%  |

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's discussion and analysis of financial condition and results of operations is based on our consolidated financial statements which have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. We evaluate our estimates and judgments on an on-going basis, including those related to uncollectible receivables, inventories, impairment of goodwill, warranty obligations, environmental liabilities, benefit plans, share-based compensation and deferred taxes. We base our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. A description of our critical accounting policies and related judgments and estimates that affect the preparation of our consolidated financial statements is set forth in our Annual Report on Form 10-K for the year ended January 31, 2010.

## OFF BALANCE SHEET ARRANGEMENTS

At October 31, 2010, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or for other contractually narrow or limited purposes. As such, we are not materially exposed to any financing, liquidity market or credit risk that could arise if we had engaged in such relationships.

## RECENT ACCOUNTING PRONOUNCEMENTS

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

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the potential loss arising from adverse changes in market rates and prices, such as foreign currency exchange rate and interest rate fluctuations. A significant portion of our net sales and expenses are denominated in foreign currencies. As a result, our operating results could become subject to significant fluctuations based upon changes in the exchange rates of the foreign currencies in relation to the U.S. Dollar.

The table below illustrates the hypothetical increase in net sales for the third quarter of fiscal 2011 resulting from a 10% weaker U.S. dollar against foreign currencies which impact our operations (in millions):

|  |        |
|--|--------|
| Euro   | \$ 1.9 |
| Chinese Yuan   | 1.5    |
| Japanese Yen   | 0.7    |
| Canadian Dollar  | 0.6    |
| Australian Dollar  | 0.5    |
| British Pound  | 0.4    |
| Other currencies (representing 4% of consolidated net sales) | 0.4    |

A 10% weaker U.S. dollar during the quarter, measured against foreign currencies that affect our operations, would have increased our operating income by \$1.2 million.

We enter into foreign currency forward exchange contracts to offset the impact of currency fluctuations on certain nonfunctional currency assets and liabilities. The principal currencies hedged are denominated in Japanese Yen, Canadian Dollars, Euros, Chinese Yuan, Korean Won, Swedish Krona and British Pounds. Our foreign currency forward exchange contracts have terms lasting up to three months, but generally less than one month. We do not enter into derivatives or other financial instruments for trading or speculative purposes and we do not record our derivatives under hedge accounting.

A majority of our products are manufactured using specialty steel. As such, our cost of goods sold is sensitive to fluctuations in specialty steel prices, either directly through the purchase of raw materials or indirectly through the purchase of components. However, due to the nature of specialty steel, we are not impacted by changes in commodity steel prices to the extent others might be.

Presuming that the full impact of steel price increases is reflected in all steel and steel based component purchases, we estimate our gross profit percentage would decrease by approximately 0.4% for each 1.0% increase in steel prices. Based on our statement of operations for the three months ended October 31, 2010, a 1.0% increase in steel prices would have decreased consolidated gross profit by approximately \$368,000.

The majority of our debt as of October 31, 2010 had a variable interest rate, which was 2.39% at October 31, 2010 and was based on LIBOR plus a margin of 2.0%. Based on the October 31, 2010 outstanding balance of our variable rate debt of \$52.0 million, a 1% increase in our interest rate would result in a \$520,000 increase in annual interest expense.

#### **Item 4. Controls and Procedures**

##### Evaluation of Disclosure Controls and Procedures

Our management has evaluated, under the supervision and with the participation of our chief executive officer and chief financial officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 (the "Exchange Act"). Based on that evaluation, our chief executive officer and chief financial officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective in ensuring that information required to be disclosed in our Exchange Act reports is (1) recorded, processed, summarized and reported in a timely manner, and (2) accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

##### Changes in Internal Control Over Financial Reporting

There has been no change in the internal control over financial reporting that occurred during the three months ended October 31, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II—OTHER INFORMATION**

**Item 1. Legal Proceedings**

None

**Item 1A. Risk Factors**

There are no material changes from risk factors previously disclosed in our Form 10-K for the year ended January 31, 2010.

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

None

**Item 3. Defaults Upon Senior Securities**

None

**Item 5. Other Information**

None

**Item 6. Exhibits**

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CASCADE CORPORATION

December 3, 2010

/s/ JOSEPH G. POINTER

Joseph G. Pointer

*Chief Financial Officer*

*(Principal Financial and Accounting Officer)*

## EXHIBIT INDEX

| <u>Exhibit No.</u> | <u>Description</u>   |
|--------------------|--|
| 31.1               | Certification of Chief Executive Officer.  |
| 31.2               | Certification of Chief Financial Officer.  |
| 32                 | Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350. |

**Certification of Chief Executive Officer  
of Cascade Corporation**

I, Robert C. Warren, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cascade Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of the internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 3, 2010

/s/ ROBERT C. WARREN, JR.

Robert C. Warren, Jr.

*President and*

*Chief Executive Officer*

**Certification of Chief Financial Officer  
of Cascade Corporation**

I, Joseph G. Pointer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cascade Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of the internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 3, 2010

/s/ JOSEPH G. POINTER

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Joseph G. Pointer

*Chief Financial Officer*

**Certification of Chief Executive Officer  
and Chief Financial Officer  
pursuant to 18 U.S.C. Section 1350**

In connection with the quarterly report of Cascade Corporation (the "Company") on Form 10-Q for the period ended October 31, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

- (i) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and
- (ii) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ ROBERT C. WARREN, JR.

Robert C. Warren, Jr.  
*Chief Executive Officer*  
December 3, 2010

/s/ JOSEPH G. POINTER

Joseph G. Pointer  
*Chief Financial Officer*  
December 3, 2010