CASCADE CORP
Form 10-K
April 18, 2002

QuickLinks -- Click here to rapidly navigate through this document

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended January 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	**93-0136592**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2201 N.E. 201st Ave. Fairview, Oregon 97024-9718
(Address of principal executive office) (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:
Common Stock, par value $.50 per share

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

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

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

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

The aggregate market value of common stock held by non-affiliates of the registrant as of March 20, 2002 was $156,382,982.

The number of shares outstanding of the registrant's common stock as of March 20, 2002 was 11,291,190.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement to be filed on or before April 15, 2002, to be delivered to shareholders in connection with the Annual Meeting of Shareholders to be held May 23, 2002 are incorporated by reference into Part III.

TABLE OF CONTENTS

NOTE: All references to fiscal years are defined as year ended January 31, 2002 (fiscal 2002), year ended January 31, 2001 (fiscal 2001) and year ended January 31, 2000 (fiscal 2000).

PART I

Item 1. Business

General

Cascade Corporation is a corporation organized in 1943 under the laws of the State of Oregon. The term "the Company" includes Cascade Corporation and its subsidiaries. The Company's headquarters are located in Fairview, Oregon, a suburb of Portland, Oregon. The Company is one of the world's leading manufacturers of materials handling load engagement devices, hose reels, sideshifters, and related replacement parts, primarily for the lift truck industry. Acquisitions in 1996 and 1997 expanded the Company's load engagement product line to include fork products and its hydraulic cylinder product. Both of these product lines are sold primarily to the lift truck industry. The Company sold its mast business unit in January 1999, its industrial tires division in April 1999 and its hydraulic cylinder division in January 2002. The Company's business is now focused on materials handling load engagement products.

Products

The Company manufactures an extensive range of materials handling load engagement products that are widely used on fork lift trucks and, to a lesser extent, on construction and agricultural vehicles.

The Company's products are manufactured with the Cascade and Cascade-Kenhar names and symbols, for which the Company has secured trademark protection. The primary function of these products is to provide the lift truck with the capability of engaging, lifting, carrying and depositing various types of loads and products. The Company offers a wide variety of functionally different products, each of which has several sizes, models, capacities and optional combinations. Products are designed to handle loads with pallets and for specialized applications without pallets. Examples of specialized applications include the ability to expand the basic lift truck's functionality to reposition, clamp, rotate, or push/pull a variety of loads such as appliances, paper rolls, baled materials, textiles, beverage containers, drums, canned goods, bricks, masonry blocks, lumber, plywood and boxed, packaged and containerized products.

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

The manufacturing of load engagement products includes the purchase of raw materials and components, principally rolled, bar, plate and extruded steel products, unfinished castings and forgings, hydraulic cylinders and motors and hardware items such as fasteners, rollers, hydraulic seals and hose assemblies. Certain rolled steel is purchased from a German steel mill. A portion of the Company's bar steel purchases are obtained under annual pricing arrangements, which do not require minimum quantity purchases. The Company uses several domestic and foreign suppliers for other materials. The Company is not currently experiencing any shortages in obtaining raw materials or purchased parts. Difficulties in obtaining alternative sources of rolled, bar, plate and extruded steel products and other materials from one of its primary suppliers could affect operating results. See "FISCAL 2003 OUTLOOK" (Item 7) for comments regarding the impact of steel tariffs recently imposed by the United States government.

The Company's products are subject to strict design, construction and safety requirements established by industry associations and the International Standards Association. The Company

presently offers a wide variety of both standardized and specialized products. Product specifications and characteristics are dictated by the expected capacity to be lifted, the characteristics of the load, the ambient environment in which employed, the terrain over which the load will be moved and the operational life cycle of the vehicle. Accordingly, while there are some standard products, the market demands a wide range of products in custom configurations and capacities.

The Company is one of the leading independent manufacturers of materials handling load engagement products for lift trucks in the world. Market share varies by geographic region. The Company believes it is the leading manufacturer in North America and the preferred supplier of many OEMs (original equipment manufacturers) as well as OEDs (original equipment dealers) and distributors. The Company also has significant market share in Europe and is continuing its sales and manufacturing expansion into the Asia/Pacific region. Since the Company offers a broad range of both standard and specialized products, it is capable of supplying a significant part of the total requirements for the lift truck industry. In addition to sales to the lift truck market, the Company sells products to OEMs who manufacture construction, mining, agricultural and industrial mobile equipment other than lift trucks.

Customers

The Company's products are marketed and sold to OEMs and OEDs (original equipment dealers) throughout North America, Latin America, Europe, Asia, Africa, Australia and the Middle East. A significant portion of fork sales are to a few major OEM customers. However, no single customer accounts for more than 10% of the Company's consolidated net sales. Approximately 30% of the Company's consolidated net sales for the year ended January 31, 2002 were to OEM customers. This percentage is comparable to prior years.

Backlog

The Company's products are manufactured with short lead times of generally less than one month. Accordingly, the Company does not believe the level of backlog orders is a significant factor in evaluating the Company's overall level of business activity.

Research and Development

Most of the Company's research and development activities are performed at the Company's corporate headquarters in Fairview, Oregon and at its manufacturing facility in Guelph, Canada . The Company's engineering staff develops and designs substantially all of the products sold by the Company and is continually involved in developing products for new applications. The Company does not consider patents to be important to its business.

Environmental Matters

The Company from time to time is the subject of investigations, conferences, discussions, and negotiations with various federal, state, local and foreign agencies with respect to cleanup of hazardous waste and compliance with environmental laws and regulations. Note 16 to the Consolidated Financial Statements (Item 8), "Legal Proceedings" (Item 3) and "Management's Discussion and Analysis of Financial Conditions and Results of Operations" (Item 7) contain additional information concerning the Company's environmental matters.

Employees

At January 31, 2002, the Company had approximately 1,400 full-time employees throughout the world. The majority of these employees are not subject to collective bargaining agreements. The Company believes relations with its employees are excellent.

Foreign Operations

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

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 materials handling industry; fluctuations in lift truck orders or deliveries, availability and cost of raw materials; general business and economic conditions in North America, Europe, Australia and Asia; foreign currency fluctuations; pending litigation; and the effectiveness of the Company's capital expenditures and cost reduction initiatives.

Item 2. Properties

The Company owns and leases various types of properties located throughout the world. The Company's executive offices are located in Fairview, Oregon. The Company generally considers the productive capacity of its manufacturing facilities to be adequate and suitable to meet its requirements.

Location	Type	Approximate Square Footage	Status
NORTH AMERICA			
Springfield, Ohio	Manufacturing	200,000	Owned
Fairview, Oregon	Manufacturing	155,000	Owned
Warner Robins, Georgia	Manufacturing	65,000	Owned
Findlay, Ohio	Manufacturing	48,000	Owned
Guelph, Ontario Canada	Manufacturing	100,000	Owned
Toronto, Ontario Canada	Manufacturing	61,000	Leased
Toronto, Ontario Canada	Sales/Distribution	12,000	Leased
Oakville, Ontario Canada	Manufacturing	27,000	Leased
EUROPE			
Almere, The Netherlands	Manufacturing	162,000	Owned
Hoorn, The Netherlands	Manufacturing	74,000	Owned
Manchester, England	Manufacturing	44,000	Owned
La Machine, France	Manufacturing	37,000	Owned
Brescia, Italy	Manufacturing	19,000	Owned
Monchengladbach, Germany	Sales/Distribution	15,000	Owned
Sheffield, England	Sales/Distribution	10,000	Leased
Barcelona, Spain	Sales	1,000	Leased
Vaggeryd, Sweden	Sales	2,000	Leased
Morangis, France	Sales	2,000	Owned
Vantaa, Finland	Sales	500	Leased
ASIA/PACIFIC/AFRICA			
Hebei, China	Manufacturing	31,000	Leased
Xiamen, China	Manufacturing	72,000	Owned
Brisbane, Australia	Manufacturing	46,000	Leased
Osaka, Japan	Sales/Distribution	16,000	Leased
Inchon, Korea	Manufacturing	12,000	Owned
Johannesburg, South Africa	Sales/Distribution	9,000	Leased

Item 3. 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.

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. During the year ended January 31, 2002, the Company 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.

The Company brought an action in 1992 in the Circuit Court of the State of Oregon for Multnomah County against several insurers to recover various expenses incurred in connection with environmental litigation and related proceedings. The Company settled with a number of the insurers in fiscal 1998 and received a jury verdict in the Company's favor against the two remaining insurers. The verdict awarded the Company a portion of its environmental expenses and defense costs. The Company has received court opinions to date regarding the environmental expenses and defense costs, and awarding attorneys fees, under which the nonsettling insurers would be liable to the Company for a total of approximately $1.6 million. The Company has not recorded any amounts which may be recovered from the two insurers in its consolidated financial statements.

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

None

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

As of January 31, 2002, there were 291 holders of the Company's common stock including blocks of shares held by various depositories. It is the Company's belief that when the shares held by the depositories are attributed to the beneficial owners, the total exceeds 2,500.

During the year ended January 31, 1998, a Canadian subsidiary of the Company issued 1,100,000 preferred shares in connection with the acquisition of Kenhar Corporation. Each preferred share is exchangeable for one common share of the Company. The preferred shares were issued in an exempt private offering transaction and a Form S-3 Registration covering common shares issuable upon conversion of these shares became effective in October 1998. A subsidiary of the Company repurchased 300,000 of these shares in connection with the sale of the mast business unit in January 1999. A total of 800,000 exchangeable preferred shares remain outstanding at January 31, 2002.

Market Information

The high and low sales prices of the common stock of Cascade Corporation were as follows.

	For the year ended January 31			
	2002		2001	
	High	Low	High	Low
Market price range:				
First quarter	$ 15.75	$ 8.40	$ 11.44	$ 7.50
Second quarter	10.75	8.90	12.75	9.94
Third quarter	13.00	8.50	16.00	12.75
Fourth quarter	12.25	9.01	16.75	15.08

Common Stock Dividends

The Company declared no common stock dividends in the year ended January 31, 2002. The common stock dividends declared by the Company in the year ended January 31, 2001 were as follows:

First quarter	$ .10
Second quarter	.10
Third quarter	

Fourth quarter	
Total	$ .20

Stock Exchange Listing and Transfer Agent

The Company's stock is traded on the New York Stock Exchange under the symbol CAE.

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

Item 6. Selected Financial Data

	Year ended January 31				
	2002	**2001**	**2000**	**1999**	**1998**
	(In thousands, except per share amounts and employees)				
Income statement data(1):					
Net sales	$ 252,715	$ 301,358	$ 301,652	$ 384,056	$ 347,301
Operating income	$ 13,433	$ 24,909	$ 19,536	$ 35,485	$ 38,939
Income from continuing operations	$ 5,302	$ 9,774	$ 5,424	$ 20,168	$ 19,515
Net income	$ 4,127	$ 11,863	$ 4,934	$ 21,370	$ 21,040
EBITDA(2)	$ 28,283	$ 40,014	$ 31,590	$ 59,470	$ 57,333
Cash flow data:					
Cash flows from operating activities	$ 34,836	$ 28,049	$ 50,135	$ 20,702	$ 15,701
Cash flows from investing activities	$ (3,201)	$ (6,228)	$ 12,411	$ 3,688	$ (87,328)
Cash flows from financing activities	$ (16,405)	$ (31,317)	$ (45,675)	$ (22,501)	$ 72,921
Stock information:					
Basic earnings per share:					
Income from continuing operations	$ 0.47	$ 0.84	$ 0.44	$ 1.67	$ 1.65
Net income	$ 0.36	$ 1.02	$ 0.40	$ 1.77	$ 1.73
Diluted earnings per share:					
Income from continuing operations	$ 0.44	$ 0.80	$ 0.44	$ 1.53	$ 1.48
Net income	$ 0.34	$ 0.97	$ 0.40	$ 1.63	$ 1.60
Book value per common share	$ 10.03	$ 10.18	$ 9.87	$ 10.31	$ 9.32
Dividends declared	$	$ 0.20	$ 0.40	$ 0.40	$ 0.40
Balance sheet information:					
Working capital	$ 66,011	$ 64,747	$ 66,167	$ 94,548	$ 81,063
Total assets	$ 247,286	$ 282,620	$ 315,588	$ 347,857	$ 349,592
Long-term debt	$ 65,679	$ 87,513	$ 109,043	$ 142,783	$ 144,785
Shareholders' equity	$ 113,267	$ 116,503	$ 112,933	$ 119,494	$ 110,551
Other:					
Expenditures for property, plant and equipment(1)	$ 7,303	$ 5,549	$ 13,811	$ 11,550	$ 13,612
Depreciation and amortization(1)	$ 14,748	$ 15,897	$ 16,060	$ 19,230	$ 18,563
Diluted weighted average shares of common stock outstanding(3)	12,233	12,272	12,385	13,148	13,190
Number of employees	1,400	1,899	1,842	2,174	2,322

(1)

Except net income, excludes for all periods the data for the Company's hydraulic cylinder division, which was sold in January 2002.

(2)

Management believes that Earnings Before Interest Expense, Interest Income, Taxes, Depreciation and Amortization (EBITDA) is a key measure of cash flow. EBITDA should not be viewed as a measurement of financial performance under Generally Accepted Accounting Principles (GAAP) or as a substitute for GAAP measurements such as net income or cash flow from operating activities. EBITDA is not necessarily comparable to other companies due to the lack of uniform definition of EBITDA by all companies. EBITDA as presented excludes the results of discontinued operations.

(3)

Includes the effect of 800,000 shares of outstanding exchangeable preferred stock for years ending subsequent to January 31, 1997.

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

This discussion and analysis should be read in conjunction with the consolidated financial statements and related notes. All references to earnings per share included in this discussion are diluted earnings per share.

The Company has classified all depreciation expense amounts as a component of cost of goods sold or selling and administrative expenses. The Company had previously classified depreciation and amortization expense separately in its consolidated statement of income. This change has no impact on net income for the current year or any prior periods. The disclosures in this Form 10-K reflect this reclassification.

As discussed in Note 3 to the consolidated financial statements, the Company sold its hydraulic cylinder division in January 2002. The Company's consolidated statements of income and cash flows separately present the historical results of the hydraulic cylinder division as a discontinued operation.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's discussion and analysis of its financial position and results of operations are based on the Company's consolidated financial statements which have been prepared in accordance with generally accepted accounting principles in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Management evaluates its estimates and judgments on an on-going basis, including those related to uncollectible receivables, inventories, goodwill and long-lived assets, warranty obligations, environmental liabilities, and deferred taxes. The Company bases its estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The Company believes the following critical accounting policies affect its more significant judgments and estimates in the preparation of its consolidated financial statements.

Allowances for Doubtful Accounts

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

Inventory Reserves

The Company maintains reserves to write down its inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual future demand or market conditions are less favorable than those projected by management, additional inventory write downs may be required.

Goodwill and Long-Lived Assets

The Company evaluates the carrying value of goodwill and long-lived assets whenever events or circumstances indicate the carrying value may not be recoverable. Certain factors that the Company considers important which could trigger an impairment review include, but are not limited to, significant underperformance relative to historical or projected future operating results, significant

changes in the manner of use of the acquired assets or the strategy for the Company's overall business and significant negative industry or economic trends. In addition, assumptions are required to estimate future cash flows, including gross margins, sales growth rates and expense levels, the discount rate, and estimated terminal values to determine fair value of the operating entities should an impairment exist. Changes in these and other factors could result in impairments in the carrying value of goodwill and long-lived assets which would require a write down or further write downs to the asset's fair value.

Warranty Obligations

The Company offers certain warranties with the sales of its products. The warranty obligation is recorded as a liability on the balance sheet and is estimated through historical customer claims, product failure rates, material usage and service delivery costs incurred in correcting a product failure. Changes in these factors would require an adjustment to the recorded warranty obligations.

Environmental Liabilities

The Company accrues environmental remediation and litigation costs if it is probable a liability has been incurred at the financial statement date and the amount can be reasonably estimated. The reliability and precision of the loss estimates are affected by numerous factors, such as site evaluation and reevaluation of the degree of remediation required, claims by third parties and changes to environmental laws and regulations. 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.

Deferred Taxes

The Company records a valuation allowance to reduce its deferred tax assets to the amount that it believes is more likely than not to be realized. While the Company has considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event the Company were to determine that it would not be able to realize all or part of its net deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to income in the period such determination was made. Likewise, should the Company determine that it would be able to realize its deferred tax assets in the future in excess of its net recorded amount, an adjustment to the deferred tax assets would increase income in the period such determination was made.

COMPARISON OF FISCAL 2002 AND FISCAL 2001

Consolidated net sales for the year ended January 31, 2002 decreased 16.1% in comparison with consolidated net sales for the year ended January 31, 2001. This decline reflects the reduced order rates for lift trucks throughout the world. The lift truck industry in North America for 2002 experienced declines in orders and shipments of 40% and 25%, respectively, in comparison with the prior year. Approximately 30% of the Company's consolidated net sales were to OEM customers for the year ended January 31, 2002, which is consistent with prior years. Sales to unaffiliated customers in North America, which accounts for 64% of the Company's total sales, decreased 17.3% in fiscal 2002. Sales to unaffiliated customers in Europe and the Rest of World (primarily Australia and Asia) experienced decreases of 13.3% and 15.1%, respectively.

The Company initiated aggressive cost management initiatives in fiscal 2002 in order to mitigate the effect of decreased sales levels. These initiatives have included aggressive material cost reductions, reduced work schedules and staff reductions in both production and administrative staff. A worldwide pay freeze was initiated in October 2001, which has remained in effect through the end of fiscal 2002 and will continue through at least a portion of fiscal 2003. The Company's overall work force has been

reduced by 13% to 1,400 employees at January 31, 2002, excluding reductions due to the sale of the Company's hydraulic cylinder division in January 2002. The majority of the work force reduction occurred in North America.

The Company's overall gross margin of 33.5% in fiscal 2002 increased from 32.5% in fiscal 2001. During the industry downturn, the Company has focused its efforts to aggressively reduce operating inefficiencies and overall manufacturing costs. The Company has also increased selling prices on select products in certain parts of the world to adjust to customer demand.

Selling and administrative costs as a percentage of net sales were 21.0% and 20.9% in fiscal 2002 and 2001, respectively. Due to lower sales levels in fiscal 2002, the Company initiated various cost control measures, including reduced spending and staffing levels, to reduce overall selling and administrative expenses. Fiscal 2001 expenses include costs related to restructuring activities in Europe and Australia and Special Board Committee activities of $4.2 million. Selling and administrative costs in fiscal 2002 decreased 9.8% in comparison with fiscal 2001, excluding the restructuring and board costs. As a percentage of sales the adjusted fiscal 2001 selling and administrative costs were 19.5%.

Due to substantial and continuing operating losses at the Company's Australian subsidiary between 1998 and 2001 the Company initiated a significant restructuring effort to consolidate manufacturing facilities, reduce its overall sales and distribution network and eliminate unprofitable product lines. While these activities were substantially completed in fiscal 2001, the Company continued to experience declining sales levels throughout fiscal 2002. The Company made additional management changes and reduced its overall work force in Australia by 40% (38 employees) in the last half of fiscal 2002. The reduction in work force brought expense levels into line with projected sustainable sales levels going forward. Additional restructuring costs incurred in fiscal 2002 were not material. In light of the significant trends impacting our Australian operations and expected future growth rates, the Company performed an assessment of the carrying value of goodwill and long-lived assets in Australia as part of our review of financial results in the fourth quarter of fiscal 2002. The conclusion of the assessment was that the decline in the Australian operations was significant and other than temporary. As a result, the Company recorded a $5.1 million write down of goodwill in the fourth quarter of fiscal 2002 related to its operations in Australia. After the write down, the Company has an additional $3.6 million of goodwill on its consolidated balance sheet at January 31, 2002 related to Australia. The Company believes the cumulative effect of the changes in fiscal 2001 and 2002 will result in more profitable future operations in Australia.

In April 1999, the Company sold its tire business to Maine Rubber Company (Maine Rubber) for $26.9 million payable in cash and a $7.3 million note receivable. The note receivable is not collateralized and bears interest at 8% with interest payable quarterly and principal installments of $1 million, $2.1 million and $4.2 million due in April 2002, 2003 and 2004, respectively. Through January 31, 2002, the Company has received all interest payments on the Maine Rubber note receivable on a quarterly basis since April 1999. Maine Rubber's primary customers are lift truck OEMs. With the significant decline in industry order rates in fiscal 2002, Maine Rubber's operating results have been negatively impacted. Maine Rubber notified the Company in January 2002 that it was in violation of financial covenants related to its senior notes and revolving credit agreement. As a result of the covenant violations, Maine Rubber's senior lender has restricted all of Maine Rubber's scheduled future interest or principal payments, including the $1 million payment due to the Company in April 2002, until Maine Rubber can prepare a restructuring plan suitable to their senior lender. The Company has obtained recent Maine Rubber financial information. Based on the Company's review of this information, the Company has recorded an allowance of $7.3 million in the fourth quarter of fiscal 2002 against the balance of the Maine Rubber note receivable. The Company intends to continue to closely monitor Maine Rubber's financial status in order to maximize any potential for recovery of the note balance in the future.

Amortization expense for fiscal 2002 was $4.4 million as compared to $5.4 million in fiscal 2001. The Company recorded a write-off of certain goodwill balances due to the closure of a facility in Sweden and other minor operations. Excluding these write-offs the amortization expense in each year was consistent.

Environmental expenses decreased in fiscal 2002 to $1.5 million in comparison with $4.9 million in expenses in fiscal 2001. The fiscal 2002 expenses, recorded in the fourth quarter, relate to a present estimate of the Company's allocable share of any eventual liability related to the City of Portland litigation. Fiscal 2001 expenses include $3.1 million related to legal fees from environmental legal proceedings and $1.8 million to adjust cost estimates for ongoing remediation activities.

Interest expense in fiscal 2002 decreased 21.6% in comparison to fiscal 2001 due to the Company's efforts to reduce overall debt levels. See "Liquidity and Capital Resources" for further discussion of Company debt levels and payments.

Other income in fiscal 2002 includes a pension refund received from the closure of a manufacturing facility in Sweden, offset by foreign currency losses. The change from fiscal 2001 relates primarily to a reduction in foreign currency losses.

The Company's effective tax rate in fiscal 2002 is 35.4% as compared to 43.4% in fiscal 2001. The reduction in the overall effective tax rate is due to benefits of foreign taxes in low rate jurisdictions and international financing activities, which was offset by an increase in the valuation allowance related to foreign tax credits.

The Company recognized an after tax loss of $1.7 million in the fourth quarter of fiscal 2002 related to the sale of its hydraulic cylinder division and $485,000 of income from discontinued operations. See "Liquidity and Capital Resources" and "Recent Accounting

Pronouncements" for further discussion of the sale.

As presented in Note 18 to the consolidated financial statements, the Company's profitability for fiscal 2002 in North America was negatively impacted by the $7.3 million reserve against the MITL note receivable and lower sales levels, which fell 17.3% below fiscal 2001 levels. North American gross margins were consistent between years and comparable to the Company's overall gross margin. European operations realized a higher level of net income in fiscal 2002 also with lower sales levels. Fiscal 2001 included a $2.1 million restructuring charge and an overall net loss. The Company's remaining operations, primarily Australia and Asia, were negatively impacted by the $5.1 million of goodwill impairment in Australia. Excluding the goodwill adjustment, the overall profitability of these operations increased in comparison with fiscal 2001.

COMPARISON OF FISCAL 2001 AND FISCAL 2000

Consolidated net sales for fiscal 2001 totaled $301.4 million, which were comparable to sales of $301.7 million for fiscal 2000. After adjusting fiscal 2000 net sales for the April 1999 disposition of its industrial tire division, the Company's fiscal 2001 net sales increased 3.7%. The increase in fiscal 2001 net sales is due to higher demand in both North America and Asia. Sales to unaffiliated customers for fiscal 2001 in North America increased 7.1% as compared to sales in fiscal 2000, excluding fiscal 2000 sales from the industrial tire division. Europe's sales to unaffiliated customers decrease of 8.0% in fiscal 2001 compared to fiscal 2000 is due to the effect of weakened foreign currencies in the United Kingdom and in European Union countries whose currencies are fixed against the "Euro." Excluding the effect of the weakened foreign currencies, Europe's sales to unaffiliated customers in fiscal 2001 were comparable to sales in fiscal 2000.

Due to reduced levels of profitability in recent years, the Company approved and initiated restructuring plans in the second quarter of fiscal 2001 in both Australia and Europe. The restructuring of Europe included the closure of a manufacturing facility in Vaggeryd, Sweden, the dissolution of

redundant distribution facilities in both Germany and France and employee terminations at the Company's European headquarters in The Netherlands. The Company incurred $2.1 million in costs during fiscal 2001 related to its European restructuring efforts, which included $1.9 million primarily related to employee termination costs and $248,000 for inventory write downs. A total of 58 employees in Europe were terminated as a result of the restructuring activities.

The Company's restructuring activities in Australia included the consolidation of manufacturing plants into one remaining facility in Brisbane, reduction of distribution facilities, realignment of sales operations and the disposal of the tire and battery businesses. Total restructuring costs in Australia during fiscal 2001 were $2 million. These costs consisted of $1.3 million in inventory write downs, primarily for tires and batteries, $108,000 for employee termination costs and $534,000 in various asset write-offs and miscellaneous costs. The Company terminated 32 employees in Australia related to the restructuring activities.

Restructuring costs related to inventory write downs of $1.6 million are presented in the Company's consolidated statement of income in cost of goods sold. All other restructuring costs are included as a part of selling and administrative expenses. At January 31, 2001, the Company's consolidated balance sheet contained $1.0 million in accrued expenses related to the restructuring, primarily for final payments to employees terminated prior to January 31, 2001. The Company has substantially completed the planned restructuring activities in both Europe and Australia as of January 31, 2001.

The Company's gross margin was 32.5% in both fiscal 2001 and fiscal 2000. Cost of goods sold in fiscal 2001 included $1.6 million related to inventory write downs for the restructuring activities in Europe and Australia. Excluding inventory write downs from restructuring activities, the Company's fiscal 2001 gross margin percentage was 33.1%.

Total amortization expense for fiscal 2001 and 2000 was $5.4 million and $4.5 million, respectively. The increase in amortization expense in fiscal 2001 relates to the writeoff of certain goodwill balances due to the closure of the Vaggeryd, Sweden facility and other minor operations.

Selling and administrative expenses were $62.9 million and $62.0 million in fiscal 2001 and 2000, respectively. As a percentage of net sales, selling and administrative expenses were 20.9% in fiscal 2001 and 20.6% in fiscal 2000. Fiscal 2001 expenses include $1.8 million of Special Board Committee costs related to the proposed merger and $2.4 million related to restructuring activities in Europe and Australia. Excluding the impact of these items in fiscal 2001, selling and administrative expenses were $60.5 million, 20.1% as a percentage of net sales.

The Company's environmental expenses relate to periodic revisions to cost estimates for environmental remediation liabilities recorded on the consolidated balance sheet. In fiscal 2001, the Company recorded expenses of $4.9 million, which included a $3.1 million charge related to legal fees from the resolution of outstanding issues related to certain environmental and insurance proceedings and $1.8 million to adjust cost estimates for ongoing remediation efforts at the Company's Portland, Oregon and Springfield, Ohio manufacturing facilities. The $12 million in environmental expenses for fiscal 2000 included $7 million related to an adverse judgment against the Company in litigation brought by The Boeing Company. As of January 31, 2002, the Company has paid to the Boeing Company all amounts due as a result of the judgment. The remaining $5 million in environmental expenses related to revisions to cost estimates related to the previously mentioned remediation efforts in Portland and Springfield.

Interest expense was $8.1 million in fiscal 2001 and $8.3 million in fiscal 2000. The reduction in interest expense reflects the Company's strategy to reduce overall debt levels through the application of cash from operations and any cash received from the sale of business units and divisions.

Other expense decreased to $792,000 in fiscal 2001 in comparison to $4 million in fiscal 2000. Fiscal 2001 other expense relates primarily to net losses on foreign currency translation. Other expense in fiscal 2000 includes special charges that stem from the integration of operations acquired, steps taken to assure consistency of global financial reporting and the loss on the sale of the Company's industrial tire division.

The Company's effective tax rate increased to 43.4% in fiscal 2001 from 32.9% in fiscal 2000. This increase is due to higher levels of pre-tax income in fiscal 2001 over 2000, which diluted the benefit of certain tax attributes. The Company also incurred losses in Australia and Germany as a result of ongoing operations and restructuring activities for which no deferred tax benefit has been recognized.

Net income from continuing operations in fiscal 2001 of $9.8 million ($.80 per share) increased $4.4 million or 81.5% over fiscal 2000 net income of $5.4 million ($.44 per share). The increase in net income from continuing operations in fiscal 2001 is due primarily to improved gross margins from sales of higher margin products and a reduction in both interest and environmental costs compared to fiscal 2000. The increase in the effective tax rate in fiscal 2001 to 43.4% partially offset the impact of the above items on fiscal 2001 net income. Excluding the effect of charges for environmental costs in both fiscal 2001 and 2000 and using the applicable effective tax rate for each year, income from continuing operations would have been $12.6 million ($1.02 per share) in fiscal 2001 and $13.5 million ($1.09 per share) in fiscal 2000.

The Company recorded income from discontinued operations of $2.1 million for the year ended January 31, 2001. See "Liquidity and Capital Resources" and "Recent Accounting Pronouncements" for further discussion of the Company's discontinued operations.

North American operations were the Company's most profitable geographic segment, accounting for substantially all of the Company's consolidated net income for fiscal 2001 and 2000. The Company's European operations showed some improvement in fiscal 2001 over fiscal 2000, but still incurred a loss in both years. The Company's remaining operations continued to incur a net loss in fiscal 2001, related entirely to operations in Australia.

LIQUIDITY AND CAPITAL RESOURCES

The Company maintains a $30 million revolving line of credit facility, which continues through December 2002 at a variable interest rate of LIBOR plus .50% (2.33% at January 31, 2002). No balance was outstanding under the facility at January 31, 2002. The Company had other short-term lines of credit available from commercial banks at January 31, 2002 of $25.3 million. The Company had no amounts outstanding at January 31, 2002 under these other short-term lines of credit.

Total outstanding debt, long-term and short-term notes payable, at January 31, 2002 was $79.7 million in comparison with $94.7 million at January 31, 2001. The Company's debt to equity ratio improved to .70 to 1 at January 31, 2002 from .81 to 1 at January 31, 2001.

Working capital at January 31, 2002 of $66.0 million was more than the $64.7 million of working capital at January 31, 2001. The Company's current ratio at January 31, 2002 was 2.65 to 1 in comparison to 2.32 to 1 at January 31, 2001.

The Company declared no dividends in fiscal 2002. No dividends have been declared since the second quarter of fiscal 2001, when the Company was prohibited from declaring dividends under the merger agreement signed with the Lift Group. The Board of Directors notified the Lift Group on April 17, 2001 that it had terminated the merger agreement. The Board of Directors has not reached any decision as to future dividend payments. Dividends of $.20 and $.40 per share were declared in fiscal 2001 and 2000, respectively.

The Company's balance of cash and cash equivalents increased to $25.6 million at January 31, 2002 from $12.4 million at January 31, 2001. Net cash provided by operating activities from continuing operations was $31.7 million in fiscal 2002, compared to $22.2 million and $47.9 million in fiscal 2001 and 2000, respectively. During fiscal 2002, the Company continued to reduce accounts receivable and inventory levels with decreased sales levels due to the downturn in the lift truck industry. In fiscal 2002 the Company also reduced accounts payable, accrued expenses and accrued environmental expenses, including the remaining payments due from the Company's lawsuit with Boeing, which was settled in fiscal 2000. The decrease in fiscal 2001 net cash flows from operating activities was also due to similar reductions in inventory, accounts payable, accrued expenses and accrued environmental expenses.

During the fourth quarter of fiscal 2002, the Company sold its hydraulic cylinder division to Precision Hydraulic Cylinders, Inc. (Precision) for approximately $13 million, for which the Company received $3.25 million in cash, $9 million of notes receivable and a $700,000 receivable subject to adjustment for working capital levels at the sale date. The Company expects to receive the $700,000 in receivables in the first quarter of fiscal 2003. The notes receivable are collateralized by the accounts receivable, inventory and property, plant and equipment of Precision. Terms of the note include dividend restrictions, covenants relating to leverage and fixed charge ratios and limitations on Precision's overall level of indebtedness. The Company has the ability to accelerate payment of the notes upon an event of default as defined in the note agreements. Under the terms of this sale the Company has agreed to make interim operating capital advances to Precision of up to $4 million. The Company has provided no advances as of January 31, 2002.

In fiscal 2001, the Company did not sell any significant assets, business units, or divisions, which accounts for the reduction in net cash from investing activities for fiscal 2001 in comparison with fiscal 2000.

Net cash used in financing activities decreased in fiscal 2002 to $16.4 million as compared to $31.3 million in fiscal 2001. The Company continued with its planned reduction of debt balances in fiscal 2002 with long-term debt payments of $10.7 million and $4.4 million of payments on short-term notes payable. The Company had no additional borrowings in fiscal 2002. As of January 31, 2002, the Company had made all scheduled debt payments. Any additional payments to prepay scheduled amounts 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. Net cash used in financing activities in fiscal 2002 included $1.4 million for the repurchase of common stock. In fiscal 2000, the Company repurchased $6 million of common and preferred stock. Net payments to reduce long-term debt and short-term notes payable balances in fiscal 2000 were $34.3 million.

During fiscal 2002, 2001 and 2000, the Company's capital expenditures were $7.3 million, $5.5 million and $13.8 million, respectively. The decrease in capital expenditures in fiscal 2002 in relation to capital expenditure levels prior to fiscal 2001 was the result of reduced capital spending due to the slowdown in the worldwide lift truck industry. In fiscal 2001, the reduced level of capital expenditures was primarily the result of management's decision to minimize expenditures in light of the proposed merger and to reduce outstanding debt. The Company believes the level of capital expenditures in fiscal 2002 and 2001 was sufficient to maintain required operational requirements. Capital expenditure levels in fiscal 2003 are not expected to exceed $12 million.

The Company has completed substantially all implementation activities related to its enterprise-wide resource planning (ERP) software system in the United States and Europe. The Company plans to complete the ERP implementation at its Canadian operations in fiscal 2003 and 2004 and does not expect the cost of this implementation to be material. The Company continues to evaluate the costs and benefits of further ERP implementation activities in Asia and Australia, but currently has no plans to complete the implementation in these areas.

The Company believes its cash and cash equivalents, existing credit facilities and cash flows from operations will be sufficient to satisfy its expected working capital and capital expenditure requirements for fiscal 2003.

The U.S. dollar strengthened in both fiscal 2002 and 2001 in comparison to most foreign currencies used by the Company's significant foreign operations. As a result, foreign currency translation adjustments decreased shareholders' equity by $6.0 million and $5.8 million in fiscal 2002 and 2001, respectively.

At January 31, 2002 and 2001, the Company did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or for other contractually narrow or limited purposes. As such, the Company is not materially exposed to any financing, liquidity market or credit risk that could arise if the Company had engaged in such relationships.

The following summarizes the Company's contractual obligations and commitments as of January 31, 2002:

	Total	Less than 1 year	1-3 years	4-5 years	Greater than 5 years
Notes payable to banks	$ 743	$ 743	$	$	$
Long-term debt, including capital leases	78,925	13,246	26,679	25,887	13,113
Operating leases	6,536	1,960	2,112	1,029	1,435

FISCAL 2003 OUTLOOK

The Company's business is very closely aligned with and dependent on the general lift truck industry. Year-to-date industry data for 2002 shows marginal improvement from the end of 2001. However, industry order rates are still significantly below the comparable period in 2001. Subject to overall economic conditions, the Company expects lift truck orders and shipments in fiscal 2003 to be at levels comparable to or moderately improved over fiscal 2002. Overall net sales in fiscal 2003 are not expected to increase significantly over 2002 levels. Although overall sales were considerably lower than previous years, the Company was able to maintain comparable gross margins in fiscal 2002 through aggressive cost management initiatives. The Company feels it is well positioned to maintain its current gross margins through fiscal 2003 with a continued emphasis on cost controls. The Company anticipates overall profitability of continuing operations in fiscal 2003 to be consistent with fiscal 2002. In March 2002, the United States government imposed tariffs on certain steel imports into the United States over a three year period. The Company does not believe the tariffs will have a material impact on its results of operations.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board (FASB or the "Board") issued Statement of Financial Accounting Standards No. 141 (SFAS 141), "Business Combinations," and No. 142 (SFAS 142), "Goodwill and Other Intangible Assets," collectively referred to as the "Standards." SFAS 141 supersedes Accounting Principles Board Opinion (APB) No. 16, "Business Combination." The provisions of SFAS 141 (1) require that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, (2) provide specific criteria for the initial recognition and measurement of intangible assets apart from goodwill and (3) require that unamortized negative goodwill be written off immediately as an extraordinary gain instead of being deferred and amortized. SFAS 141 also requires that upon adoption of SFAS 142 the Company reclassify the carrying amounts of certain intangible assets into or out of goodwill, based on certain criteria. SFAS 142

supersedes APB 17, "Intangible Assets," and is effective for fiscal years beginning after December 15, 2001. SFAS 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their initial recognition. The provisions of SFAS 142 (1) prohibit the amortization of goodwill and indefinite-lived intangible assets, (2) require that goodwill and indefinite-lived intangibles assets be tested annually for impairment (and in interim periods if certain events occur indicating that the carrying value of goodwill and/or