CASCADE CORP
Form 10-Q
June 08, 2007

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

**(Mark One)**

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

**For the Quarterly Period Ended April 30, 2007**

**OR**

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

**For the transition period from to**

**Commission file number 1-12557**

# CASCADE CORPORATION

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Oregon** | **93-0136592** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **2201 N.E. 201st Ave.**<br>**Fairview, Oregon** | **97024-9718** |
| (Address of principal executive office) | (Zip Code) |

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

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

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

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

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

The number of shares outstanding of the registrant s common stock as of May 22, 2007 was 11,832,670.

**CASCADE CORPORATION**

**FORM 10-Q**

**Quarter Ended April 30, 2007**

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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, 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 and construction equipment industries;
- Fluctuations in lift truck and construction equipment orders or deliveries;
- Availability and cost of raw materials;
- General business and economic conditions in North America, Europe, Asia Pacific and China;
- Actions by foreign governments;
- Assumptions relating to pension and other postretirement costs;
- Foreign currency fluctuations;
- Pending litigation;
- Environmental matters;
- Levels of public and non-residential construction activity;
- Effectiveness of our capital expenditures and cost reduction initiatives.

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

**PART I FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**CASCADE CORPORATION**

**CONSOLIDATED STATEMENTS OF INCOME**

**(Unaudited in thousands, except per share amounts)**

| | **Three Months Ended April 30 2007** | **2006** |
|---|---|---|
| Net sales | $ 135,500 | $ 117,774 |
| Cost of goods sold | 92,271 | 81,085 |
| Gross profit | 43,229 | 36,689 |
| | | |
| Selling and administrative expenses | 21,132 | 19,852 |
| Gain on disposition of assets | (35) | (662) |
| Amortization | 798 | 302 |
| Insurance litigation recovery, net | (15,977) | |
| | | |
| Operating income | 37,311 | 17,197 |
| Interest expense | 995 | 532 |
| Interest income | (157) | (355) |
| Other expense (income), net | 78 | (34) |
| | | |
| Income before provision for income taxes | 36,395 | 17,054 |
| Provision for income taxes | 12,599 | 6,020 |
| | | |
| Net income | $ 23,796 | $ 11,034 |
| | | |
| Basic earnings per share | $ 1.99 | $ 0.88 |
| Diluted earnings per share | $ 1.90 | $ 0.84 |
| | | |
| Basic weighted average shares outstanding | 11,966 | 12,542 |
| Diluted weighted average shares outstanding | 12,545 | 13,174 |

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

**CASCADE CORPORATION**

**CONSOLIDATED BALANCE SHEETS**

**(Unaudited - in thousands, except per share amounts)**

| | April 30 2007 | January 31 2007 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 34,642 | $ 36,593 |
| Accounts receivable, less allowance for doubtful accounts of $1,441 and $1,515 | 90,107 | 74,992 |
| Inventories | 63,268 | 58,280 |
| Deferred income taxes | 3,691 | 4,481 |
| Prepaid expenses and other | 7,926 | 8,609 |
| Total current assets | 199,634 | 182,955 |
| Property, plant and equipment, net | 86,723 | 84,151 |
| Goodwill | 103,757 | 99,498 |
| Deferred income taxes | 12,274 | 11,817 |
| Intangible assets, net | 16,305 | 17,026 |
| Other assets | 1,998 | 1,985 |
| Total assets | $ 420,691 | $ 397,432 |
| | | |
| **LIABILITIES AND SHAREHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Notes payable to banks | $ 2,194 | $ 4,546 |
| Current portion of long-term debt | 12,500 | 12,573 |
| Accounts payable | 28,625 | 26,008 |
| Accrued payroll and payroll taxes | 10,022 | 9,391 |
| Accrued environmental expenses | 985 | 1,024 |
| Income taxes payable | 5,987 | |
| Dividends payable | 1,886 | |
| Other accrued expenses | 14,773 | 16,283 |
| Total current liabilities | 76,972 | 69,825 |
| Long-term debt, net of current portion | 40,000 | 34,000 |
| Accrued environmental expenses | 5,600 | 5,838 |
| Deferred income taxes | 3,415 | 2,798 |
| Employee benefit obligations | 9,562 | 9,719 |
| Other liabilities | 3,275 | 3,616 |
| Total liabilities | 138,824 | 125,796 |
| | | |
| Commitments and contingencies (Note 7) | | |
| | | |
| Shareholders equity: | | |
| Common stock, $.50 par value, 20,000 authorized shares; 11,787 and 12,070 shares issued and outstanding | 5,893 | 6,035 |
| Retained earnings | 256,215 | 253,307 |
| Accumulated other comprehensive income | 19,759 | 12,294 |
| Total shareholders equity | 281,867 | 271,636 |
| Total liabilities and shareholders equity | $ 420,691 | $ 397,432 |

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

**CASCADE CORPORATION**

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY**

**(Unaudited in thousands, except per share amounts)**

| | Common Stock Shares | Common Stock Amount | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total Shareholders Equity | Year-To-Date Comprehensive Income (Loss) |
|---|---|---|---|---|---|---|---|
| **Balance at January 31, 2007** | 12,070 | $ 6,035 | $ | $ 253,307 | $ 12,294 | $ 271,636 | |
| Net income | | | | 23,796 | | 23,796 | $ 23,796 |
| Dividends ($0.16 per share) | | | | (1,886 ) | | (1,886 ) | |
| Common stock issued | 106 | 53 | 1,351 | | | 1,404 | |
| Tax benefit from exercise of share-based compensation awards | | | 686 | | | 686 | |
| Common stock repurchased | (389 ) | (195 ) | (3,021 ) | (19,002 ) | | (22,218 ) | |
| Share-based compensation | | | 984 | | | 984 | |
| Translation adjustment | | | | | 7,465 | 7,465 | 7,465 |
| **Balance at April 30, 2007** | 11,787 | $ 5,893 | $ | $ 256,215 | $ 19,759 | $ 281,867 | $ 31,261 |

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

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**CASCADE CORPORATION**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(Unaudited - in thousands)**

| | Three Months Ended April 30 2007 | 2006 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net income | $ 23,796 | $ 11,034 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 4,277 | 3,784 |
| Share-based compensation | 984 | 931 |
| Deferred income taxes | 355 | (586) |
| Gain on disposition of assets | (35) | (662) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (12,713) | (10,355) |
| Inventories | (3,174) | 2,754 |
| Prepaid expenses and other | 1,066 | 130 |
| Accounts payable and accrued expenses | 2,582 | (3,742) |
| Income taxes payable and receivable | 6,787 | 3,262 |
| Other assets and liabilities | (858) | 85 |
| Net cash provided by operating activities | 23,067 | 6,635 |
| | | |
| **Cash flows from investing activities:** | | |
| Capital expenditures | (5,249) | (3,251) |
| Proceeds from disposition of assets | 176 | 1,521 |
| Sales of marketable securities | | 7,000 |
| Purchases of marketable securities | | (6,100) |
| Net cash used in investing activities | (5,073) | (830) |
| | | |
| **Cash flows from financing activities:** | | |
| Payments on long-term debt | (31,073) | |
| Proceeds from long-term debt | 37,000 | |
| Notes payable to banks, net | (2,413) | (366) |
| Common stock issued under share-based compensation plans | 1,404 | 114 |
| Common stock repurchased | (24,496) | |
| Excess tax benefit from exercise of share-based compensation awards | 686 | 23 |
| Net cash used in financing activities | (18,892) | (229) |
| | | |
| Effect of exchange rate changes | (1,053) | (942) |
| | | |
| Change in cash and cash equivalents | (1,951) | 4,634 |
| Cash and cash equivalents at beginning of period | 36,593 | 35,493 |
| Cash and cash equivalents at end of period | $ 34,642 | $ 40,127 |
| | | |
| **Supplemental disclosure of cash flow information:** | | |
| See Note 9 to the consolidated financial statements | | |

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

**CASCADE CORPORATION**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 1 Description of Business**

Cascade Corporation ( Company ) 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, products that are used on construction, mining and agricultural vehicles. Accordingly, our sales are largely dependent on sales of lift trucks and on the sales of replacement parts. Our sales are made throughout the world. We are headquartered in Fairview, Oregon, employing approximately 2,200 people and maintaining operations in 15 countries outside the United States.

**Note 2 Interim Financial Information**

The accompanying consolidated financial statements for the interim periods ended April 30, 2007 and 2006 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, 2007.

**Note 3 Segment Information**

Our operating units have largely similar economic characteristics and attributes, including similar products, distribution patterns and classes of customers. As a result, we aggregate our operating units into four geographic operating segments related to the manufacturing, distribution and servicing of material handling load engagement products primarily for the lift truck industry. We evaluate performance of each of our operating segments based on operating income, which is income before interest, miscellaneous income/expense and income taxes. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies contained in Note 2 of our consolidated financial statements included in our Form 10-K for the fiscal year ended January 31, 2007.

Revenues and operating results are classified according to the country of origin. Identifiable assets are attributed to the geographic location in which they are located. Net sales, operating results and identifiable assets by geographic region were as follows (in thousands):

**Segment Information**

(In thousands)

| 2007 | Three Months Ended April 30 North America | Europe | Asia Pacific | China | Eliminations | Consolidation |
|---|---|---|---|---|---|---|
| Net sales | $ 71,382 | $ 41,604 | $ 13,795 | $ 8,719 | $ | $ 135,500 |
| Transfers between areas | 8,309 | 324 | 70 | 2,669 | (11,372 ) | |
| Net sales and transfers | $ 79,691 | $ 41,928 | $ 13,865 | $ 11,388 | $ (11,372 ) | $ 135,500 |
| Gross profit | $ 28,156 | $ 7,605 | $ 3,597 | $ 3,871 | | $ 43,229 |
| Selling and administrative | 12,139 | 6,226 | 1,957 | 810 | | 21,132 |
| Loss (gain) on disposition of assets | (74 ) | 8 | | 31 | | (35 ) |
| Amortization | 588 | 205 | | 5 | | 798 |
| Insurance litigation recovery, net | (15,977 ) | | | | | (15,977 ) |
| Operating income | $ 31,480 | $ 1,166 | $ 1,640 | $ 3,025 | | $ 37,311 |
| Total assets | $ 222,123 | $ 122,363 | $ 35,158 | $ 41,047 | | $ 420,691 |
| Property, plant and equipment, net | $ 33,187 | $ 36,373 | $ 1,794 | $ 15,369 | | $ 86,723 |
| Capital expenditures | $ 1,554 | $ 818 | $ 187 | $ 2,690 | | $ 5,249 |
| Depreciation expense | $ 1,910 | $ 1,225 | $ 99 | $ 245 | | $ 3,479 |

| 2006 | Three Months Ended April 30 North America | Europe | Asia Pacific | China | Eliminations | Consolidation |
|---|---|---|---|---|---|---|
| Net sales | $ 66,615 | $ 33,221 | $ 11,137 | $ 6,801 | $ | $ 117,774 |
| Transfers between areas | 5,994 | 405 | 92 | 1,667 | (8,158 ) | |
| Net sales and transfers | $ 72,609 | $ 33,626 | $ 11,229 | $ 8,468 | $ (8,158 ) | $ 117,774 |
| Gross profit | $ 25,958 | $ 5,344 | $ 2,749 | $ 2,638 | | $ 36,689 |
| Selling and administrative | 11,468 | 5,852 | 1,948 | 584 | | 19,852 |
| Loss (gain) on disposition of assets | 4 | (662 ) | (4 ) | | | (662 ) |
| Amortization | 89 | 207 | | 6 | | 302 |
| Operating income (loss) | $ 14,397 | $ (53 ) | $ 805 | $ 2,048 | | $ 17,197 |
| Total assets | $ 207,837 | $ 112,474 | $ 31,266 | $ 26,302 | | $ 377,879 |
| Property, plant and equipment, net | $ 34,351 | $ 35,655 | $ 1,548 | $ 4,931 | | $ 76,485 |
| Capital expenditures | $ 2,003 | $ 347 | $ 71 | $ 830 | | $ 3,251 |
| Depreciation expense | $ 2,041 | $ 1,272 | $ 104 | $ 65 | | $ 3,482 |

**Note 4 Goodwill**

The change in the amount of goodwill between April 30, 2007 and January 31, 2007 related entirely to fluctuations in foreign currency. We have no goodwill recorded in China. The following table provides a breakdown of goodwill by geographic region (in thousands):

| | April 30 2007 | January 31 2007 |
|---|---|---|
| North America | $ 89,721 | $ 85,903 |
| Europe | 11,052 | 10,598 |
| Asia Pacific | 2,984 | 2,997 |
| | $ 103,757 | $ 99,498 |

**Note 5 Inventories**

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

| | April 30 2007 | January 31 2007 |
|---|---|---|
| Finished goods and components | $ 38,351 | $ 36,716 |
| Work in process | 565 | 399 |
| Raw materials | 24,352 | 21,165 |
| | $ 63,268 | $ 58,280 |

**Note 6 Share-Based Compensation Plans**

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

We have reserved 1,400,000 shares of common stock under our stock option plan. As of April 30, 2007 a total of 908,000 shares have been issued upon the exercise of stock options. No additional stock options can be granted under the terms of the plan. The SARS plan provides for the issuance of 750,000 shares of common stock upon the exercise of SARS of which 74,000 shares have been issued at April 30, 2007. We issue new common shares upon the exercise of all awards.

A summary of the plans status at April 30, 2007 together with changes during the three months then ended are presented in the following table (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, 2007 | 570 | $ 13.79 | 1,031 | $ 31.56 |
| Granted | | | | |
| Exercised | (101 ) | 14.07 | (11 ) | 35.60 |
| Forfeited | (4 ) | 19.38 | (17 ) | 36.18 |
| | | | | |
| Balance at April 30, 2007 | 465 | $ 13.67 | 1,003 | $ 31.44 |

We calculate share-based compensation cost using the Black-Scholes option pricing model. Additional information regarding the assumptions used to calculate the fair value of our share-based compensation plans is presented in Note 2 to our consolidated financial statements included in our Form 10-K for the year ended January 31, 2007.

As of April 30, 2007, there was $8.3 million of total unrecognized compensation cost related to nonvested share-based compensation awards granted under the Plans, which is expected to be recognized over a weighted average period of 2.4 years. The following table represents as of April 30, 2007 the share-based compensation costs to be recognized in future periods (in thousands) for awards granted to date:

| Fiscal Year | Amount |
|---|---|
| 2008 | $ 2,975 |
| 2009 | 3,286 |
| 2010 | 1,714 |
| 2011 | 305 |
| | $ 8,280 |

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**Note 7 Commitments and Contingencies**

**Environmental Matters**

We are subject to environmental laws and regulations, which include obligations to remove or mitigate environmental effects of past disposal and release of certain wastes and substances at various sites. We record liabilities for affected sites when environmental assessments indicate probable cleanup and the costs can be reasonably estimated. Other than for costs of assessments themselves, the timing and amount of these liabilities is determined based on the estimated costs of remediation activities and our commitment to a formal plan of action, such as an approved remediation plan. The reliability and precision of the loss estimates are affected by numerous factors, such as different stages of site evaluation and reevaluation of the degree of remediation required. We adjust our liabilities as new remediation requirements are defined, as information becomes available permitting reasonable estimates to be made and to reflect new and changing facts.

It is reasonably possible that changes in estimates will occur in the near term and the related adjustments to environmental liabilities may have a material impact on our net income. 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 net income if asserted. We cannot estimate at this time the amount of any additional loss or range of loss that is reasonably possible.

Our specific environmental matters consist of the following:

*Fairview, Oregon*

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 $5.6 million and $5.9 million at April 30, 2007 and January 31, 2007, respectively.

*Springfield, Ohio*

In 1994, we entered into a consent order with the Ohio Environmental Protection Agency, which required the installation of remediation systems for the cleanup of groundwater contamination at our Springfield, Ohio facility. The current estimate is that the remediation activities will continue through 2013. The recorded liability for ongoing remediation activities in Springfield was $1.0 million at both April 30, 2007 and January 31, 2007.

*Insurance Litigation*

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

**Legal Proceedings**

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

**Note 8 Earnings Per Share**

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

| | Three Months Ended April 30 2007 | 2006 |
|---|---|---|
| Basic earnings per share: | | |
| Net income | $ 23,796 | $ 11,034 |
| Weighted average shares of common stock outstanding | 11,966 | 12,542 |
| | $ 1.99 | $ 0.88 |
| | | |
| Diluted earnings per share: | | |
| Net income | $ 23,796 | $ 11,034 |
| Weighted average shares of common stock outstanding | 11,966 | 12,542 |
| Dilutive effect of stock options and stock appreciation rights | 579 | 632 |
| Diluted weighted average shares of common stock outstanding | 12,545 | 13,174 |
| | $ 1.90 | $ 0.84 |

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

**Note 9 Supplemental Cash Flow Information**

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

| | For the Three Months Ended April 30 2007 | 2006 |
|---|---|---|
| Cash paid during the period for: | | |
| Interest | $ 775 | $ 58 |
| Income taxes | $ 4,716 | $ 3,477 |
| | | |
| Supplemental disclosure of noncash information: | | |
| Dividends declared | $ 1,886 | $ 1,882 |

**Note 10 Benefit Plans**

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

| | Defined Benefit Three Months Ended April 30 | | Postretirement Benefit Three Months Ended April 30 | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| Net periodic benefit cost: | | | | |
| Service cost | $ 14 | $ 21 | $ 30 | $ 34 |
| Interest cost | 129 | 125 | 105 | 114 |
| Expected return on plan assets | (125 ) | (123 ) | | |
| Recognized prior service cost | | | (19 ) | (19 ) |
| Recognized net actuarial loss | 22 | 35 | 48 | 111 |
| | $ 40 | $ 58 | $ 164 | $ 240 |

**Note 11 Recent Accounting Pronouncements**

**FIN 48** - In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes.

On February 1, 2007, we adopted the provisions of FIN 48 which prescribes a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods and income tax disclosures.

As of February 1, 2007, our liability for uncertain tax positions was $325,000. As a result of the implementation of FIN 48, we recognized no material adjustment in the liability for uncertain tax positions. Our policy is to classify tax-related interest and penalties as income tax expense.

We file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. The Internal Revenue Service (IRS) is currently examining our U.S. income tax return for fiscal year 2006. As of February 1, 2007, we remained subject to examination in the following major tax jurisdictions for the tax years as indicated below:

| Jurisdiction | Open Fiscal Tax Years |
|---|---|
| United States - federal | 2003-2006 |
| United States states | 2002-2006 |
| Canada | 1999-2006 |
| China | 1996-2006 |
| Germany | 2002-2006 |
| Italy | 2001-2006 |
| The Netherlands | 2001-2006 |
| United Kingdom | 1999-2006 |

**SFAS 157** - In September 2006, the FASB issued SFAS No. 157 (SFAS 157), Fair Value Measurements. SFAS 157 provides a common definition of fair value, establishes a framework for measuring fair value and expands the related disclosure requirements. Application of SFAS 157 is required for our financial statements for the fiscal year beginning February 1, 2008. We are currently evaluating the impact of SFAS 157 on our financial statements.

**SFAS 158** - In September 2006, the FASB issued SFAS No. 158 (SFAS 158), Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R). This statement requires balance sheet recognition of the overfunded or underfunded status of pension and postretirement benefit plans. Under SFAS 158, actuarial gains and losses, prior service costs or credits, and any remaining transition assets or obligations that have not been recognized under previous accounting standards must be recognized in other comprehensive income, net of tax effects, until they are amortized as a component of net periodic benefit cost. In addition, the measurement date, the date at which plan assets and the benefit obligation are measured, is required to be the company s fiscal year end. Presently, we use a December 31 measurement date for the postretirement benefit plan, which will change to coincide with our January 31 fiscal year-end date. As required by SFAS 158, we adopted the balance sheet recognition provision as of January 31, 2007. The measurement date provision is effective for the fiscal year beginning February 1, 2008. We are currently evaluating the impact of the measurement date provision of SFAS 158 on our consolidated financial statements.

**SFAS 159** - In February 2007, the FASB issued SFAS No. 159 (SFAS 159), The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115. SFAS 159 allows companies the choice to measure many financial instruments and certain other items at fair value. Application of SFAS 159 is required for our financial statements beginning February 1, 2008. We are currently reviewing the impact of this pronouncement on our consolidated financial statements.

**Note 12 Warranty Obligations**

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

| | **2007** | **2006** |
|---|---|---|
| Balance at January 31 | $ 1,754 | $ 1,665 |
| Accruals for warranties issued during the period | 645 | 715 |
| Accruals for pre-existing warranties | | (40) |
| Settlements during the period | (588) | (598) |
| Balance at April 30 | $ 1,811 | $ 1,742 |

**Note 13 Accumulated Other Comprehensive Income (Loss)**

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, 2007 | $ 14,675 | $ (2,381) | $ 12,294 |
| Translation adjustment | 7,465 | | 7,465 |
| Balance at April 30, 2007 | $ 22,140 | $ (2,381) | $ 19,759 |

**Note 14 Gain on Sale of Assets**

During the first quarter of fiscal 2007, we recognized a $715,000 gain on the sale of our manufacturing facility in Hoorn, The Netherlands. We had closed this facility in fiscal 2006.

**Note 15 Subsequent Event**

**On May 1, 2007, we purchased for $12 million the stock of American Compaction Equipment, a manufacturer of compaction wheel attachments located in San Juan Capistrano, California.**

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

Our businesses globally manufacture and distribute material handling load engagement products primarily for the lift truck industry and to a lesser extent the construction industry. We operate in four geographic segments: North America, Europe, Asia Pacific and China. All references to fiscal periods are defined as the quarter ended April 30, 2006 (fiscal 2007) and the quarter ended April 30, 2007 (fiscal 2008).

**COMPARISON OF FIRST QUARTER OF FISCAL 2008 AND FISCAL 2007**

**Executive Summary**

| | Three Months Ended April 30 2007 | | 2006 | | Change | | Change % | |
|---|---|---|---|---|---|---|---|---|
| | (In thousands, except per share amounts) | | | | | | | |
| Net sales | $ | 135,500 | $ | 117,774 | $ | 17,726 | 15 | % |
| Operating income | $ | 37,311 | $ | 17,197 | $ | 20,114 | 117 | % |
| Net income | $ | 23,796 | $ | 11,034 | $ | 12,762 | 116 | % |
| Diluted earnings per share | $ | 1.90 | $ | 0.84 | $ | 1.06 | 126 | % |

During the first quarter of fiscal 2008 we recorded higher levels of net sales, operating income and net income in all geographic segments compared to the first quarter of fiscal 2007. This reflects the general strength of lift truck markets globally, where shipments were up 9% and the impact of a prior year acquisition.

In addition, we settled an insurance litigation matter during the first quarter of fiscal 2008 which accounted for a $16 million increase to operating income compared to the prior year. The calculated diluted earnings per share, excluding the insurance litigation recovery is $1.07 for the three months ended April 30, 2007 compared to $0.84 in the prior year. We believe the exclusion of the insurance litigation recovery provides a more appropriate comparison with prior year results. The calculation of diluted earnings per share excluding the insurance recovery is as follows (in thousands, except per share amount):

| | Three months ended April 30, 2007 | | |
|---|---|---|---|
| Net income as reported | $ | 23,796 | |
| Less: insurance litigation recovery, net of income taxes of $5,592 | (10,385 | | ) |
| Adjusted net income, excluding insurance litigation recovery | $ | 13,411 | |
| | | | |
| Diluted weighted average shares outstanding | 12,545 | | |
| | | | |
| Diluted earnings per share, excluding insurance litigation recovery | $ | 1.07 | |

**North America**

| | Three Months Ended April 30 | | | | | |
|---|---|---|---|---|---|---|
| | 2007 | % | 2006 | % | Change | Change % |
| | (In thousands) | | | | | |
| Net sales | $ 71,382 | 100 % | $ 66,615 | 100 % | $ 4,767 | 7 % |
| Cost of goods sold | 43,226 | 61 % | 40,657 | 61 % | 2,569 | 6 % |
| Gross profit | 28,156 | 39 % | | | | |