

CASCADE CORP  
Form 10-Q  
June 07, 2002

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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

For the Quarterly Period Ended April 30, 2002

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**

(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 /x/ No //

The number of shares outstanding of the registrant's common stock as of April 30, 2002 was 11,294,940.

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**CASCADE CORPORATION**

**PART 1 FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**CONSOLIDATED BALANCE SHEET**  
(in thousands except share and per share data)

|  | April 30<br>2002 | January 31<br>2002 |
|--|------------------|--------------------|
|  | (Unaudited)      |                    |
| <b>ASSETS</b>  |                  |                    |
| Current assets:  |                  |                    |
| Cash and cash equivalents  | \$ 26,341        | \$ 25,611          |
| Marketable securities  | 4,500            |                    |
| Accounts receivable, less allowance for doubtful accounts of \$1,418 and \$1,350                                     | 44,733           | 39,312             |
| Inventories  | 30,542           | 30,817             |
| Deferred income taxes  | 5,930            | 5,930              |
| Prepaid expenses and other   | 5,701            | 4,387              |
|  | <hr/>            | <hr/>              |
| Total current assets   | 117,747          | 106,057            |
| Property, plant and equipment, net   | 60,583           | 61,412             |
| Goodwill   | 57,006           | 56,177             |
| Notes receivable, net  | 9,025            | 8,873              |
| Deferred income taxes  | 10,797           | 10,797             |
| Other assets   | 3,951            | 3,970              |
|  | <hr/>            | <hr/>              |
| Total assets   | \$ 259,109       | \$ 247,286         |
|  | <hr/>            | <hr/>              |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                  |                    |
| Current liabilities:   |                  |                    |
| Notes payable to banks   | \$ 778           | \$ 743             |
| Current portion of long-term debt  | 13,372           | 13,246             |
| Accounts payable   | 11,909           | 10,575             |
| Accrued payroll and payroll taxes  | 5,874            | 4,973              |
| Accrued environmental expenses   | 2,436            | 2,291              |
| Other accrued expenses   | 10,835           | 8,218              |
|  | <hr/>            | <hr/>              |
| Total current liabilities  | 45,204           | 40,046             |
| Long-term debt   | 65,551           | 65,679             |
| Accrued environmental expenses   | 9,847            | 10,203             |
| Deferred income taxes  | 1,743            | 1,743              |
| Other liabilities  | 5,099            | 4,974              |
|  | <hr/>            | <hr/>              |
| Total liabilities  | 127,444          | 122,645            |
| Exchangeable convertible preferred stock and minority interest   | 11,374           | 11,374             |
| Shareholders' equity:  |                  |                    |
| Common stock, \$.50 par value, 20,000,000 authorized shares; 11,294,940 and 11,291,190 shares issued and outstanding | 5,647            | 5,646              |
| Additional paid-in capital   | 36               |                    |
| Retained earnings  | 139,638          | 135,418            |
| Accumulated other comprehensive loss:  |                  |                    |
| Cumulative foreign currency translation adjustments  | (25,030)         | (27,797)           |
|  | <hr/>            | <hr/>              |
| Total shareholders' equity   | 120,291          | 113,267            |
|  | <hr/>            | <hr/>              |
| Total liabilities and shareholders' equity   | \$ 259,109       | \$ 247,286         |

April 30  
2002January 31  
2002

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

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**CASCADE CORPORATION**  
**CONSOLIDATED STATEMENT OF INCOME**  
**(Unaudited in thousands except per share data)**

|  | Three Months<br>Ended April 30 |           |
|--|--------------------------------|-----------|
|  | 2002                           | 2001      |
| Net sales  | \$ 59,942                      | \$ 70,356 |
| Cost of goods sold                                       | 38,879                         | 45,656    |
| Gross profit   | 21,063                         | 24,700    |
| Selling and administrative                               | 13,303                         | 14,308    |
| Amortization of goodwill                                 |                                | 1,078     |
| Operating income   | 7,760                          | 9,314     |
| Interest expense, net                                    | 1,091                          | 1,626     |
| Other expense  | 177                            | 202       |
| Income before taxes from continuing operations           | 6,492                          | 7,486     |
| Provision for income taxes                               | 2,272                          | 2,845     |
| Income from continuing operations                        | 4,220                          | 4,641     |
| Income from discontinued operations, net of income taxes |                                | 287       |
| Net income   | \$ 4,220                       | \$ 4,928  |
| Basic earnings per share:                                |                                |           |
| Continuing operations                                    | \$ 0.37                        | \$ 0.41   |
| Discontinued operations                                  |                                | 0.02      |
|  | \$ 0.37                        | \$ 0.43   |
| Diluted earnings per share:                              |                                |           |
| Continuing operations                                    | \$ 0.35                        | \$ 0.38   |
| Discontinued operations                                  |                                | 0.02      |
|  | \$ 0.35                        | \$ 0.40   |

|   | Three Months<br>Ended April 30 |        |
|---|--------------------------------|--------|
|   |                                |        |
| Basic weighted average shares outstanding   | 11,292                         | 11,440 |
| Diluted weighted average shares outstanding | 12,209                         | 12,293 |

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

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

|  | Three Months Ended<br>April 30 |          |
|--|--------------------------------|----------|
|  | 2002                           | 2001     |
|  |                                |          |
| <b>Cash flows from operating activities:</b>   |                                |          |
| Net income   | \$ 4,220                       | \$ 4,928 |
| <b>Adjustments to reconcile net income to net cash provided by operating activities:</b>             |                                |          |
| Income from discontinued operations, net of income taxes   |                                | (287)    |
| Depreciation and amortization  | 2,494                          | 3,648    |
| Deferred income taxes  |                                | 621      |
| Loss on disposition of assets  | 93                             |          |
| <b>Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:</b> |                                |          |
| Accounts receivable  | (5,421)                        | (3,589)  |
| Inventories  | 275                            | 88       |
| Prepaid expenses and other   | (1,314)                        | 3,195    |
| Accounts payable and accrued expenses  | 4,852                          | (2,904)  |
| Accrued environmental expenses   | (211)                          |          |
| Other liabilities  | 125                            | 272      |
|  |                                |          |
| Cash provided by continuing operations   | 5,113                          | 5,972    |
| Cash provided by discontinued operations   |                                | 558      |
|  |                                |          |
| Net cash provided by operating activities  | 5,113                          | 6,530    |
| <b>Cash flows from investing activities:</b>   |                                |          |
| Capital expenditures   | (720)                          | (1,033)  |
| Purchase of marketable securities  | (4,500)                        |          |
| Other assets   | 2                              | 127      |
|  |                                |          |
| Cash used in continuing operations   | (5,218)                        | (906)    |
| Cash used in discontinued operations   |                                | (78)     |

|  | Three Months Ended<br>April 30 |           |
|--|--------------------------------|-----------|
|  | _____                          | _____     |
| Net cash used in investing activities                    | (5,218)                        | (984)     |
| <b>Cash flows from financing activities:</b>             |                                |           |
| Payments on long-term debt                               | (201)                          | (6,399)   |
| Notes payable to banks, net                              | 35                             | 3,405     |
| Issuance of common stock                                 | 37                             |           |
| Net cash provided by (used in) financing activities      | (129)                          | (2,994)   |
| Effect of exchange rate changes                          | 964                            | (1,204)   |
| Change in cash and cash equivalents                      | 730                            | 1,348     |
| Cash and cash equivalents at beginning of year           | 25,611                         | 12,418    |
| Cash and cash equivalents at end of period               | \$ 26,341                      | \$ 13,766 |
| <b>Supplemental disclosure of cash flow information:</b> |                                |           |
| Cash paid during the period for:                         |                                |           |
| Interest   | \$ 109                         | \$ 402    |
| Income taxes   | \$ 1,143                       | \$ 1,398  |

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

**CASCADE CORPORATION**

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

(Unaudited in thousands)

|                             | Common Stock |          | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Quarterly<br>Comprehensive<br>Income |
|-----------------------------|--------------|----------|----------------------------------|----------------------|---|--------------------------------------|
|                             | Shares       | Amount   |                                  |                      |   |                                      |
|                             | _____        | _____    | _____                            | _____                | _____   | _____                                |
| Balance at January 31, 2002 | 11,291       | \$ 5,646 | \$                               | \$ 135,418           | \$ (27,797)                                     |                                      |
| Net income                  |              |          |                                  | 4,220                |   | \$ 4,220                             |
| Issuance of common stock    | 4            | 1        | 36                               |                      |   |                                      |
| Translation adjustment      |              |          |                                  |                      | 2,767   | 2,767                                |
| Balance at April 30, 2002   | 11,295       | \$ 5,647 | \$ 36                            | \$ 139,638           | \$ (25,030)                                     | \$ 6,987                             |

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

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

(Unaudited in thousands)

**Note 1 Segment Information**

| For the quarter ended April 30, 2002     | North America | Europe    | Other     | Eliminations | Consolidated |
|--|---------------|-----------|-----------|--------------|--------------|
| Sales to unaffiliated customers          | \$ 38,972     | \$ 13,336 | \$ 7,634  | \$           | \$ 59,942    |
| Transfer between areas                   | 5,580         | 4,665     | 174       | (10,419)     |              |
| Net sales                                | \$ 44,552     | \$ 18,001 | \$ 7,808  | \$ (10,419)  | \$ 59,942    |
| Income (loss) from continuing operations | \$ 3,850      | \$ (132)  | \$ 502    | \$           | \$ 4,220     |
| Identifiable assets                      | \$ 161,795    | \$ 68,391 | \$ 28,923 | \$           | \$ 259,109   |

**For the quarter ended April 30, 2001**

|                                   |            |           |           |             |            |
|-----------------------------------|------------|-----------|-----------|-------------|------------|
| Sales to unaffiliated customers   | \$ 44,711  | \$ 17,090 | \$ 8,555  | \$          | \$ 70,356  |
| Transfer between areas            | 6,554      | 7,478     | 226       | (14,258)    |            |
| Net sales                         | \$ 51,265  | \$ 24,568 | \$ 8,781  | \$ (14,258) | \$ 70,356  |
| Income from continuing operations | \$ 4,178   | \$ 330    | \$ 133    | \$          | \$ 4,641   |
| Identifiable assets               | \$ 171,846 | \$ 75,920 | \$ 30,075 | \$          | \$ 277,841 |

**Note 2 Marketable Securities**

Marketable securities consist of asset-backed notes issued by various state agencies throughout the United States and guaranteed by the United States or state governments. The notes are long-term instruments maturing through 2035, however the interest rates and maturities are reset approximately every month, at which time the Company can sell the notes. Accordingly, the Company has classified the notes as short-term in its consolidated balance sheet. Interest rates on the notes range from 1.95% to 2.03%.

**Note 3 Inventories**

|                               | April 30,<br>2002 | January 31,<br>2002 |
|-------------------------------|-------------------|---------------------|
| Finished goods and components | \$ 21,089         | \$ 21,493           |
| Work in process               | 774               | 865                 |
| Raw materials                 | 8,679             | 8,459               |
|                               | \$ 30,542         | \$ 30,817           |

**Note 4 Reclassifications**

Certain reclassifications have been made to the prior year consolidated financial statements to conform to the current year presentation. Such reclassifications had no impact on results of operations or shareholders' equity.

**Note 5 Contingencies**

The Company is 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. The Company records liabilities for affected sites when environmental assessments indicate probable cleanup will be required and the costs can be reasonably estimated. Other than for costs of assessments themselves, the timing and amount of these liabilities is generally based on the

Company's 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. The Company adjusts its liabilities as new remediation requirements are defined, as information becomes available permitting reasonable estimates to be made and to reflect new and changing facts. Unasserted claims are not reflected in the Company's environmental remediation liabilities.

The Company and The Boeing Company are defendants in litigation brought in December 1999 by the City of Portland, Oregon (City), alleging damages arising from the proximity of a City water well field to groundwater contamination in the area of their respective Portland plant sites. The Company and The Boeing Company are remedying the contamination in question, which has never affected the quality of water pumped by the City from the well field. The City's complaint originally alleged damages of approximately \$6.4 million. In November 2000, the City raised new theories it asserts would increase its claimed damages against both defendants by an amount currently estimated to be \$16 million. In March 2002, the City asserted an additional claim of up to \$10.1 million. If the City were to prevail on all of its claims and be awarded all damage amounts it has asserted to date, the combined liability of the Company and The Boeing Company would approximate \$32.5 million.

In March 2001, the United States District Court for the District of Oregon granted a partial summary judgment to the City on certain liability issues raised in its original claim. The partial summary judgment will likely lead to a damage judgment in some amount on the December 1999 claim. The Company believes it has substantial defenses to damage amounts sought by the City. The Company believes most or all of the remaining November 2000 claim and the March 2002 claim are without merit. There has been no allocation of possible damages between the Company and The Boeing Company. As of April 30, 2002, the Company has accrued \$1.5 million in connection with the City of Portland litigation. This reflects a present estimate of its allocable share of any eventual liability, however, the ultimate outcome of this matter cannot presently be determined.

On April 22, 2002, the Circuit Court of the State of Oregon for Multnomah County entered judgment in the Company's favor for approximately \$1.6 million 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 is against two non-settling insurers. Additionally, the judgment requires one of the insurers to defend Cascade in suits alleging liability because of groundwater contamination emanating from its Portland plant and requires the two insurers to pay approximately 4% of any liability imposed against the Company by judgment or settlement on or after March 1, 1997 on account of such contamination. The Company and the insurers have appealed the judgment. The Company has not recorded any amounts that may be recovered from the two insurers in its consolidated financial statements.

**Note 6 Recent Accounting Pronouncements**

The Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets," effective February 1, 2002. The provisions of SFAS 142 prohibit the amortization of goodwill and indefinite-lived intangible assets, require that goodwill and indefinite-lived intangible assets be tested at least annually for impairment, require reporting units be identified for the purpose of assessing potential future impairments of goodwill, and remove the forty-year limitation on the amortization period of intangible assets that have finite lives.

The Company completed the transitional impairment test for goodwill in the quarter ended April 30, 2002 and determined the impairment test did not impact the Company's earnings and financial position. As a result of the non-amortization provisions of SFAS 142, the Company will no longer record approximately \$4.4 million of annual amortization expense relating to goodwill. The following table presents prior year earnings and earnings per share as if the non-amortization provisions of SFAS 142 had been applied in the prior year:

| (Amounts in thousands, except per share data)       | Three Months<br>Ended<br>April 31, 2001 |
|---|---|
| <b>Net income:</b>                                  |   |
| Reported net income from continuing operations      | \$ 4,641                                |
| Goodwill amortization, net of income taxes of \$404 | 660                                     |

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| (Amounts in thousands, except per share data)                  | Three Months<br>Ended<br>April 31, 2001 |
|--|---|
| Adjusted net income from continuing operations                 | \$ 5,301                                |
| <b>Basic earnings per share from continuing operations:</b>    |   |
| Reported basic earnings per share                              | \$ 0.41                                 |
| Goodwill amortization, net of income taxes                     | 0.05                                    |
| Adjusted basic earnings per share from continuing operations   | \$ 0.46                                 |
| <b>Diluted earnings per share from continuing operations:</b>  |   |
| Reported diluted earnings per share                            | \$ 0.38                                 |
| Goodwill amortization, net of income taxes                     | 0.05                                    |
| Adjusted diluted earnings per share from continuing operations | \$ 0.43                                 |

The breakdown of net goodwill by geographic region at April 30 and January 31, 2002 is provided in the table below (amounts in thousands). The change in balances between periods is entirely due to fluctuations in foreign currencies.

|               | April 30,<br>2002 | January 31,<br>2002 |
|---------------|-------------------|---------------------|
| North America | \$ 48,018         | \$ 47,437           |
| Europe        | 5,785             | 5,532               |
| Other         | 3,203             | 3,208               |
|               | \$ 57,006         | \$ 56,177           |

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS 143, "Accounting for Asset Retirement Obligations." SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible, long-lived assets and the associated asset retirement costs. This Statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred by capitalizing it as part of the carrying amount of the long-lived assets. As required by SFAS 143, the Company will adopt this new accounting standard on February 1, 2003. The Company does not expect the adoption of SFAS 143 to have any material impact on the financial statements.

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In August 2001, the FASB issued SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS 144 addresses financial accounting and reporting for the impairment of long-lived assets and broadens the presentation of discontinued operations currently permitted by Accounting Principles Board Opinion No. 30. The Company adopted SFAS 144 in the fiscal year ended January 31, 2002, which required application as of February 1, 2001, the beginning of the fiscal year. The Company's hydraulic cylinder division meets the criteria as a component of an entity in SFAS 144 and is presented in the Company's consolidated financial statements as discontinued operations. Accordingly, all prior periods presented are reclassified to reflect the division as a discontinued operation.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statement No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This Statement, which updates, clarifies and simplifies existing accounting pronouncements, addresses the reporting of debt extinguishments and accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. The Company is required and plans to adopt the provisions of SFAS 145 by February 1, 2003. The Company has not yet assessed the impact of this Statement on its financial statements.

**Note 7 Earnings Per Share**



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

|  | Quarter Ended April 30 |          |
|--|------------------------|----------|
|  | 2002                   | 2001     |
| <b>Basic earnings per share:</b>                                   |                        |          |
| Income from continuing operations available to common shareholders | \$ 4,220               | \$ 4,641 |
| Income from discontinued operations, net of income taxes           |                        | 287      |
|  | \$ 4,220               | \$ 4,928 |
| Weighted average shares of common stock outstanding                | 11,292                 | 11,440   |
|  | \$ 0.37                | \$ 0.41  |
| Discontinued operations  |                        | 0.02     |
|  | \$ 0.37                | \$ 0.43  |
| <b>Diluted earnings per share:</b>                                 |                        |          |
| Income from continuing operations available to common shareholders | \$ 4,220               | \$ 4,641 |
| Income from discontinued operations, net of income taxes           |                        | 287      |
|  | \$ 4,220               | \$ 4,928 |
| Weighted average shares of common stock outstanding                | 11,292                 | 11,440   |
| Assumed conversion of exchangeable preferred stock                 | 800                    | 800      |
| Dilutive effect of stock options                                   | 117                    | 53       |
|  | 12,209                 | 12,293   |
| Continuing operations  | \$ 0.35                | \$ 0.38  |
| Discontinued operations  |                        | 0.02     |
|  | \$ 0.35                | \$ 0.40  |

Earnings per share is based on the weighted average number of common shares and potentially dilutive shares outstanding during the period, computed using the treasury stock method. Diluted weighted average common shares includes the incremental shares that would be issued upon the assumed exercise of stock options, as well as the assumed conversion of exchangeable preferred stock. For the three month periods ended April 30, 2002 and 2001, 276,269 shares and 357,465 shares, respectively, of the Company's stock options were excluded from the calculation of diluted earnings per share because they were antidilutive, but these options could be dilutive in the future.

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

All references to fiscal periods are defined as periods ending in the year ended January 31, 2002 (fiscal 2002) and year ended January 31, 2003 (fiscal 2003).

## Results of Operations

Consolidated net sales for the three months ended April 30, 2002 totaled \$59.9 million, a decrease of 14.8% compared to net sales of \$70.4 million in the three months ended April 30, 2001. Net income for the first quarter of fiscal 2003 was \$4.2 million (\$.35 per share) or 14.4% lower than net income of \$4.9 million (\$.40 per share) in the first quarter of fiscal 2002. Net income as a percentage of consolidated net sales was 7.0% in both the first quarter of fiscal 2003 and the first quarter of fiscal 2002.

Sales to unaffiliated customers in the first quarter of fiscal 2003 in North America decreased 12.8% in comparison with the first quarter of fiscal 2002. Overall lift truck industry shipments in North America for the first quarter of fiscal 2003 are approximately 35% below shipment levels in the comparable period of fiscal 2002. The North American lift truck industry began experiencing significant declines in shipments in the second quarter of fiscal 2002. These declining shipment levels continued through the remainder of the year. Industry shipments in the first quarter of fiscal 2003 have increased modestly from shipments in the fourth quarter of fiscal 2002. While the Company has found that changes in the level of its net sales do not correspond directly to the percentage changes in lift truck industry shipments, the industry statistics do provide a strong indicator of the direction of business activity in the Company's North American markets. Although lift truck industry shipment levels in upcoming quarters are uncertain, the Company believes net sales in North America for the remainder of fiscal 2003 should be comparable to net sales in fiscal 2002.

The Company's sales to unaffiliated customers in Europe have decreased 22.0% in the first quarter of fiscal 2003 as compared to the comparable quarter in fiscal 2002. The slowdown in the European lift truck industry and weakened economic conditions throughout Europe, in particular Germany and France, have resulted in lower sales levels in the first quarter of fiscal 2003. The Company expects the current sales levels to continue throughout the remainder of fiscal 2003.

The Company's remaining sales to unaffiliated customers are primarily in Asia and Australia. In the first quarter of fiscal 2003, net sales decreased 10.8% in these markets as compared to the comparable fiscal 2002 period. This decrease is primarily attributable to lower sales in a weakened Japanese economy.

The Company's gross margin percentage was 35.1% in both the first quarter of fiscal 2003 and 2002. During fiscal 2002 and in the first quarter of fiscal 2003, the Company has continued to take proactive steps to reduce costs and pursue gross margin improvements. This has resulted in gross

margins consistent with the Company's historical margins and in line with its expectations. The Company believes that fiscal 2003 gross margins through the remainder of the year will be comparable with gross margins realized in fiscal 2002.

First quarter results for fiscal 2002 include \$1.1 million of expense related to the amortization of goodwill. Due to the implementation of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," the Company no longer amortizes goodwill beginning in the first quarter of fiscal 2003. See "Recent Accounting Pronouncements."

The Company's selling and administrative expenses decreased in the first quarter of fiscal 2003 to \$13.3 million as compared to \$14.3 million in fiscal 2002. As a percentage of net sales, selling and administrative expenses were 22.2% in the first quarter of 2003 and 20.3% in the first quarter of fiscal 2002. The 7.0% decrease in selling and administrative expenses in fiscal 2003 is due to the Company's focus on cost controls and staffing reductions, which have occurred over the past year. The Company's overall work force, including administrative staff, has been reduced by 13% in comparison with the prior year.

Interest expense, net of income, in the first quarter of fiscal 2003 was \$1.1 million as compared to \$1.6 million in the first quarter of fiscal 2002. The decrease is the result of lower overall debt levels in fiscal 2003 compared to the prior year period.

The effective tax rates for the first quarters of fiscal 2003 and 2002 were 35.0% and 38.0%, respectively. The decrease in the effective tax rate in fiscal 2003 is primarily due to the adoption of SFAS 142, which discontinued goodwill amortization for financial reporting purposes.

The Company's net income for the first quarter of fiscal 2003 and 2002 was \$4.2 million and \$4.9 million, respectively. Net income for the first quarter of fiscal 2002 includes net income of \$287,000 related to the Company's cylinder division, which was sold in January 2002 and is presented as a discontinued operation. The 9.1% decrease in income from continuing operations is due to lower sales levels in fiscal 2003.

Subject to quarterly variations, the Company believes fiscal 2003 financial results from continuing operations should be consistent with fiscal 2002. While the industry has seen a very modest improvement in shipments in the first quarter of fiscal 2003 in comparison with

shipments in the last quarter of fiscal 2002, shipments are still considerably below levels from the first quarter of fiscal 2002. The Company believes some uncertainty still exists as to the long-term sustainability of order rates given the current economic conditions in both North America and Europe.

### **Liquidity and Capital Resources**

During the three months ended April 30, 2002, the Company generated \$5.1 million in cash from operating activities as compared to \$6.5 million, for the three months ended April 30, 2001. The decrease in cash provided by operations in the first quarter of fiscal 2003 is due primarily to lower levels of net income in comparison with the prior year. Cash and cash equivalents at April 30, 2002 and January 31, 2002, totaled \$26.3 million and \$25.6 million, respectively.

At April 30, 2002 the Company held marketable securities totaling \$4.5 million. These securities consist of asset-backed notes issued by various state agencies throughout the United States and guaranteed by the United States or state governments. The notes are long-term instruments maturing through 2035, however the interest rates and maturities are reset approximately every month, at which

time the Company can sell the notes. Accordingly, the Company has classified the notes as short-term in its consolidated balance sheet. Interest rates on the notes range from 1.95% to 2.03%.

Total outstanding debt at April 30, 2002 was \$79.7 million, which is consistent with the outstanding debt balance at January 31, 2002. The Company's debt to equity ratio improved to .66 to 1 from .70 to 1 at January 31, 2002. Any additional payments to prepay outstanding debt balances in advance of scheduled maturity dates are subject to penalties. The Company is evaluating its options to make additional debt payments and incur the penalties in light of its current cash position.

As of April 30, 2002, the Company had short-term lines of credit with commercial banks totaling \$55.3 million. The Company had no amounts outstanding at April 30, 2002 under these short-term lines of credit. The Company believes its available cash, cashflows from operations and credit facilities are more than sufficient to meet its short-term requirements.

Capital expenditures for the three months ended April 30, 2002 were \$0.7 million compared with \$1.0 million during the corresponding period in the prior year. Capital expenditures for new facilities, machinery, equipment and tooling over the preceding five years have totaled approximately \$51.8 million. The level of capital expenditures in the past two years has been at a reduced level as a result of management's decision to minimize expenditures in light of the proposed merger in fiscal 2001 and to reduce outstanding debt. Planned capital expenditures for the fiscal year ending January 31, 2003 are not expected to exceed \$12 million. The Company plans to use operating cash flows and existing credit facilities to fund current year capital expenditures.

During the three months ended April 30, 2002, the U.S. dollar weakened against the major currencies included in the Company's consolidated financial statements. As a result, the cumulative translation adjustment increased shareholders' equity by \$2.8 million for the three months ended April 30, 2002.

### **Recent Accounting Pronouncements**

The Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets," effective January 1, 2002. The provisions of SFAS No. 142 prohibit the amortization of goodwill and indefinite-lived intangible assets, require that goodwill and indefinite-lived intangible assets be tested at least annually for impairment, require reporting units be identified for the purpose of assessing potential future impairments of goodwill, and remove the forty-year limitation on the amortization period of intangible assets that have finite lives. The Company completed the transitional impairment test for goodwill in the quarter ended April 30, 2002 and determined the impairment test will not impact the Company's earnings and financial position. As a result of the non-amortization provisions of SFAS No. 142, the Company will no longer record approximately \$4.4 million of annual amortization expense relating to goodwill.

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible, long-lived assets and the associated asset retirement costs. This Statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred by capitalizing it as part of the carrying amount of the long-lived assets. As required by SFAS 143, the Company will adopt this new accounting standard on February 1, 2003. The Company does not expect the adoption of SFAS 143 to have any material impact on the financial statements.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS 144 addresses financial accounting and reporting for the impairment of long-lived assets and broadens the presentation of discontinued operations currently permitted by Accounting Principles Board Opinion No. 30. The Company adopted SFAS 144 in the fiscal year ended January 31, 2002, which required application as of February 1, 2001, the beginning of the fiscal year. The Company's hydraulic cylinder division meets the criteria as a component of an entity in SFAS 144 and is presented in the Company's consolidated financial statements as discontinued operations. Accordingly, all prior periods presented are reclassified to reflect the division as a discontinued operation.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statement No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This Statement, which updates, clarifies and simplifies existing accounting pronouncements, addresses the reporting of debt extinguishments and accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. The Company is required and plans to adopt the provisions of SFAS 145 by February 1, 2003. The Company has not yet assessed the impact of this Statement on its financial statements.

### **Forward-Looking Statements**

Forward-looking statements throughout this report are based upon assumptions involving a number of risks and uncertainties. Factors which could cause actual results to differ materially from these forward-looking statements include, but are not limited to competitive factors in, and the cyclical nature of, the lift truck 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; foreign currency fluctuations; and the effectiveness of the Company's cost reduction initiatives.

### **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 the Company's revenues are denominated in currencies from international markets outside the United States. As a result, the Company's operating results could become subject to significant fluctuations based upon changes in the exchange rates of the foreign currencies in relation to the United States dollar. The Company does 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, Canadian, Australian, New Zealand and several European currencies, primarily the Euro and British pound. The Company's foreign currency forward exchange contracts have terms lasting up to three months, but generally less than one month. The Company does not enter into derivatives or other financial instruments for trading or speculative purposes. See Note 13 to the consolidated financial statements (Item 8) of the prior-year Form 10-K.

The Company generally manages its ratio of fixed to variable rate debt with the objective of achieving a mix that management believes is appropriate. Based on the scheduled debt payments during fiscal 2002 and certain payment restrictions on its remaining debt, substantially all of the Company's debt at April 30, 2002 has a fixed interest rate. Any additional payments to prepay scheduled amounts of debt are subject to penalties. At April 30, 2002, the penalties to retire all of the Company's long-term debt were \$5.5 million. A hypothetical 1% increase in market interest rates would result in a \$2.1 million reduction in the fair market value of the Company's long term outstanding debt at April 30, 2002.

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## **CASCADE CORPORATION**

### **PART II OTHER INFORMATION**

#### **Item 1. Legal Proceedings**

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

## Edgar Filing: CASCADE CORP - Form 10-Q

The Company and The Boeing Company are defendants in litigation brought in December 1999 by the City of Portland, Oregon (City), alleging damages arising from the proximity of a City water well field to groundwater contamination in the area of their respective Portland plant sites. The Company and The Boeing Company are remedying the contamination in question, which has never affected the quality of water pumped by the City from the well field. The City's complaint originally alleged damages of approximately \$6.4 million. In November 2000, the City raised new theories it asserts would increase its claimed damages against both defendants by an amount currently estimated to be \$16 million. In March 2002, the City asserted an additional claim of up to \$10.1 million. If the City were to prevail on all of its claims and be awarded all damage amounts it has asserted to date, the combined liability of the Company and The Boeing Company would approximate \$32.5 million.

In March 2001, the United States District Court for the District of Oregon granted a partial summary judgment to the City on certain liability issues raised in its original claim. The partial summary judgment will likely lead to a damage judgment in some amount on the December 1999 claim. The Company believes it has substantial defenses to damage amounts sought by the City. The Company believes most or all of the remaining November 2000 claim and the apparent March 2002 claim are without merit. There has been no allocation of possible damages between the Company and The Boeing Company. As of April 30, 2002, the Company has accrued \$1.5 million in connection with the City of Portland litigation. This reflects a present estimate of its allocable share of any eventual liability, however, the ultimate outcome of this matter cannot presently be determined.

On April 22, 2002, the Circuit Court of the State of Oregon for Multnomah County entered judgment in the Company's favor for approximately \$1.6 million 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 is against two non-settling insurers. Additionally, the judgment requires one of the insurers to defend Cascade in suits alleging liability because of groundwater contamination emanating from its Portland plant and requires the two insurers to pay approximately 4% of any liability imposed against the Company by judgment or settlement on or after March 1, 1997 on account of such contamination. The Company and the insurers have appealed the judgment. The Company has not recorded any amounts that may be recovered from the two insurers in its consolidated financial statements.

### **Item 2. Changes in Securities**

None

### **Item 3. Defaults Upon Senior Securities**

None

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

None

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

None

### **Item 6. Exhibit and Reports on Form 8-K**

(A)

#### **Exhibits**

None

(B) **Reports on Form 8-K**

None

**CASCADE CORPORATION**

**SIGNATURES**

The enclosed financial statements have not been certified by independent accountants. However, to the best of my knowledge and belief these financial statements have been prepared in conformity with generally accepted accounting principles and on a basis substantially consistent with audited financial statements included in the annual report filed with the Commission for the preceding fiscal year.

The Company believes that all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of the results of operations, have been included.

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.

|                            |  |
|----------------------------|--|
| <b>CASCADE CORPORATION</b> |  |
| June 6, 2002               | /s/ RICHARD S. ANDERSON  |
| Date                       | Richard S. Anderson<br><i>Senior Vice President and<br/>Chief Financial Officer<br/>(Principal Financial and Accounting Officer)</i> |

**QuickLinks**

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

CASCADE CORPORATION CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited in thousands)

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SIGNATURES