CASCADE CORP
Form 10-Q
December 06, 2002

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended October 31, 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

CASCADE CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

The number of shares outstanding of the registrant's common stock as of October 31, 2002 was 11,398,300.

CASCADE CORPORATION

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED BALANCE SHEET

(in thousands, except share and per share data)

	October 31 2002 (unaudited)	January 31 2002
ASSETS		
Current assets:		
Cash and cash equivalents	$ 33,007	$ 25,611
Marketable securities	10,200	
Accounts receivable, less allowance for doubtful accounts of $1,563 and $1,350	46,383	39,312
Inventories	28,802	30,817
Deferred income taxes	6,687	5,930
Prepaid expenses and other	3,582	4,387
Total current assets	128,661	106,057
Property, plant and equipment, net	62,349	61,412
Goodwill	57,873	56,177
Notes receivable, net	9,376	8,873
Deferred income taxes	10,779	10,797
Other assets	2,949	3,970
Total assets	$ 271,987	$ 247,286
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Notes payable to banks	$ 816	$ 743
Current portion of long-term debt	12,658	13,246
Accounts payable	13,102	10,575
Accrued payroll and payroll taxes	5,944	4,973
Accrued environmental expenses	4,148	2,291
Other accrued expenses	11,823	8,218
Total current liabilities	48,491	40,046
Long-term debt	62,627	65,679
Accrued environmental expenses	9,855	10,203
Deferred income taxes	1,915	1,743
Other liabilities	5,321	4,974
Total liabilities	128,209	122,645
Exchangeable preferred stock and minority interest	8,530	11,374

	October 31 2002	January 31 2002
Shareholders' equity:		
Common stock, $.50 par value, 20,000,000 authorized shares; 11,398,300 and 11,291,190 shares issued and outstanding	5,699	5,646
Additional paid-in capital	1,468	
Retained earnings	148,515	135,418
Accumulated other comprehensive loss:		
Cumulative foreign currency translation adjustments	(20,434)	(27,797)
Total shareholders' equity	135,248	113,267
Total liabilities and shareholders' equity	$ 271,987	$ 247,286

The accompanying notes are an integral part of this statement.

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CASCADE CORPORATION

CONSOLIDATED STATEMENT OF INCOME

(unaudited in thousands, except per share data)

	Three Months Ended October 31		Nine Months Ended October 31	
	2002	2001	2002	2001
Net sales	$ 70,241	$ 62,140	$ 194,455	$ 199,804
Cost of goods sold	45,298	41,232	126,650	131,722
Gross profit	24,943	20,908	67,805	68,082
Selling and administrative	14,411	12,786	41,679	40,872
Environmental expenses	2,100		2,100	
Amortization of goodwill		1,067		3,228
Operating income	8,432	7,055	24,026	23,982
Interest expense, net	1,238	1,273	3,426	4,226
Other (income) expense	291	(225)	136	64
Income before taxes from continuing operations	6,903	6,007	20,464	19,692
Provision for income taxes	2,485	2,279	7,367	7,479
Income from continuing operations	4,418	3,728	13,097	12,213
Income (loss) from discontinued operations, net of Income taxes		(107)		476
Net income	$ 4,418	$ 3,621	$ 13,097	$ 12,689

	Three Months Ended October 31		Nine Months Ended October 31	
Basic earnings per share:				
Continuing operations	$ 0.39	$ 0.33	$ 1.15	$ 1.08
Discontinued operations		(0.01)		0.04
	$ 0.39	$ 0.32	$ 1.15	$ 1.12
Diluted earnings per share:				
Continuing operations	$ 0.36	$ 0.31	$ 1.07	$ 1.00
Discontinued operations		(0.01)		0.04
	$ 0.36	$ 0.30	$ 1.07	$ 1.04
Basic weighted average shares outstanding	11,470	11,313	11,363	11,313
Diluted weighted average shares outstanding	12,202	12,129	12,216	12,161

The accompanying notes are an integral part of this statement.

CASCADE CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS

(unaudited in thousands)

	Nine Months Ended October 31	
	2002	**2001**
Cash flows from operating activities:		
Net income	$ 13,097	$ 12,689
Adjustments to reconcile net income to net cash provided by operating activities:		
Income from discontinued operations, net of income taxes		(476)
Depreciation and amortization	7,693	10,904
Deferred income taxes	(567)	1,832
Gain on disposition of assets	(77)	
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:		
Accounts receivable	(7,071)	4,069
Inventories	2,015	3,137
Prepaid expenses and other	294	297
Accounts payable and accrued expenses	3,498	(8,925)
Accrued environmental expenses	1,509	
Other liabilities	3,952	2,494
Cash provided by continuing operations	24,343	26,021
Cash provided by discontinued operations		1,435

	Nine Months Ended October 31	
Net cash provided by operating activities	24,343	27,456
Cash flows from investing activities:		
Capital expenditures	(5,680)	(5,519)
Proceeds from sale of assets	192	396
Additions to notes receivable	(2,102)	
Proceeds from notes receivable	2,286	
Purchase of marketable securities	(10,200)	
Other assets	77	704
Cash used in continuing operations	(15,427)	(4,419)
Cash provided by discontinued operations		551
Net cash used in investing activities	(15,427)	(3,868)
Cash flows from financing activities:		
Payments on long-term debt	(2,810)	(10,822)
Notes payable to banks, net	73	(2,975)
Common stock repurchased and retired	(1,396)	(1,158)
Stock options exercised	73	
Net cash used in financing activities	(4,060)	(14,955)
Effect of exchange rate changes	2,540	(1,578)
Change in cash and cash equivalents	7,396	7,055
Cash and cash equivalents at beginning of year	25,611	12,418
Cash and cash equivalents at end of period	$ 33,007	$ 19,473
Supplemental disclosure of cash flow information:		
Cash paid during period for:		
Interest	$ 4,528	$ 4,291
Income taxes	$ 7,008	$ 5,161
Supplemental disclosure of noncash financing activities:		
Conversion of exchangeable preferred stock to common stock	$ 2,844	$
Termination of lease receivable and related liability	$ 1,080	$

The accompanying notes are an integral part of this statement.

CASCADE CORPORATION

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(unaudited in thousands)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Nine Months Comprehensive Income
	Shares	Amount				
Balance at January 31, 2002	11,291	$ 5,646	$	$ 135,418	$ (27,797)	
Net income				13,097		$ 13,097
Stock options exercised	7	3	70			
Exchangeable convertible preferred stock converted to common shares	200	100	2,744			
Common stock repurchased	(100)	(50)	(1,346)			
Translation adjustment					7,363	7,363
Balance at October 31, 2002	11,398	$ 5,699	$ 1,468	$ 148,515	$ (20,434)	$ 20,460

The accompanying notes are an integral part of this statement.

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CASCADE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited in thousands)

Note 1 Interim Financial Information

The accompanying consolidated financial statements of Cascade Corporation (the Company) for the interim periods ended October 31, 2002 and 2001 are unaudited. In the opinion of management, the accompanying consolidated financial statements reflect normal recurring adjustments necessary for a fair statement of the results of operations 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 the Company's audited financial statements included in its Annual Report on Form 10-K for the fiscal year ended January 31, 2002.

Note 2 Segment Information

The following presents segment information from continuing operations, except identifiable assets.

For the nine months ended October 31, 2002	North America	Europe	Other	Eliminations	Consolidation
Sales to unaffliated customers	$ 123,170	$ 44,880	$ 26,405	$	$ 194,455
Transfers between areas	9,575	678	66	(10,319)	
Net sales	$ 132,745	$ 45,558	$ 26,471	$ (10,319)	$ 194,455
Net income (loss) from continuing operations	$ 10,244	$ (68)	$ 2,921	$	$ 13,097
Identifiable assets	$ 172,243	$ 70,310	$ 29,434	$	$ 271,987

For the nine months ended October 31, 2001					
Sales to unaffliated customers	$ 128,271	$ 46,137	$ 25,396	$	$ 199,804
Transfers between areas	11,200	531	88	(11,819)	

For the nine months ended October 31, 2002	North America	Europe	Other	Eliminations	Consolidation
Net sales	$ 139,471	$ 46,668	$ 25,484	$ (11,819)	$ 199,804
Net income from continuing operations	$ 10,381	$ 890	$ 942	$	$ 12,213
Identifiable assets	$ 165,696	$ 70,874	$ 29,244	$	$ 265,814

For the three months ended October 31, 2002	North America	Europe	Other	Eliminations	Consolidation
Sales to unaffliated customers	$ 44,445	$ 16,117	$ 9,679	$	$ 70,241
Transfers between areas	3,298	304	35	(3,637)	
Net sales	$ 47,743	$ 16,421	$ 9,714	$ (3,637)	$ 70,241
Net income (loss) from continuing operations	$ 3,418	$ (217)	$ 1,217	$	$ 4,418

For the three months ended October 31, 2001					
Sales to unaffliated customers	$ 40,128	$ 13,661	$ 8,351	$	$ 62,140
Transfers between areas	3,443	283	6	(3,732)	
Net sales	$ 43,571	$ 13,944	$ 8,357	$ (3,732)	$ 62,140
Net income from continuing operations	$ 3,104	$ 188	$ 436	$	$ 3,728

Note 3 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 or agencies. The notes are long-term instruments maturing through 2036, however the interest rates and maturities are reset approximately every month. Accordingly, the Company has classified the notes as current assets in its consolidated balance sheet and considers these assets available for sale.

Note 4 Inventories

	October 31, 2002	January 31, 2002
Finished goods and components	$ 18,572	$ 21,493
Work in process	985	865
Raw materials	9,245	8,459
	$ 28,802	$ 30,817

Note 5 Goodwill

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 Ended October 31, 2001**	**Nine Months Ended October 31, 2001**
Net income:		
Reported from continuing operations	$ 3,728	$ 12,213
Goodwill amortization, net of income taxes of $406 and $1,227	661	2,001
Adjusted net income from continuing operations	$ 4,389	$ 14,214
Basic earnings per share from continuing operations:		
Reported basic earnings per share	$ 0.33	$ 1.08
Goodwill amortization, net of income taxes	0.06	0.18
Adjusted basic earnings per share from continuing operations	$ 0.39	$ 1.26
Diluted earnings per share from continuing operations:		
Reported diluted earnings per share	$ 0.31	$ 1.00
Goodwill amortization, net of income taxes	0.05	0.17
Adjusted diluted earnings per share from continuing operations	$ 0.36	$ 1.17

The breakdown of goodwill by geographic region at October 31 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.

Breakdown of goodwill by geographic region:	**October 31, 2002**	**January 31, 2002**
North America	$ 48,341	$ 47,437
Europe	6,331	5,532
Other	3,201	3,208
	$ 57,873	$ 56,177

Note 6 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 7 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. At October 31, 2002, the Company has recorded accrued environmental expenses totaling $14.0 million, including $3.6 million

related to the City of Portland settlement described in the following paragraph. Unasserted claims are not reflected in the Company's environmental remediation liabilities.

On November 6, 2002, the Company and The Boeing Company entered into a settlement agreement with the City of Portland, Oregon (City) resolving litigation brought by the City in 1999 alleging damages arising from the proximity of groundwater contamination in the area of their respective Portland plants to a City water well field. The defendants agreed to pay the City $6.2 million, of which the Company's share is $3.6 million. The Company accrued a $1.5 million charge related to the litigation during the year ended January 31, 2002, and has recorded a charge of approximately $2.1 million for the quarter ended October 31, 2002, related to the settlement. The Company paid the $3.6 million settlement in November 2002.

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 8 Recent Accounting Pronouncements

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.

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 met 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." SFAS 145, 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 does not expect the adoption of SFAS 145 to have any material impact on the financial statements.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS 146 modifies the existing financial accounting and reporting for costs associated with exit or disposal activities. The statement is effective for exit or disposal activities that are initiated after December 31, 2002, with earlier application permitted. The Company is currently assessing the impact of adopting of SFAS 146 on its financial statements.

Note 9 Earnings Per Share

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

	Three Months Ended October 31		Nine Months Ended October 31	
	2002	2001	2002	2001
Basic earnings per share:				
Income from continuing operations available to common shareholders	$ 4,418	$ 3,728	$ 13,097	$ 12,213
Income (loss) from discontinued operations, net of income taxes		(107)		476
Net income available to common shareholders	$ 4,418	$ 3,621	$ 13,097	$ 12,689
Weighted average shares of common stock outstanding	11,470	11,313	11,363	11,313
Continuing operations	$ 0.39	$ 0.33	$ 1.15	$ 1.08
Discontinued operations		(0.01)		0.04
	$ 0.39	$ 0.32	$ 1.15	$ 1.12
Diluted earnings per share:				
Income from continuing operations available to common shareholders	$ 4,418	$ 3,728	$ 13,097	$ 12,213
Income (loss) from discontinued operations, net of income taxes		(107)		476
Net income available to common shareholders	$ 4,418	$ 3,621	$ 13,097	$ 12,689
Weighted average shares of common stock outstanding	11,470	11,313	11,363	11,313
Assumed conversion of exchangeable preferred stock	600	800	722	800
Dilutive effect of stock options	132	16	131	48
Diluted weighted average shares of common stock outstanding	12,202	12,129	12,216	12,161
Continuing operations	$ 0.36	$ 0.31	$ 1.07	$ 1.00
Discontinued operations		(0.01)		0.04
	$ 0.36	$ 0.30	$ 1.07	$ 1.04

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 nine month periods ended October 31, 2002 and 2001, 492,269 shares and 289,787 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. For the three month periods ended October 31, 2002 and 2001, 492,269 shares and 399,024 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.

Note 10 Subsequent Event

On November 21, 2002 the Company's Board of Directors reinstated and declared a quarterly dividend of $.10 per share. The dividend will be paid on December 17, 2002 to shareholders of record on December 3, 2002.

The Board also extended the prior authorization to repurchase up to 600,000 shares of common stock for twelve months as market conditions warrant. The Company has purchased and retired 249,000 shares to date under the authorization.

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 ending January 31, 2002 (fiscal 2002) and year ending January 31, 2003 (fiscal 2003).

Comparison of Third Quarter of Fiscal 2003 and 2002

Consolidated net income increased to $4.4 million ($.36 per share) in the third quarter ended October 31, 2002 from $3.6 million ($.30 per share) in the third quarter ended October 31, 2001. Consolidated net sales for the third quarter of fiscal 2003 were $70.2 million in comparison with $62.1 million for the third quarter of fiscal 2002. Net income as a percentage of consolidated net sales was 6.3% in the third quarter of fiscal 2003 as compared to 5.8% in the third quarter of fiscal 2002.

The 13% increase in the Company's net sales for the third quarter of fiscal 2003 as compared to fiscal 2002 reflects primarily the continued recovery of the lift truck industry in North America from the industry downturn experienced in late fiscal 2002 and early fiscal 2003.

Sales to unaffiliated customers in the third quarter of fiscal 2003 in North America increased 10.8% and 11.8% in comparison with the third quarter of fiscal 2002 and the second quarter of fiscal 2003, respectively. Overall lift truck industry shipments in North America for the third quarter of fiscal 2003 are approximately 15% above shipment levels in the comparable period of fiscal 2002. The North American lift truck industry began to experience a significant decline in shipments in the third quarter of fiscal 2002, which continued through the remainder of the year. Industry shipments in fiscal 2003 through the end of the third quarter have increased steadily. The Company's sales increase in North America reflects these market improvements. Historically 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, but industry statistics do provide a strong indicator of the direction of business activity in the Company's North American markets.

The Company's sales to unaffiliated customers in Europe increased 18.0% and 4.5% in the third quarter of fiscal 2003 as compared to the comparable quarter in fiscal 2002 and the second quarter of fiscal 2003, respectively. Excluding the impact of foreign currency changes, European sales to unaffiliated customers increased 9.3% in the third quarter of fiscal 2003 as compared to the prior year. The Company's increased sales levels in comparison with the prior year are primarily the result of increased OEM order rates. Weakened economic conditions throughout Europe, in particular Germany and France, in fiscal 2003 have resulted in inconsistent lift truck market activity through October 31, 2002.

The Company's remaining sales to unaffiliated customers are primarily in Asia and Australia. In the third quarter of fiscal 2003, net sales increased 15.9% and 6.5% in these markets as compared to the comparable fiscal 2002 period and the second quarter of fiscal 2003, respectively. This increase is primarily attributable to higher sales levels in China.

The Company's gross profit percentage was 35.5% in the third quarter of fiscal 2003, which was higher than the 33.6% gross profit percentage experienced in the third quarter of fiscal 2002. The increase in the gross margin percentage is due to the above mentioned increase in net sales and the impact of various steps taken to reduce costs and implement manufacturing improvements.

The Company's selling and administrative expenses increased 12.7% in the third quarter of fiscal 2003 as compared to the third quarter of fiscal 2002. As a percentage of net sales, selling and administrative expenses were 20.5% in the third quarter of 2003 and 20.6% in the third quarter of fiscal 2002. During fiscal 2002 the Company took aggressive steps to reduce costs in response to the downturn in order activity in the worldwide lift truck market. These steps included wage freezes, significant reductions in incentive payments and cost controls to minimize spending levels. With steadily increasing sales levels through the third quarter of fiscal 2003, the Company lifted certain of the limitations in place in the prior year.

During the third quarter of fiscal 2003 the Company entered into a settlement agreement with the City of Portland. See Note 7 to the Consolidated Financial Statements. The $3.6 settlement, net of a $1.5 million charge recorded in the fourth quarter of fiscal 2002, resulted in a $2.1 million charge in the current quarter.

Third 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. See Note 5 to Consolidated Financial Statements.

Interest expense for the third quarter of fiscal 2003 and 2002 was $1.6 million. Excluding early payment penalties, interest expense in the third quarter of fiscal 2003 was $1.4 million. The decrease is the result of lower overall debt levels in the third quarter of fiscal 2003 as compared to the prior year period. Interest income has increased from $331,000 for the third quarter of fiscal 2002 to $364,000 for the third quarter of fiscal 2003.

The effective tax rates for the third quarters of fiscal 2003 and 2002 were 36% and 38%, 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 third quarter of fiscal 2003 and 2002 was $4.4 million and $3.6 million, respectively. Excluding the impact of goodwill amortization and the discontinued operation, net income from continuing operations in the third quarter of fiscal 2002 was $4.4 million. Excluding the litigation settlement with the City of Portland in the third quarter of fiscal 2003, net income from continuing operations increased 32% from the prior year to $5.8 million.

The Company incurred a net loss in its European operations for the third quarter of fiscal 2003. These results are due to increasing price competition from overcapacity in the market and weakened economic conditions in several of the major markets, primarily France and Germany. These conditions are expected to continue into fiscal 2004. The Company's operations in China and Australia have posted higher levels of net income in the third quarter of fiscal 2003 as compared to the prior year period. Operations in China have continued to grow in a manner consistent with the general economy in China. Net income in Australia is higher in fiscal 2003 as a result of restructuring activities completed by the Company in prior years.

Comparison of the First Nine Months of Fiscal 2003 and 2002

Consolidated net income was $13.1 million ($1.07 per share) for the nine months ended October 31, 2002, as compared to $12.7 million ($1.04 per share) for the nine months ended October 31, 2001. Consolidated net sales for the first nine months of fiscal 2003 were $194.5 million as compared to $199.8 million for the first nine months of fiscal 2002. Net income as a percentage of consolidated net sales was 6.7% for the first nine months of fiscal 2003 as compared to 6.4% for the first nine months of fiscal 2002.

The 2.7% decrease in the Company's net sales in fiscal 2003 as compared to fiscal 2002 reflects the downturn in the lift truck industry in both North America and Europe. The Company's sales levels have increased each quarter of fiscal 2003 but still remain below prior year levels for the first three quarters.

Sales to unaffiliated customers for the first nine months of fiscal 2003 in North America decreased 4.0% in comparison with the first nine months of fiscal 2002. Overall lift truck industry shipments in

North America for the first nine months of fiscal 2003 are approximately 16% below shipment levels in the comparable period of fiscal 2002.

Sales to unaffiliated customers in Europe decreased 2.7% for the first nine months of fiscal 2003 as compared to the comparable period in fiscal 2002. Excluding the impact of foreign currency changes, European sales to unaffiliated customers decreased 5.8% for the first nine months of fiscal 2003 as compared to the comparable period in fiscal 2002. The decrease is due to the continued slowdown in the European lift truck industry in the current year.

The remaining sales to unaffiliated customers in Asia and Australia increased 4.0% for the first nine months of fiscal 2003 as compared to the comparable fiscal 2002 period. The increase is due primarily to higher sales levels in China.

Gross profit percentage was 34.9% for the first nine months of fiscal 2003, which is slightly higher than the 34.1% gross profit percentage experienced in the first nine months of fiscal 2002. The increase is due to various cost controls and manufacturing improvements.

Results for the first nine months of fiscal 2002 include $3.2 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. See Note 5 to Consolidated Financial Statements.

The Company's selling and administrative expenses increased 2.0% for the first nine months of fiscal 2003 as compared to the first nine months of fiscal 2002. As a percentage of net sales, selling and administrative expenses were 21.4% for the first nine months of 2003 and 20.5% for the first nine months of fiscal 2002. The increase is due to higher levels of incentive pay in the current year. The Company significantly reduced incentive payments in fiscal 2002 due to lower than expected net income.

Interest expense for the first nine months of fiscal 2003 was $4.5 million as compared to $5.1 million for the first nine months of fiscal 2002. The decrease is the result of lower overall debt levels in fiscal 2003 as compared to the prior year period. Interest income has also increased to $1.1 million in the first nine months of fiscal 2003 from $863,000 in the first nine months of fiscal 2002.

The effective tax rates for the first nine months of fiscal 2003 and 2002 were 36% and 38%, 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 nine months of fiscal 2003 and 2002 was $13.1 million and $12.7 million, respectively. Net income for the first nine months of fiscal 2002 includes net income of $476,000 related to the Company's cylinder division, which was sold in January 2002 and is presented as a discontinued operation. Excluding the effect of goodwill amortization and the discontinued operation from fiscal 2002 results and the City of Portland settlement from fiscal 2003 results, net income from continuing operations in the current year has increased 1.6%.

European operations have performed at a breakeven level through the first three quarters of fiscal 2003 due to the impact of severe price competition and weakened economic conditions, particularly in Germany and France. The Company's operations in China and Australia have posted higher levels of net income in fiscal 2003 as compared to fiscal 2002. Australia has improved due to the Company's efforts to restructure the business in prior years. China's growth can be attributed to the general growth in the Chinese economy.

Liquidity and Capital Resources

During the nine months ended October 31, 2002, the Company generated $24.3 million in cash provided by continuing operations as compared to $26.0 million, for the nine months ended

October 31, 2001. The decrease in cash provided by continuing operations in the first nine months of fiscal 2003 is due primarily to an increase in accounts receivable and prepaid expenses and other assets, primarily short-term notes receivable, which was partially offset by an increase in accounts payable, accrued environmental expenses and accrued expenses. During the third quarter of fiscal 2003 and 2002, the Company repurchased $1.4 million and $1.2 million, respectively, of common stock. Cash and cash equivalents at October 31, 2002 and January 31, 2002, totaled $33.0 million and $25.6 million, respectively.

Under the terms of the sale of the hydraulic cylinder division in fiscal 2002 to Precision Hydraulic Cylinders, Inc. (Precision), the Company agreed to make up to $4 million of interim operating capital advances to Precision until Precision could obtain an operating line of credit with a financial institution. During the first and second quarters of fiscal 2003, the Company advanced Precision a total of $2.1 million under this agreement. Precision repaid all outstanding operating advances to the Company in the third quarter of fiscal 2003.

At October 31, 2002, the Company held marketable securities totaling $10.2 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 and agencies. The notes are long-term instruments maturing through 2036; however, the interest rates and maturities are reset approximately every month. Accordingly, the Company has classified the notes as current assets in its consolidated balance sheet. Interest rates on the notes range from 1.8% to 1.9%.

Capital expenditures for the nine months ended October 31, 2002 were $5.7 million compared with $5.5 million during the corresponding period in the prior year. 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 current market downturn and to reduce outstanding debt. Planned capital expenditures for the fiscal year ending January 31, 2003 are not expected to exceed $10 million. The Company plans to use cash flows from operations and existing credit facilities to fund current year capital expenditures.

Total outstanding debt at October 31, 2002 was $76.1 million as compared to $79.7 million at January 31, 2002. The Company's debt to equity ratio at October 31, 2002 decreased to .56 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 whether to make additional debt payments and incur the penalties in light of its current cash position.

As of October 31, 2002, the Company had short-term lines of credit with commercial banks totaling $42.7 million. The Company had $816,000 outstanding at October 31, 2002 under these short-term lines of credit. The Company believes its available cash, cash flows from operations and credit facilities are more than sufficient to meet its short-term requirements.

In July 2002, the holder of the Company's exchangeable preferred stock converted 200,000 shares of exchangeable preferred stock into 200,000 shares of common stock. This noncash transaction resulted in a reclassification of $2.8 million from exchangeable preferred stock into common stock and additional paid-in capital and had no effect on earnings per share.

During the nine months ended October 31, 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 $7.4 million for the nine months ended October 31, 2002.

Recent Accounting Pronouncments

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." SFAS 145, 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 does not expect the adoption of SFAS 145 to have any material impact on the financial statements.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS 146 modifies the existing financial accounting and reporting for costs associated with exit or disposal activities. The statement is effective for exit or disposal activities that are initiated after January 31, 2003, with earlier application permitted. The Company is currently assessing the impact of adopting of SFAS 146 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 six 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 Consolidated Financial Statements (Item 8) of the prior-year Form 10-K.

Based on the scheduled debt payments during fiscal 2003 and certain payment restrictions on its remaining debt, substantially all of the Company's debt at October 31, 2002 has a fixed interest rate. Any additional payments to prepay scheduled amounts of debt are subject to penalties. At October 31, 2002, the penalties to retire all of the Company's long-term debt were $8.2 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 October 31, 2002.

Item 4. Controls and Procedures

Within the 90-day period prior to the date of this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-14 and 15d-14 of the Securities Exchange Act of 1934 (Exchange Act). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to us, including our consolidated subsidiaries, required to be included in our Exchange Act filings.

There have been no significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to the date we carried out our evaluation.

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.

On November 6, 2002, the Company and The Boeing Company entered into a settlement agreement with the City of Portland, Oregon (City) resolving litigation brought by the City in 1999 alleging damages arising from the proximity of groundwater contamination in the area of their respective Portland plants to a City water well field. The defendants agreed to pay the City $6.2 million, of which the Company's share is $3.6 million. The Company accrued a $1.5 million charge related to the litigation during the year ended January 31, 2002, and has recorded a charge of approximately $2.1 million for the quarter ended October 31, 2002, related to the settlement. The Company paid the $3.6 million settlement in November 2002.

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

Item 5. Other Information

None

Item 6. Exhibit and Reports on Form 8-K

(A) **Exhibits**

99.1 Certification pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.2 Certification pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(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.

CASCADE CORPORATION

December 6, 2002 /s/ RICHARD S. ANDERSON

Richard S. Anderson
Senior Vice President and
Chief Financial Officer
(Principal Financial and Accounting Officer)

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Certification by Chief Executive Officer

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

1. I have reviewed this quarterly report on Form 10-Q of Cascade Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5.

The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: December 6, 2002

/s/ ROBERT C. WARREN, JR.

Robert C. Warren, Jr.
Chief Executive Officer

Certification by Chief Financial Officer

I, Richard S. Anderson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cascade Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: December 6, 2002

/s/ RICHARD S. ANDERSON

Richard S. Anderson
Chief Financial Officer

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