CASCADE CORP
Form 10-K
April 18, 2005

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

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# FORM 10-K

**(Mark One)**

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

**For the fiscal year ended January 31, 2005**

**OR**

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

**For the transition period from to**

**Commission file number 1-12557**

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CASCADE CORPORATION

(Exact name of registrant as specified in its charter)

| **Oregon** | **93-0136592** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

**2201 N.E. 201st Ave. Fairview, Oregon 97024-9718**

(Address of principal executive office) (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

**Common Stock, par value $.50 per share**

Name of exchange on which registered: **New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: **None**

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes x  No o

The aggregate market value of common stock held by non-affiliates of the registrant as of July 31, 2004 was $356,766,498, based on the closing sale price of the common stock on the New York Stock Exchange on that date.

The number of shares outstanding of the registrant s common stock as of March 11, 2005 was 12,228,083.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the definitive Proxy Statement to be filed within 120 days after the registrant s fiscal year end of January 31, 2005, to be delivered to shareholders in connection with the Annual Meeting of Shareholders to be held June 7, 2005 are incorporated by reference into Part III.

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NOTE: All references to fiscal years are defined as year ended January 31, 2005 (fiscal 2005), year ended January 31, 2004 (fiscal 2004) and year ended January 31, 2003 (fiscal 2003).

**Forward-looking Statements**

This Annual Report on Form 10-K, including Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including any projections of revenue, gross margin, expenses, earnings or losses from operations, synergies or other financial items; any statements of plans, strategies, and objectives of management for future operations; any statements regarding future economic conditions or performance; any statements of expectation or belief; and any statements of assumptions underlying any of the foregoing. The risks, uncertainties, and assumptions referred to above include, but are not limited to, competitive factors in, and the cyclical nature of, the materials handling industry; fluctuations in lift truck orders or deliveries, availability and cost of raw materials; general business and economic conditions in North America, Europe, Australia and Asia; assumptions relating to pension and other post-retirement costs, foreign currency fluctuations; pending litigation; environmental matters; and the effectiveness of our capital expenditures and cost reduction initiatives. We undertake no obligation to publicly revise or update forward-looking statements to reflect events or circumstances that arise after the date of this report.

**PART I**

**Item 1.** Business

**General**

Cascade Corporation (Cascade) was organized in 1943 under the laws of the State of Oregon. The terms Cascade , we , and our includes Cascade Corporation and its subsidiaries. Our headquarters are located in Fairview, Oregon, a suburb of Portland, Oregon. We are one of the world s leading manufacturers of materials handling load engagement devices and related replacement parts, primarily for the lift truck industry.

**Products**

We manufacture an extensive range of materials handling load engagement products that are widely used on forklift trucks and, to a lesser extent, on construction and agricultural vehicles.

Our products are primarily manufactured with the Cascade and Cascade-Kenhar names and symbols, for which we have secured trademark protection. The primary function of these products is to provide the lift truck with the capability of engaging, lifting, repositioning, carrying and depositing various types of loads and products. We offer a wide variety of functionally different products, each of which has numerous sizes, models, capacities and optional combinations. Products are designed to handle loads with pallets and for specialized application loads without pallets. Examples of specialized products include devices specifically designed to handle loads such as appliances, paper rolls, baled materials, textiles, beverage containers, drums, canned goods, bricks, masonry blocks, lumber, plywood, and boxed, packaged and containerized products.

Our products are subject to strict design, construction and safety requirements established by industry associations and the International Organization for Standardization (ISO). Major manufacturing facilities are ISO certified. We presently offer a wide variety of both standardized and specialized products. Product specifications and characteristics are determined by the expected capacity to be lifted, the characteristics of the load, the ambient environment in which employed, the terrain over which the load will be moved and the operational life cycle of the vehicle. Accordingly, while there are some standard products, the market demands a wide range of products in custom configurations and capacities.

Manufacturing of our products includes the purchase of raw materials and components: principally rolled bar, plate and extruded steel products; unfinished castings and forgings; hydraulic cylinders and motors; and hardware items such as fasteners, rollers, hydraulic seals and hose assemblies. A portion of our bar steel purchases are obtained under annual pricing arrangements, which do not require minimum quantity purchases. Certain purchased parts are provided worldwide by a limited number of suppliers. We are not currently experiencing any shortages in obtaining raw materials or purchased parts. Difficulties in obtaining alternative sources of rolled bar, plate and extruded steel products and other materials from one of our primary suppliers could affect operating results.

**Markets**

We market our products throughout the world. Our primary customers are companies and industries that use lift trucks for materials handling. Examples of these industries include pulp and paper, grocery products, textiles, recycling and general consumer goods. Our products are sold to the ultimate customer through the retail lift truck dealer distribution channel and to lift truck manufacturers as original equipment manufacturer (OEM) equipment.

In the major industrialized countries, lift trucks are a widely utilized method of materials handling. In these markets lift trucks are generally considered maintenance capital investment. This makes the industry subject to cyclical patterns similar to the broader capital goods economic sector.

However, many of our products measurably improve overall materials handling and lift truck productivity. Further, we are continually developing products to serve new types of materials handling applications to meet specific customer and industry requirements. In this sense, our products may also be generally considered as both maintenance and productivity enhancing investment. Historically, this has somewhat reduced the negative impact of downward trends in the lift truck market on our net sales.

In the emerging industrialized countries, China in particular, lift trucks are replacing manual labor and other less productive methods of materials handling. As such lift trucks are generally considered productivity enhancing investments in these markets. We believe this makes lift truck markets in these countries generally less susceptible to downward trends in capital goods spending. Our relatively limited experience in these emerging markets supports this observation.

**Competition**

We are one of the leading domestic and foreign independent suppliers of load engagement products for industrial forklift trucks. Several lift truck manufacturers, who are customers of ours, are also competitors in varying degrees to the extent that they manufacture a portion of their load engagement product requirements. Since we offer a broad line of products capable of supplying a significant part of the total requirements for the entire lift truck industry, our experience has shown that lower costs resulting from our relatively high unit volume would be difficult for any individual lift truck manufacturer to achieve.

In addition to lift truck manufacturers, we compete with a number of companies in different parts of the world. The majority of these competitors are privately-owned companies with a strong presence in local and regional markets. A smaller number of these competitors compete with us globally.

Our market share throughout the world varies by geographic region. We believe we are the leading manufacturer in North America and the preferred supplier of many OEMs as well as OEDs (original equipment dealers) and distributors. We also have significant market share in Europe and the Asia Pacific region. In addition to sales to the lift truck market, we sell products to OEMs who manufacture construction, mining, agricultural and industrial mobile equipment other than lift trucks.

We design and position our products to be the performance and service leaders in their respective product categories and geographic markets. As such, our products are also generally priced higher than competitive products. In certain geographic markets, we compete principally on price for products that are considered to be commodity products in nature.

**Customers**

Our products are marketed and sold to OEMs, OEDs and distributors globally. Our primary markets are North America, Europe and Asia Pacific, which includes Australia. No single customer accounts for more than 10% of our consolidated net sales. Approximately 40% of our consolidated net sales for the year ended January 31, 2005 were to OEM customers. This percentage is comparable to prior years.

**Backlog**

Our products are manufactured with short lead times of generally less than one month. Accordingly, we do not believe the level of backlog orders is a significant factor in evaluating our overall level of business activity.

**Research and Development**

Most of our research and development activities are performed at our corporate headquarters in Fairview, Oregon and at our manufacturing facility in Guelph, Ontario, Canada. Our engineering staff develops and designs substantially all of the products we sell and is continually involved in developing products for new applications. We do not consider patents to be important to our business.

**Environmental Matters**

From time to time, we are the subject of investigations, conferences, discussions and negotiations with various federal, state, local and foreign agencies with respect to cleanup of hazardous waste and compliance with environmental laws and regulations. Note 13 to the Consolidated Financial Statements (Item 8), Legal Proceedings (Item 3) and Management s Discussion and Analysis of Financial Conditions and Results of Operations (Item 7) contain additional information concerning our environmental matters.

**Employees**

At January 31, 2005, we had approximately 1,800 full-time employees throughout the world. The majority of these employees are not subject to collective bargaining agreements. We believe our relations with our employees are excellent.

**Foreign Operations**

We have substantial operations outside the United States. There are additional business risks attendant to our foreign operations such as the risk that the relative value of the underlying local currencies may weaken when compared to the U.S. dollar. For further information about foreign operations, see Management s Discussion and Analysis of Financial Condition and Results of Operations (Item 7) and Notes to Consolidated Financial Statements (Item 8), including Note 15 Segment Information.

**Available Information**

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to reports filed or furnished pursuant to Sections 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are available on or through our website at *www.cascorp.com* when such reports are available on the Securities and Exchange Commission website.

**Item 2.** Properties

We own and lease various types of properties located throughout the world. Our executive offices are located in Fairview, Oregon. We generally consider the productive capacity of our manufacturing facilities to be adequate and suitable to meet our requirements. Our primary locations are presented below:

| Location | Primary Activity | Approximate Square Footage | Status |
|---|---|---|---|
| **NORTH AMERICA** | | | |
| Springfield, Ohio | Manufacturing | 200,000 | Owned |
| Fairview, Oregon | Manufacturing/Headquarters | 155,000 | Owned |
| Guelph, Ontario Canada | Manufacturing | 125,000 | Owned |
| Toronto, Ontario Canada | Manufacturing | 73,000 | Leased |
| Warner Robins, Georgia | Manufacturing | 65,000 | Owned |
| Findlay, Ohio | Manufacturing | 52,000 | Owned |
| **EUROPE** | | | |
| Almere, The Netherlands | Manufacturing | 162,000 | Owned |
| Schalksmuhle, Germany | Manufacturing | 81,000 | Owned |
| Verona, Italy | Manufacturing | 74,000 | Leased |
| Hoorn, The Netherlands | Manufacturing | 74,000 | Owned |
| Manchester, England | Manufacturing | 44,000 | Owned |
| La Machine, France | Manufacturing | 37,000 | Owned |
| Hagen, Germany | Manufacturing | 31,000 | Leased |
| Brescia, Italy | Manufacturing | 19,000 | Owned |
| Monchengladbach, Germany | Sales | 15,000 | Leased |
| Sheffield, England | Sales | 10,000 | Leased |
| Vaggeryd, Sweden | Sales | 2,000 | Leased |
| Epignay, France | Sales | 2,000 | Leased |
| Barcelona, Spain | Sales | 1,000 | Leased |
| Vantaa, Finland | Sales | 500 | Leased |
| **ASIA PACIFIC** | | | |
| Xiamen, China | Manufacturing | 72,000 | Leased |
| Hebei, China | Manufacturing | 65,000 | Leased |
| Brisbane, Australia | Manufacturing | 46,000 | Leased |
| Osaka, Japan | Sales/Distribution | 16,000 | Leased |
| Inchon, Korea | Manufacturing | 12,000 | Owned |
| Auckland, New Zealand | Sales/Distribution | 9,000 | Leased |
| Johannesburg, South Africa | Sales/Distribution | 9,000 | Leased |

**Item 3.** Legal Proceedings

Neither Cascade nor any of our subsidiaries are involved in any material pending legal proceedings other than litigation related to environmental matters discussed below. We are insured against product liability, personal injury and property damage claims, which may occasionally arise.

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

future expenses and liabilities, additional interest, and increased attorneys fees. The insurer has cross-appealed. We have not recorded any amounts that may be recovered from the insurer in our consolidated financial statements.

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

None

**Item 4A.** Officers of the Registrant

**Robert C. Warren, Jr. Chief Executive Officer and President(1)** Mr. Warren, 56, has served as President and Chief Executive Officer of Cascade since 1996. He was President and Chief Operating Officer from 1993 until 1996 and was formerly Vice President Marketing. Mr. Warren joined Cascade in 1972.

**Gregory S. Anderson Senior Vice President Human Resources(1)** Mr. Anderson, 56, has served in his current position since 2002. He joined Cascade in 1984, and has served as Vice President Human Resources since 1991.

**Richard S. Anderson Senior Vice President and Chief Financial Officer(1)** Mr. Anderson, 57, has served as Chief Financial Officer since 2001. Mr. Anderson has been employed by Cascade since 1972 and held several positions including his appointments as Vice President Material Handling Product Group in 1996 and Senior Vice President International in 1999.

**Terry H. Cathey Senior Vice President and Chief Operating Officer(1)** Mr. Cathey, 57, has served as Chief Operating Officer since 2000. He has been employed by Cascade since 1973 and has held several positions, including his appointments as Vice President Material Handling Operations in 1996 and Vice President Manufacturing in 1993.

**Michael E. Kern, Vice President Marketing(1)** Mr. Kern, 58, has served as Vice President Marketing since 2003. He has been employed by Cascade since 1966 and has held several positions, including his appointments as Director of Dealer Marketing and Sales in 2001 and Aftermarket Sales Manager in 1999.

**Charlie S. Mitchelson, Vice President and Managing Director, Europe(1)** Mr. Mitchelson, 49, joined Cascade in 1990. Prior to his current appointment as Managing Director Europe in 1998, Mr. Mitchelson served as Managing Director of U.K. Cylinder Division from 1995 to 1998.

**Jeffrey K. Nickoloff, Vice President Corporate Manufacturing(1)** Mr. Nickoloff, 49, has served in his current position since 2002. He has held several positions with Cascade, including his appointments as Director of North American Manufacturing in 2000 and Plant Manager in 1993. Mr. Nickoloff joined Cascade in 1979.

**Joseph G. Pointer, Vice President Finance(1)** Mr. Pointer, 44, has served as Vice President Finance since 2000. Prior to joining Cascade in 2000, Mr. Pointer was a partner at PricewaterhouseCoopers LLP in Portland, Oregon.

**Anthony F. Spinelli, Vice President OEM Products(1)** Mr. Spinelli, 62, has served as Vice President OEM Products, since 2001. Prior to 2001, he was Managing Director, Canadian Operations. Mr. Spinelli joined Cascade in 1997 when we purchased Kenhar Corporation where he had served as President, Kenhar Americas.

**John A. Cushing Treasurer** Mr. Cushing, 44, has served as Treasurer since 2001. He previously was Assistant Treasurer from 1999 until 2001. Prior to joining Cascade in 1999, Mr. Cushing was Assistant Treasurer for Fred Meyer, Inc., a retail company in Portland, Oregon.

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(1) These individuals are considered executive officers of Cascade Corporation.

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**PART II**

**Item 5.** Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

As of January 31, 2005, there were 223 record holders of Cascade s common stock including blocks of shares held by various depositories. It is our belief that when the shares held by the depositories are attributed to the beneficial owners, the total exceeds 1,500.

**Market Information**

The high and low sales prices of Cascade s common stock based on intra-day prices on the New York Stock Exchange were as follows:

| | **Year ended January 31** | | | |
|---|---|---|---|---|
| | **2005** | | **2004** | |
| | **High** | **Low** | **High** | **Low** |
| Market price range: | | | | |
| First quarter | $24.15 | $19.41 | $15.48 | $13.80 |
| Second quarter | 31.66 | 20.50 | 19.57 | 14.03 |
| Third quarter | 31.50 | 23.60 | 24.37 | 17.83 |
| Fourth quarter | 42.00 | 29.00 | 27.49 | 20.09 |

**Common Stock Dividends**

The common stock dividends declared were as follows:

| | **Year ended January 31** | |
|---|---|---|
| | **2005** | **2004** |
| First quarter | $0.11 | $0.10 |
| Second quarter | 0.11 | 0.10 |
| Third quarter | 0.11 | 0.10 |
| Fourth quarter | 0.12 | 0.11 |
| Total | $0.45 | $0.41 |

**Stock Exchange Listing and Transfer Agent**

Cascade s stock is traded on the New York Stock Exchange under the symbol CAE.

Cascade s registrar and transfer agent is Mellon Shareholder Services, L.L.C., Shareholder Relations, P.O. Box 3315, South Hackensack, N.J., 07606, (800) 522-6645.

**Item 6.** Selected Financial Data

| | Year Ended January 31 | | | | |
|---|---|---|---|---|---|
| | **2005** | **2004** | **2003** | **2002** | **2001** |
| | **(In thousands, except per share amounts and employees)** | | | | |
| **Income statement data(1):** | | | | | |
| Net sales | $ 385,719 | $ 297,756 | $ 258,829 | $ 252,715 | $ 301,358 |
| Operating income | $ 47,777 | $ 32,025 | $ 32,744 | $ 13,433 | $ 24,909 |
| Income from continuing operations | $ 47,777 | $ 18,506 | $ 17,707 | $ 5,302 | $ 9,774 |
| Net income | $ 28,490 | $ 18,506 | $ 17,707 | $ 4,127 | $ 11,863 |
| **Cash flow data:** | | | | | |
| Cash flows from operating activities | $ 38,148 | $ 26,407 | $ 23,941 | $ 34,836 | $ 28,049 |
| Cash flows from investing activities(2) | $ (14,857 ) | $ (19,612 ) | $ (7,718 ) | $ (3,201 ) | $ (6,228 ) |
| Cash flows from financing activities | $ (17,232 ) | $ (14,881 ) | $ (18,056 ) | $ (16,405 ) | $ (31,317 ) |
| **Stock information:** | | | | | |
| Basic earnings per share: | | | | | |
| Income from continuing operations | $ 2.34 | $ 1.55 | $ 1.55 | $ 0.47 | $ 0.84 |
| Net income | $ 2.34 | $ 1.55 | $ 1.55 | $ 0.36 | $ 1.02 |
| Diluted earnings per share: | | | | | |
| Income from continuing operations | $ 2.24 | $ 1.49 | $ 1.45 | $ 0.44 | $ 0.80 |
| Net income | $ 2.24 | $ 1.49 | $ 1.45 | $ 0.34 | $ 0.97 |
| Book value per common share | $ 17.82 | $ 15.18 | $ 12.70 | $ 10.03 | $ 10.18 |
| Dividends declared | $ 0.45 | $ 0.41 | $ 0.10 | $ | $ 0.20 |
| **Balance sheet information:** | | | | | |
| Working capital(3) | $ 94,154 | $ 81,720 | $ 71,201 | $ 66,011 | $ 64,747 |
| Property, plant and equipment, net | $ 82,027 | $ 75,244 | $ 65,863 | $ 61,412 | $ 77,235 |
| Total assets | $ 328,092 | $ 292,819 | $ 262,317 | $ 247,286 | $ 282,620 |
| Long-term debt | $ 25,187 | $ 38,111 | $ 50,113 | $ 65,679 | $ 87,513 |
| Shareholders equity | $ 217,883 | $ 183,688 | $ 144,748 | $ 113,267 | $ 116,503 |
| **Other:** | | | | | |
| Capital expenditures(1)(4) | $ 13,581 | $ 11,403 | $ 10,665 | $ 7,303 | $ 5,549 |
| Depreciation(1) | $ 13,912 | $ 12,152 | $ 10,532 | $ 10,349 | $ 10,531 |
| Amortization(1) | $ 3,150 | $ 512 | $ 261 | $ 4,399 | $ 5,366 |
| Interest expense, net of interest income(1) | $ 3,008 | $ 3,554 | $ 4,228 | $ 5,322 | $ 6,852 |
| Diluted weighted average shares outstanding | 12,726 | 12,409 | 12,194 | 12,233 | 12,272 |
| Number of employees | 1,800 | 1,700 | 1,500 | 1,400 | 1,900 |

(1) Except net income, excludes for all periods the data for our hydraulic cylinder division, which was sold in January 2002.

(2) Includes $6.2 million and $11.7 million in fiscal 2005 and 2004, respectively, for business acquisitions.

(3) Defined as current assets less current liabilities.

(4) Excludes $5.4 million and $5.8 million in fiscal 2005 and 2004, respectively, of additions to property, plant and equipment from business acquisitions.

## Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Management s discussion and analysis of our 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, goodwill and long-lived assets, warranty obligations, environmental liabilities and deferred taxes. We base our estimates on our historical experience and various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies reflect our more significant judgments and estimates in the preparation of our consolidated financial statements.

*Allowances for Doubtful Accounts*

We maintain allowances for doubtful accounts for estimated losses on accounts receivable resulting from the inability of customers to make required payments. Such allowances are based on an ongoing review of customer payments against terms and a review of customer financial statements and financial information. If the financial condition of customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

*Inventory Reserves*

Inventories are stated at the lower of cost or market. We maintain reserves to write down our inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value, less costs to sell, based upon assumptions about future demand and market conditions. If actual future demand or market conditions are less favorable than those projected by management, additional inventory write-downs may be required, which would result in cost of goods sold in the consolidated statements of income being greater than expected in the period in which more information becomes available.

*Intangible Assets*

We adopted the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations and No. 142, Goodwill and Other Intangible Assets on accounting for business combinations and goodwill as of the beginning of fiscal 2003. Accordingly, we no longer amortize goodwill from acquisitions. We continue to amortize other acquisition-related intangibles, which are not significant to our consolidated balance sheets.

As required by SFAS 142, we perform an impairment test annually, or earlier if indicators of potential impairment exist. Certain factors we consider important which could trigger an impairment review include, but are not limited to, significant underperformance relative to historical or projected future operating results, significant changes in the manner of use of the acquired assets or our overall business and significant industry or economic trends. The impairment review is based on a discounted cash flow approach that uses estimates of future sales, sales growth rates, gross margins, expense and capital expenditure levels, the discount rate and estimated terminal values to determine the fair value of the operating entities should an impairment exist. Changes in these and other factors could result in impairments in the carrying value of goodwill, which would require a write down to the asset s fair value.

*Warranty Obligations*

We offer certain warranties with the sale of our products. The warranty obligation is recorded as a liability on the balance sheet and is estimated through historical customer claims, product failure rates, material usage and service delivery costs incurred in correcting a product failure. Changes in these factors and changes in statutory requirements for product warranties in markets in which we sell our products may require an adjustment to the recorded warranty obligations.

*Environmental Liabilities*

We accrue environmental remediation and litigation costs if it is probable a liability has been incurred at the financial statement date and the amount can be reasonably estimated. Our liability for environmental costs, other than for costs of assessments themselves, are generally determined after the completion of investigations and studies and are based on the estimated cost of remediation activities we are then required to undertake. The gross liability is based on our best estimate of undiscounted future costs using currently available technology and applying current regulations, as well as our own historical experience regarding environmental cleanup costs. The reliability and precision of the estimates are affected by numerous factors, such as site evaluation and reevaluation of the degree of remediation required, claims by third parties and changes to environmental laws and regulations. We adjust our liabilities as new remediation requirements are defined, as information becomes available permitting reasonable estimates to be made and to reflect new facts.

*Deferred Taxes*

Our provision for income taxes and the determination of the resulting deferred tax assets and liabilities involves a significant amount of management judgment. We are subject to taxation from federal, state and international jurisdictions. The taxes paid to these jurisdictions are subject to audit, although to date the results of any tax audits have been minor.

Judgment is also applied in determining whether deferred tax assets will be realized in full or in part. We record a valuation allowance to reduce our deferred tax assets when it is more likely than not that all or some portion of specific deferred tax assets, such as foreign tax credit carryovers or net operating loss carryforwards, will not be realized. We have recorded on our consolidated balance sheets a valuation allowance against various deferred tax assets. We consider future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance. In the event we were to determine that we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to the deferred tax assets would be charged against income in the period such determination was made. Likewise, should we determine that we would be able to realize our deferred tax assets in the future in excess of our net recorded amount, an adjustment to the deferred tax assets would increase income in the period such determination was made. We continually evaluate strategies that could allow for the future utilization of our deferred tax assets.

*Benefit Plans*

We make a number of assumptions with regard to both future financial conditions and future actions by plan participants to calculate on an actuarial basis the amount of income or expense and assets and liabilities recognized in association with our defined benefit and postretirement benefit plans. These assumptions include the expected return on plan assets, discount rate, health care cost trend rates and expected rates of retirement for plan participants. We review the assumptions on an annual basis and makes changes to reflect market conditions and the administration of the plans. While we believe the current assumptions are appropriate in the circumstances, actual results and changes in these assumptions in the future will result in adjustments which could impact the income or expense recognized in future years in relation to these plans.

**COMPARISON OF FISCAL 2005 AND FISCAL 2004**

**Consolidated Summary**

Net income for fiscal 2005 increased to $28.5 million ($2.24 per diluted share) from $18.5 million ($1.49 per diluted share) in fiscal 2004. This increase is primarily due to net sales growth of 21%, excluding currency gains. Additional net sales from acquired companies contributed almost 4%, while foreign currency fluctuations added nearly 5% to net sales. North America, Europe and Asia Pacific all experienced net sales growth of slightly over 20% during fiscal 2005 as compared to fiscal 2004, due to higher volumes of shipments and sales price increases. Gross margin slipped slightly in fiscal 2005 due primarily to increases in raw material costs offsetting sales increases. Operating income as a percentage of net sales increased from 10.8% to 12.4%, aided in part by income of $1.3 million from an insurance litigation settlement. Lower debt levels in fiscal 2005 resulted in lower interest charges than in fiscal 2004.

**North America**

| | **Year Ended January 31** | | | | | |
|---|---|---|---|---|---|---|
| | **2005** | **%** | **2004** | **%** | **Change** | **Change %** |
| | **(In thousands)** | | | | | |
| Net sales | $ 208,553 | 100 % | $ 171,709 | 100 % | $36,844 | 21 % |
| Cost of goods sold | 128,175 | 61 % | 108,524 | 63 % | 19,651 | 18 % |
| Gross profit | 80,378 | 39 % | 63,185 | 37 % | 17,193 | 27 % |
| Selling and administrative | 41,413 | 20 % | 38,000 | 22 % | 3,413 | 9 % |
| Amortization | 2,638 | 1 % | 234 | | 2,404 | |
| Insurance litigation recovery | (1,300 ) | | | | (1,300 ) | |
| Environmental expense | 155 | | | | 155 | |
| Operating income | $ 37,472 | 18 % | $ 24,951 | 15 % | $12,521 | 50 % |

Net sales in North America increased $37 million or 21% in fiscal 2005 to $209 million. Increased volume of shipments from North American facilities as well as price increases accounted for $35.4 million of the increase. The remaining increase is due to the change in foreign currency rates between the U.S. and Canadian dollar.

Historically, we have found that changes in the level of our net sales do not correspond directly to the percentage changes in lift truck industry shipments, but industry statistics do provide an indication of the direction of business activity. North American lift truck industry shipments from 2004 to 2005 increased 16%. We have maintained or increased our overall existing market share in North America during fiscal 2005.

North America s gross margin increased to 39% in fiscal 2005 as compared to 37% in fiscal 2004. This increase is due primarily to increased shipments and better absorption of fixed costs and price increases in fiscal 2005. This benefit is somewhat offset by higher raw material costs and the sale in the United States of certain products manufactured in Canada. Sales of these products are in U.S. dollars but a significant portion of the costs are in Canadian dollars. During 2005, the value of the U.S. dollar against the Canadian dollar decreased 7%.

Selling and administrative costs for fiscal 2005 increased 9% or $3.4 million over fiscal 2004. Excluding the effects of currency changes, these costs increased 8% or $3.0 million, driven primarily by higher levels of incentive pay, professional fees and sales commissions.

The increase in amortization expense is exclusively due to stock appreciation rights (SARS). We issued 453,000 SARS, which vest over four years, to key executives and directors under the Cascade Stock Appreciation Rights Plan (Plan) approved by shareholders in May 2004. See Note 10 to our Consolidated Financial Statements for further discussions about the Plan. The SARS amortization is influenced by two factors, the market price of our common stock at the end of the reporting period relative to the market price at the date of grant and the method for recognizing the related compensation cost.

During the period from the date of grant, May 26, 2004 to January 31, 2005 the market price of our common stock increased $15.45 per share, from $21.15 per share to $36.60 per share. This resulted in deferred compensation of $7.0 million recorded as additional paid-in-capital. We are amortizing the deferred compensation over the four year vesting period. We have amortized $2.5 million of deferred compensation during the year ended January 31, 2005. Assuming no change in the $36.60 market price of our common stock at January 31, 2005, the unamortized deferred compensation of $4.5 million would result in amortization expense of $2.4 million, $1.3 million and $620,000 in fiscal 2006, 2007 and 2008, respectively. Annual or quarterly increases in our common stock during fiscal 2006, 2007 and 2008 would result in additional amortization expenses. Correspondingly for quarterly or annual periods ending after January 31, 2005, any decreases in the market price of our common stock after January 31, 2005 will result in the reversal of previously recognized amortization expense. In addition, future grants will also impact earnings depending on changes in the price of our common stock. See Recent Accounting Pronouncements for further discussion regarding the impact of new accounting principles on SARS accounting.

**Europe**

| Year Ended January 31 | | |
|---|---|---|
| **2005** | **%** | **2004** |