

CHASE CORP  
Form 10-Q  
July 10, 2008

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

**For the Quarterly Period Ended May 31, 2008**

**Commission File Number: 1-9852**

**CHASE CORPORATION**

(Exact name of registrant as specified in its charter)

**Massachusetts**  
(State or other jurisdiction of incorporation  
of organization)

**11-1797126**  
(I.R.S. Employer Identification No.)

**26 Summer Street, Bridgewater, Massachusetts 02324**

(Address of Principal Executive Offices, Including Zip Code)

**(508) 279-1789**

(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

Smaller reporting company

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES  NO

The number of shares of Common Stock outstanding as of June 30, 2008 was 8,316,535.

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**CHASE CORPORATION**

**INDEX TO FORM 10-Q**

**For the Quarter Ended May 31, 2008**

**Part I - FINANCIAL INFORMATION**

Item 1 Unaudited Financial Statements

|                                                                                                        |   |
|--------------------------------------------------------------------------------------------------------|---|
| <u>Consolidated Balance Sheets as of May 31, 2008 and August 31, 2007</u>                              | 3 |
| <u>Consolidated Statements of Operations for the three and nine months ended May 31, 2008 and 2007</u> | 4 |
| <u>Consolidated Statement of Stockholders' Equity for the nine months ended May 31, 2008</u>           | 5 |
| <u>Consolidated Statements of Cash Flows for the nine months ended May 31, 2008 and 2007</u>           | 6 |
| <u>Notes to Consolidated Financial Statements</u>                                                      | 7 |

|                                                                                                     |    |
|-----------------------------------------------------------------------------------------------------|----|
| <u>Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 14 |
|-----------------------------------------------------------------------------------------------------|----|

|                                                                          |    |
|--------------------------------------------------------------------------|----|
| <u>Item 3 Quantitative and Qualitative Disclosures About Market Risk</u> | 22 |
|--------------------------------------------------------------------------|----|

|                                       |    |
|---------------------------------------|----|
| <u>Item 4 Controls and Procedures</u> | 22 |
|---------------------------------------|----|

**Part II OTHER INFORMATION**

|                                 |    |
|---------------------------------|----|
| <u>Item 1 Legal Proceedings</u> | 23 |
|---------------------------------|----|

|                             |    |
|-----------------------------|----|
| <u>Item 1A Risk Factors</u> | 23 |
|-----------------------------|----|

|                                 |    |
|---------------------------------|----|
| <u>Item 5 Other Information</u> | 23 |
|---------------------------------|----|

|                        |    |
|------------------------|----|
| <u>Item 6 Exhibits</u> | 24 |
|------------------------|----|

|                          |    |
|--------------------------|----|
| <b><u>SIGNATURES</u></b> | 25 |
|--------------------------|----|

**Part 1 FINANCIAL INFORMATION****Item 1 Unaudited Financial Statements****CHASE CORPORATION****CONSOLIDATED BALANCE SHEETS**

(UNAUDITED)

|                                                                                                                                                                      | May 31,<br>2008 | August 31,<br>2007 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|--------------------|
| <b>ASSETS</b>                                                                                                                                                        |                 |                    |
| Current Assets:                                                                                                                                                      |                 |                    |
| Cash                                                                                                                                                                 | \$ 3,729,060    | \$ 2,443,750       |
| Accounts receivable, less allowance for doubtful accounts of \$440,387 and \$579,536                                                                                 | 17,657,337      | 17,653,982         |
| Inventories                                                                                                                                                          | 17,860,689      | 15,135,773         |
| Prepaid expenses and other current assets                                                                                                                            | 848,074         | 753,818            |
| Deferred income taxes                                                                                                                                                | 729,885         | 729,885            |
| Total current assets                                                                                                                                                 | 40,825,045      | 36,717,208         |
| Property, plant and equipment, net                                                                                                                                   | 22,031,327      | 19,758,276         |
| Other Assets                                                                                                                                                         |                 |                    |
| Goodwill                                                                                                                                                             | 15,522,221      | 14,575,640         |
| Intangible assets, less accumulated amortization of \$3,994,501 and \$3,134,274                                                                                      | 6,226,207       | 7,063,178          |
| Cash surrender value of life insurance                                                                                                                               | 4,680,999       | 4,588,600          |
| Restricted investments                                                                                                                                               | 959,430         | 1,187,488          |
| Other assets                                                                                                                                                         | 53,486          | 74,519             |
|                                                                                                                                                                      | \$ 90,298,715   | \$ 83,964,909      |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>                                                                                                                           |                 |                    |
| Current Liabilities                                                                                                                                                  |                 |                    |
| Accounts payable                                                                                                                                                     | \$ 8,456,773    | \$ 7,135,266       |
| Accrued payroll and other compensation                                                                                                                               | 3,280,422       | 2,857,524          |
| Accrued expenses - current                                                                                                                                           | 4,082,090       | 2,864,457          |
| Accrued income taxes                                                                                                                                                 | 1,208,075       | 1,092,766          |
| Current portion of long-term debt                                                                                                                                    | 800,000         | 2,210,000          |
| Total current liabilities                                                                                                                                            | 17,827,360      | 16,160,013         |
| Long-term debt, less current portion                                                                                                                                 | 1,200,000       | 3,822,500          |
| Deferred compensation                                                                                                                                                | 3,527,197       | 3,489,763          |
| Accrued pension expense                                                                                                                                              | 3,750,791       | 3,271,901          |
| Accrued expenses                                                                                                                                                     |                 | 254,052            |
| Deferred income taxes                                                                                                                                                | 721,431         | 754,718            |
| Commitments and Contingencies (Note 8)                                                                                                                               |                 |                    |
| Stockholders Equity                                                                                                                                                  |                 |                    |
| First Serial Preferred Stock, \$1.00 par value: Authorized 100,000 shares; none issued                                                                               |                 |                    |
| Common stock, \$.10 par value: Authorized 20,000,000 shares at May 31, 2008 and 10,000,000 shares at August 31, 2007; 8,316,535 shares at May 31, 2008 and 8,219,350 | 831,653         | 821,935            |

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shares at August 31, 2007 issued and outstanding

|                                            |               |               |
|--------------------------------------------|---------------|---------------|
| Additional paid-in capital                 | 3,541,253     | 2,680,170     |
| Accumulated other comprehensive income     | 513,824       | 583,799       |
| Retained earnings                          | 58,385,206    | 52,126,058    |
| Total stockholders' equity                 | 63,271,936    | 56,211,962    |
| Total liabilities and stockholders' equity | \$ 90,298,715 | \$ 83,964,909 |

See accompanying notes to the consolidated financial statements

**CHASE CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

(UNAUDITED)

|                                                          | Three Months Ended May 31, |               | Nine Months Ended May 31, |               |
|----------------------------------------------------------|----------------------------|---------------|---------------------------|---------------|
|                                                          | 2008                       | 2007          | 2008                      | 2007          |
| <b>Revenue</b>                                           |                            |               |                           |               |
| Sales                                                    | \$ 33,488,936              | \$ 34,177,895 | \$ 95,584,333             | \$ 91,945,638 |
| Royalty and commissions                                  | 436,851                    | 365,362       | 1,223,869                 | 1,345,903     |
|                                                          | 33,925,787                 | 34,543,257    | 96,808,202                | 93,291,541    |
| <b>Costs and Expenses</b>                                |                            |               |                           |               |
| Cost of products and services sold                       | 22,922,344                 | 23,351,724    | 65,594,678                | 65,179,083    |
| Selling, general and administrative expenses             | 5,976,533                  | 6,150,727     | 17,840,018                | 16,499,716    |
| Loss on impairment of goodwill                           |                            | 311,000       |                           | 311,000       |
| Operating income                                         | 5,026,910                  | 4,729,806     | 13,373,506                | 11,301,742    |
| Interest expense                                         | (34,800)                   | (240,216)     | (180,503)                 | (731,567)     |
| Other income, net                                        | 115,668                    | 54,516        | 389,633                   | 195,253       |
| Income before income taxes                               | 5,107,778                  | 4,544,106     | 13,582,636                | 10,765,428    |
| Income taxes                                             | 1,889,878                  | 1,681,319     | 5,025,575                 | 3,983,208     |
| Net income                                               | \$ 3,217,900               | \$ 2,862,787  | \$ 8,557,061              | \$ 6,782,220  |
| <b>Net income per common and common equivalent share</b> |                            |               |                           |               |
| Basic                                                    | \$ 0.39                    | \$ 0.35       | \$ 1.04                   | \$ 0.84       |
| Diluted                                                  | \$ 0.37                    | \$ 0.34       | \$ 1.00                   | \$ 0.82       |
| <b>Weighted average shares outstanding</b>               |                            |               |                           |               |
| Basic                                                    | 8,312,871                  | 8,187,196     | 8,239,198                 | 8,037,034     |
| Diluted                                                  | 8,666,243                  | 8,400,792     | 8,592,977                 | 8,320,576     |

See accompanying notes to the consolidated financial statements

**CHASE CORPORATION**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**

**NINE MONTHS ENDED MAY 31, 2008**

(UNAUDITED)

|                                                                                  | Common Stock<br>Shares | Common Stock<br>Amount | Additional<br>Paid-In<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Income | Retained<br>Earnings | Total<br>Stockholders'<br>Equity | Comprehensive<br>Income |
|----------------------------------------------------------------------------------|------------------------|------------------------|----------------------------------|-------------------------------------------------|----------------------|----------------------------------|-------------------------|
| Balance at August 31, 2007                                                       | 8,219,350              | \$ 821,935             | \$ 2,680,170                     | \$ 583,799                                      | \$ 52,126,058        | \$ 56,211,962                    |                         |
| Change in accounting for income tax uncertainties pursuant to adoption of FIN 48 |                        |                        |                                  |                                                 | (230,198)            | (230,198)                        |                         |
| Restricted stock grants                                                          | 53,227                 | 5,322                  | (5,322)                          |                                                 |                      |                                  |                         |
| Amortization of restricted stock grants                                          |                        |                        | 244,830                          |                                                 |                      | 244,830                          |                         |
| Stock grants                                                                     | 400                    | 40                     | 7,600                            |                                                 |                      | 7,640                            |                         |
| Exercise of stock options                                                        | 38,000                 | 3,800                  | 202,200                          |                                                 |                      | 206,000                          |                         |
| Common stock received for payment of stock option exercise                       | (1,091)                | (109)                  | (20,891)                         |                                                 |                      | (21,000)                         |                         |
| Tax benefit from exercise of stock options                                       |                        |                        | 328,331                          |                                                 |                      | 328,331                          |                         |
| Common stock issuance pursuant to fully vested restricted stock units            | 6,649                  | 665                    | 104,335                          |                                                 |                      | 105,000                          |                         |
| Cash dividend paid, \$0.25 per share                                             |                        |                        |                                  |                                                 | (2,067,715)          | (2,067,715)                      |                         |
| Foreign currency translation adjustment, net of tax                              |                        |                        |                                  | (29,446)                                        |                      | (29,446)                         | \$ (29,446)             |
| Net unrealized (loss) on restricted investments, net of tax                      |                        |                        |                                  | (40,529)                                        |                      | (40,529)                         | (40,529)                |
| Net income                                                                       |                        |                        |                                  |                                                 | 8,557,061            | 8,557,061                        | 8,557,061               |
| Comprehensive income                                                             |                        |                        |                                  |                                                 |                      |                                  | \$ 8,487,086            |
| Balance at May 31, 2008                                                          | 8,316,535              | \$ 831,653             | \$ 3,541,253                     | \$ 513,824                                      | \$ 58,385,206        | \$ 63,271,936                    |                         |

See accompanying notes to the consolidated financial statements

**CHASE CORPORATION**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

(UNAUDITED)

|                                                                                  | Nine Months Ended May 31, |                     |
|----------------------------------------------------------------------------------|---------------------------|---------------------|
|                                                                                  | 2008                      | 2007                |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                      |                           |                     |
| Net income                                                                       | \$ 8,557,061              | \$ 6,782,220        |
| Adjustments to reconcile net income to net cash provided by operating activities |                           |                     |
| Loss (Gain) on sale of equipment                                                 | 4,198                     | (2,900)             |
| Loss on impairment of goodwill                                                   |                           | 311,000             |
| Depreciation                                                                     | 2,032,866                 | 1,900,178           |
| Amortization                                                                     | 876,715                   | 731,854             |
| Provision for losses on trade receivables                                        | 31,866                    | 147,350             |
| Stock based compensation                                                         | 1,423,566                 | 678,545             |
| Excess tax benefit from exercise of stock options                                | (328,331)                 | (1,968,016)         |
| Increase (decrease) from changes in assets and liabilities                       |                           |                     |
| Accounts receivable                                                              | 70,204                    | (3,877,481)         |
| Inventories                                                                      | (2,364,084)               | (1,063,233)         |
| Prepaid expenses & other assets                                                  | (96,152)                  | (719,300)           |
| Accounts payable                                                                 | 645,648                   | 322,769             |
| Accrued expenses                                                                 | 722,838                   | 1,857,125           |
| Accrued income taxes                                                             | 199,586                   | 1,110,805           |
| Deferred compensation                                                            | (779,022)                 | (651,633)           |
| Net cash provided by operating activities                                        | 10,996,959                | 5,559,283           |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                      |                           |                     |
| Purchases of property, plant and equipment                                       | (2,168,611)               | (3,286,677)         |
| Purchases of intangible assets                                                   |                           | (5,999)             |
| Contingent purchase price for acquisition                                        | (485,159)                 | (290,967)           |
| Payments for acquisitions, net of cash acquired                                  | (1,489,769)               | (3,073,892)         |
| Proceeds from sale of equipment                                                  | 15,000                    | 2,900               |
| Investment in restricted investments, net of withdrawals                         | 187,529                   | 91,925              |
| Distributions from cost based investment                                         | 20,619                    |                     |
| Payments for cash surrender value life insurance, net of valuation decrease      | (92,399)                  | (123,869)           |
| Net cash used in investing activities                                            | (4,012,790)               | (6,686,579)         |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                      |                           |                     |
| Borrowings on long-term debt                                                     | 18,826,021                | 28,406,163          |
| Payments of principal on debt                                                    | (22,858,521)              | (28,094,342)        |
| Dividend paid                                                                    | (2,067,715)               | (1,589,162)         |
| Proceeds from exercise of common stock options                                   | 185,000                   | 777,160             |
| Excess tax benefit from exercise of stock options                                | 328,331                   | 1,968,016           |
| Payments of statutory minimum taxes on stock options and restricted stock        |                           | (1,444,852)         |
| Net cash provided by / (used in) financing activities                            | (5,586,884)               | 22,983              |
| <b>INCREASE (DECREASE) IN CASH</b>                                               | <b>1,397,285</b>          | <b>(1,104,313)</b>  |
| Effect of foreign exchange rates on cash                                         | (111,975)                 | 106,782             |
| <b>CASH, BEGINNING OF PERIOD</b>                                                 | <b>2,443,750</b>          | <b>2,416,097</b>    |
| <b>CASH, END OF PERIOD</b>                                                       | <b>\$ 3,729,060</b>       | <b>\$ 1,418,566</b> |
| <b>Non-cash Investing and Financing Activities</b>                               |                           |                     |
| Issuance of stock based compensation previously accrued for                      | \$ 105,000                | \$ 113,933          |



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|                                                                    |    |         |    |           |
|--------------------------------------------------------------------|----|---------|----|-----------|
| Common stock received for payment of stock option exercises        | \$ | 21,000  | \$ | 3,079,588 |
| Accrued contingent payments related to acquisitions                | \$ |         | \$ | 110,000   |
| Property, plant & equipment additions included in accounts payable | \$ | 189,029 | \$ |           |
| Accrual for future contingent payments related to acquisitions     | \$ | 184,422 | \$ |           |

See accompanying notes to the consolidated financial statements

**CHASE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**Note 1 - Basis of Presentation**

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial reporting and instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Therefore, they do not include all information and footnote disclosure necessary for a complete presentation of Chase Corporation's financial position, results of operations and cash flows, in conformity with generally accepted accounting principles. Chase Corporation ( Chase or the Company ) filed audited financial statements which included all information and notes necessary for such presentation for the three years ended August 31, 2007 in conjunction with the Company's 2007 Annual Report on Form 10-K.

The accompanying unaudited consolidated financial statements contain all adjustments (consisting of normal recurring items) which are, in the opinion of management, necessary for a fair presentation of the Company's financial position as of May 31, 2008, the results of operations and cash flows for the interim periods ended May 31, 2008 and 2007, and changes in stockholders' equity for the interim period ended May 31, 2008.

The financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation. The Company uses the U.S. dollar as the reporting currency for financial reporting. Foreign currency translation gains and losses are determined using current exchange rates for monetary items and historical exchange rates for other balance sheet items and are recorded as a change in other comprehensive income.

Certain amounts reported in prior years have been reclassified to be consistent with the current year presentation. These reclassifications had no effect on the Company's financial position or results of operations.

The results of operations for the interim period ended May 31, 2008 are not necessarily indicative of the results to be expected for any future period or the entire fiscal year. These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended August 31, 2007, which are contained in the Company's 2007 Annual Report on Form 10-K.

**Note 2 Inventories**

Inventories consist of the following as of May 31, 2008 and August 31, 2007:

**May 31, 2008**

**August 31, 2007**

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|                         |    |            |    |            |
|-------------------------|----|------------|----|------------|
| Raw materials           | \$ | 10,126,137 | \$ | 8,245,933  |
| Finished and in process |    | 7,734,552  |    | 6,889,840  |
| Total Inventories       | \$ | 17,860,689 | \$ | 15,135,773 |

**CHASE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**Note 3 Net Income Per Share**

Net income per share is calculated as follows:

|                                              | <b>Three Months Ended May 31,</b> |              | <b>Nine Months Ended May 31,</b> |              |
|----------------------------------------------|-----------------------------------|--------------|----------------------------------|--------------|
|                                              | <b>2008</b>                       | <b>2007</b>  | <b>2008</b>                      | <b>2007</b>  |
| Net income                                   | \$ 3,217,900                      | \$ 2,862,787 | \$ 8,557,061                     | \$ 6,782,220 |
| Weighted average common shares outstanding   | 8,312,871                         | 8,187,196    | 8,239,198                        | 8,037,034    |
| Additional dilutive common stock equivalents | 353,372                           | 213,596      | 353,779                          | 283,542      |
| Diluted shares outstanding                   | 8,666,243                         | 8,400,792    | 8,592,977                        | 8,320,576    |
| Net income per share - Basic                 | \$ 0.39                           | \$ 0.35      | \$ 1.04                          | \$ 0.84      |
| Net income per share - Diluted               | \$ 0.37                           | \$ 0.34      | \$ 1.00                          | \$ 0.82      |

**Note 4 Stock Based Compensation**

As part of their annual retainer, non-employee members of the Board of Directors receive \$15,000 of Chase Corporation common stock, in the form of Restricted Stock or Restricted Stock Units valued at the closing price of the day preceding the first day of the new year of Board service which generally coincides with the Company's annual shareholder meeting. The stock award will vest one year from the date of grant. In January 2008, non-employee members of the Board received a total grant of 4,569 shares of restricted stock for service for the period from February 1, 2008 through February 1, 2009. The shares of restricted stock will vest at the conclusion of this service period. The Company is recognizing this compensation expense over the twelve month vesting period on a ratable basis.

In April 2008, William H Dykstra retired from the Company's Board of Directors. In accordance with the vesting provisions of his restricted stock agreement he forfeited 634 of the restricted shares granted to him in January 2008. In April 2008, a total of 692 shares of restricted stock were issued to existing members of the Board for committee reassignments, as well as new Board member Thomas Wroe, as a result of Mr. Dykstra's retirement. These shares are for service on the Company's Board from April 1, 2008 through February 1, 2009 and will vest at the conclusion of the service period.

In August 2007, the Board of Directors of Chase Corporation approved a plan for issuing a performance and service based restricted stock grant of approximately 48,600 shares to key members of management with an issue date of September 1, 2007 and a vesting date of August 31, 2010. These shares are subject to a performance measurement based upon the results of fiscal 2008 which will determine the final calculation of the number of shares that will be issued (which may be greater than or less than 48,600 shares). Compensation expense is being recognized on a ratable basis over the vesting period based on quarterly probability assessments.

**Note 5 Segment Information**

The Company operates in two business segments, a Specialized Manufacturing segment and an Electronic Manufacturing Services segment. Specialized Manufacturing products include insulating and conducting materials for wire and cable manufacturers, custom pressure sensitive labels, protective coatings for pipeline applications and moisture protective coatings for electronics, as well as high performance polymeric asphalt additives. Electronic Manufacturing Services include printed circuit board and electro-mechanical

**CHASE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

assembly services for the electronics industry. The Company evaluates segment performance based upon income before income taxes.

The following table summarizes information about the Company's reportable segments:

|                                         | Three Months Ended May 31, |               | Nine Months Ended May 31, |               |
|-----------------------------------------|----------------------------|---------------|---------------------------|---------------|
|                                         | 2008                       | 2007          | 2008                      | 2007          |
| <b>Revenues from external customers</b> |                            |               |                           |               |
| Specialized Manufacturing               | \$ 28,596,079              | \$ 29,621,788 | \$ 82,391,948             | \$ 79,230,789 |
| Electronic Manufacturing Services       | 5,329,708                  | 4,921,469     | 14,416,254                | 14,060,752    |
| Total                                   | \$ 33,925,787              | \$ 34,543,257 | \$ 96,808,202             | \$ 93,291,541 |
| <b>Income before income taxes</b>       |                            |               |                           |               |
| Specialized Manufacturing               | \$ 5,674,590               | \$ 5,986,199  | \$ 15,875,360             | \$ 14,045,395 |
| Electronic Manufacturing Services       | 679,869                    | 690,832       | 1,726,089                 | 1,642,286     |
| Total for reportable segments           | 6,354,459                  | 6,677,031     | 17,601,449                | 15,687,681    |
| Corporate and Common Costs              | (1,246,681)                | (2,132,925)   | (4,018,813)               | (4,922,253)   |
| Total                                   | \$ 5,107,778               | \$ 4,544,106  | \$ 13,582,636             | \$ 10,765,428 |

|                                   | May 31, 2008  | August 31, 2007 |
|-----------------------------------|---------------|-----------------|
| <b>Total assets</b>               |               |                 |
| Specialized Manufacturing         | \$ 63,915,675 | \$ 59,725,253   |
| Electronic Manufacturing Services | 14,286,865    | 12,988,314      |
| Total for reportable segments     | 78,202,540    | 72,713,567      |
| Corporate and Common Assets       | 12,096,175    | 11,251,342      |
| Total                             | \$ 90,298,715 | \$ 83,964,909   |

**Note 6 Goodwill and Other Intangibles**

The changes in the carrying value of goodwill, by reportable segment, are as follows:

|                                                                 | Specialized<br>Manufacturing | Electronic<br>Manufacturing<br>Services | Consolidated  |
|-----------------------------------------------------------------|------------------------------|-----------------------------------------|---------------|
| Balance at August 31, 2007                                      | \$ 8,576,752                 | \$ 5,998,888                            | \$ 14,575,640 |
| Acquisition of E-Poxy Engineered Materials - additional earnout | 5,277                        |                                         | 5,277         |
| Chase Protective Coatings Ltd.                                  | 322,542                      |                                         | 322,542       |
| Acquisition of Paper Tyger - additional earnout                 | 479,882                      |                                         | 479,882       |

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|                                                |          |           |    |           |    |            |
|------------------------------------------------|----------|-----------|----|-----------|----|------------|
| Acquisition of Metronelec - additional earnout | 184,422  |           |    | 184,422   |    |            |
| FX translation adjustment                      | (45,542) |           |    | (45,542)  |    |            |
| Balance at May 31, 2008                        | \$       | 9,523,333 | \$ | 5,998,888 | \$ | 15,522,221 |

Management is still finalizing the purchase price allocation for assets acquired by the Company's wholly owned subsidiary, Chase Protective Coatings Ltd. (see Note 7). The amount allocated to goodwill above as well as other identifiable intangible assets will be finalized no later than the end of the current fiscal year (August 31, 2008).

The Company evaluates the possible impairment of goodwill annually each fourth quarter and whenever events or circumstances indicate the carrying value of goodwill may not be recoverable.

**CHASE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

Intangible assets subject to amortization consist of the following at May 31, 2008 and August 31, 2007:

|                                  | Weighted-Average<br>Amortization Period | Gross Carrying<br>Value | Accumulated<br>Amortization | Net Carrying<br>Value |
|----------------------------------|-----------------------------------------|-------------------------|-----------------------------|-----------------------|
| <b>May 31, 2008</b>              |                                         |                         |                             |                       |
| Patents and agreements           | 12.7 years                              | 2,243,678               | 1,821,280                   | 422,398               |
| Formulas                         | 9.2 years                               | 1,261,235               | 306,291                     | 954,944               |
| Trade names                      | 3.8 years                               | 281,294                 | 191,103                     | 90,191                |
| Customer lists and relationships | 10.7 years                              | 6,422,886               | 1,675,827                   | 4,747,059             |
| <b>August 31, 2007</b>           |                                         |                         |                             |                       |
| Patents and agreements           | 12.7 years                              | 2,243,678               | 1,660,166                   | 583,512               |
| Formulas                         | 9.2 years                               | 1,261,235               | 279,647                     | 981,588               |
| Trade names                      | 3.8 years                               | 281,294                 | 136,056                     | 145,238               |
| Customer lists and relationships | 10.7 years                              | 6,399,630               | 1,058,405                   | 5,341,225             |

In addition to the intangible assets summarized above, the Company also has corporate trademarks with an indefinite life and a carrying value of \$11,615 at May 31, 2008 and August 31, 2007.

Aggregate amortization expense related to intangible assets for the nine months ended May 31, 2008 and 2007 was \$876,715 and \$731,854, respectively. Estimated amortization expense for the remainder of fiscal year 2008 and for each of the five succeeding fiscal years is as follows:

| Years ending August 31,       |              |
|-------------------------------|--------------|
| 2008 (remaining three months) | \$ 246,405   |
| 2009                          | 927,641      |
| 2010                          | 828,631      |
| 2011                          | 775,577      |
| 2012                          | 754,986      |
| 2013                          | 638,098      |
|                               | \$ 4,171,338 |

**Note 7 Acquisitions**

*Chase Protective Coatings Ltd.*



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On September 1, 2007, Chase Corporation purchased certain product lines and a related manufacturing facility in Rye, East Sussex, England through its wholly owned subsidiary, Chase Protective Coatings Ltd. For over 35 years, this business has been a leading manufacturer of waterproofing and corrosion protection systems for oil, gas and water pipelines and has been a major supplier to Europe, the Middle East and Southeast Asia. The purchase price for this acquisition was £738,936 (US \$1,489,769 at the time of the acquisition) and was financed out of cash flow from the Company's operations. The effective date for this acquisition was September 1, 2007 and the results of this acquisition have been included in the Company's financial statements since then.

Management is still finalizing the purchase price allocation as it relates to the value of the intangible assets acquired. All assets acquired, including goodwill, are included in the Company's Specialized Manufacturing Segment.

## CHASE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

**Note 8 Commitments and Contingencies**

From time to time, the Company is involved in litigation incidental to the conduct of its business. The Company is not party to any lawsuit or proceeding that, in management's opinion, is likely to seriously harm the Company's business, results of operations, financial conditions or cash flows.

The Company is one of over 100 defendants in a personal injury lawsuit, pending in Ohio, which alleges personal injury from exposure to asbestos contained in certain Chase products. The plaintiff in the case issued discovery requests to Chase in August 2005, to which Chase timely responded in September 2005. The trial had initially been scheduled to begin on April 30, 2007. However, that date has since been postponed and no new trial date has been set. Since that time, the Ohio lawsuit has been inactive with respect to Chase.

**Note 9 Long Term Debt**

The Company has a long-term unsecured revolving credit facility available up to a maximum amount of \$10 million at the bank's base lending rate or, at the option of the Company, at the effective 30-Day London Interbank Offered Rate (LIBOR) plus 1.25 percent. As of May 31, 2008, the entire amount of \$10 million was available for use. Any future outstanding balance on this long-term unsecured credit facility will be included in scheduled principal payments at its maturity. On February 29, 2008, the Company executed an amendment to this credit facility, extending its maturity to March 31, 2011. All other terms of the credit facility remain the same.

**Note 10 - Pensions and Other Post Retirement Benefits**

The components of net periodic benefit cost for the three and nine months ended May 31, 2008 and 2007 are as follows:

|                                    | Three Months Ended |              | Nine Months Ended |              |
|------------------------------------|--------------------|--------------|-------------------|--------------|
|                                    | May 31, 2008       | May 31, 2007 | May 31, 2008      | May 31, 2007 |
| Service cost                       | \$ 103,313         | \$ 104,220   | \$ 309,939        | \$ 312,660   |
| Interest cost                      | 125,913            | 125,320      | 377,739           | 375,960      |
| Expected return on plan assets     | (101,714)          | (110,778)    | (305,142)         | (332,334)    |
| Amortization of prior service cost | 21,996             | 21,996       | 65,988            | 65,988       |
| Amortization of unrecognized loss  | 10,122             | 12,242       | 30,366            | 36,726       |
| Net periodic benefit cost          | \$ 159,630         | \$ 153,000   | \$ 478,890        | \$ 459,000   |

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When funding is required, the Company's policy is to contribute amounts that are deductible for federal income tax purposes. As of May 31, 2008, the Company was not required to make any contributions nor did it make any voluntary contributions to the pension plan. In June 2008, the Company made a \$500,000 voluntary contribution.

**CHASE CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

**Note 11 Income Taxes**

Effective September 1, 2007, the Company adopted the provisions of Financial Accounting Standards Board ( FASB ) Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 ( FIN 48 ). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements by prescribing a recognition threshold and measurement attribute for recognition and measurement of a tax position taken or expected to be taken in a tax return. As a result of the implementation of FIN 48, the Company performed a comprehensive review of its uncertain tax positions and identified \$230,198 in unrecognized tax benefits that were accounted for as a reduction to the September 1, 2007 balance of retained earnings, in accordance with the adoption provisions of FIN 48. At September 1, 2007, the total amount of unrecognized tax benefits was \$639,530. If this amount were recognized, it would favorably impact the effective tax rate for the period of recognition. The Company does not anticipate unrecognized tax benefits will significantly increase or decrease within the next twelve months.

The unrecognized tax benefits mentioned above include an aggregate \$291,338 of interest and accrued penalties. Upon adoption of FIN 48, the Company has elected an accounting policy to classify interest expense on underpayments of income taxes and accrued penalties related to unrecognized tax benefits in the income tax provision. Prior to the adoption of FIN 48, the Company's policy was to classify interest expense on underpayments of income taxes as interest expense and to classify penalties as an operating expense in arriving at earnings before income taxes.

The Company is subject to U.S. federal income tax as well as to income tax of multiple state jurisdictions and foreign tax jurisdictions. The statute of limitations for all material federal, state, and local tax filings remains open for tax years subsequent to 2003. All tax years in foreign jurisdictions currently remain open, as the Company's international operations did not commence until 2005.

**Note 12 Recent Accounting Pronouncements**

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements ( FAS 157 ). The provisions of FAS 157 define fair value, establish a framework for measuring fair value in generally accepted accounting principles, and expand disclosures about fair value measurements. The provisions of FAS 157 are effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position 157-2 ( FSP 157-2 ) which defers the effective date of FAS 157 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). FSP 157-2 will apply to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The Company is currently evaluating the impact of the provisions of FAS 157.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FAS No. 115 ( FAS 159 ). FAS 159 allows measurement at fair value of eligible financial assets and liabilities that are not otherwise measured at fair value. If the fair value option for an eligible item is elected, unrealized gains and losses on that item shall be reported in current earnings at each subsequent reporting date. FAS 159 also establishes presentation and disclosure requirements designed to draw

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comparison between the different measurements attributes a company elects for similar types of assets and liabilities. FAS 159 is effective for fiscal years beginning after November 15, 2007. The Company is assessing the impact, if any, the adoption of FAS 159 will have on its consolidated financial statements.

**CHASE CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* ( FAS 141R ), which replaces FAS 141. FAS 141R establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. FAS 141R is to be applied prospectively to business combinations for which the acquisition date is on or after an entity's fiscal year that begins after December 15, 2008. Earlier adoption is prohibited. The Company expects that FAS 141R will have an impact on accounting for business combinations once adopted, but the effect is dependent upon acquisitions at that time.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* an amendment of Accounting Research Bulletin No. 51 ( FAS 160 ). FAS 160 establishes accounting and reporting standards that require the ownership interest in subsidiaries held by parties other than the parent be clearly identified and presented in the consolidated balance sheets within equity, but separate from the parent's equity; the amount of consolidated net income attributable to the parent and the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of earnings; and changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently. This statement is effective for fiscal years beginning on or after December 15, 2008. Earlier adoption is prohibited. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements.

In September 2006, the FASB ratified Emerging Issues Task Force ( EITF ) Issue 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*. In accordance with EITF Issue 06-4, an agreement by the employer to share a portion of the proceeds of a life insurance policy with the employee during the post retirement period is a postretirement benefit arrangement that must be accounted for under FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions* (FAS 106), or APB Opinion No. 12, *Omnibus Opinion 1967* (APB 12). EITF Issue 06-4 becomes effective in the first quarter of fiscal 2009 (fiscal year beginning September 1, 2008). The Company is currently evaluating the potential impact of EITF Issue 06-4.

In March 2007, the FASB ratified Emerging Issues Task Force ( EITF ) Issue 06-10, *Accounting for the Deferred Compensation and Postretirement Benefits Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements*. In accordance with EITF Issue 06-10, an employer should recognize a liability for the postretirement benefit related to a collateral assignment split-dollar life insurance arrangement in accordance with either FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions* (FAS 106), or APB Opinion 12, *Omnibus Opinion 1967* (APB 12). EITF Issue 06-10 becomes effective in the first quarter of fiscal 2009 (fiscal year beginning September 1, 2008). The Company is currently evaluating the potential impact of EITF Issue 06-10.

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

The following discussion provides an analysis of the Company's financial condition and results of operations and should be read in conjunction with the Consolidated Financial Statements and notes thereto included in Item 1 of Part I of this Quarterly Report on Form 10-Q and the Company's Annual Report on Form 10-K filed for the fiscal year ended August 31, 2007.

### Recent Developments

In September 2007, Chase Corporation purchased certain product lines and a related manufacturing facility in Rye, East Sussex, England through its wholly owned subsidiary, Chase Protective Coatings Ltd. For over 35 years, this business has been a leading manufacturer of waterproofing and corrosion protection systems for oil, gas and water pipelines and has been a major supplier to Europe, the Middle East and Southeast Asia. This new acquisition joins Chase's North American based Tapecoat® and Royston® brands to broaden the protective coatings product line and better address increasing global demand.

### Overview

Overall performance in the first nine months of fiscal year 2008 continues to exceed prior year results as a result of strong demand, favorable product mix, diligent cost management practices, and efficiency improvements. Although revenue for the Company in the current quarter was slightly below the record high observed in the same period last year, product mix and proactive cost containment have resulted in net income surpassing the prior year quarter. The formation of Humiseal Europe SARL in March 2007 and Chase Protective Coatings Ltd. in September 2007 contributed to the revenue growth for the year to date period along with the organic sales growth seen from existing facilities and product lines. In spite of the inflation that has impacted raw materials prices, management's emphasis on making strategic purchases has helped maintain margins on most of the Company's key product lines through the first nine months of fiscal 2008. During the remainder of the fiscal year, management will closely monitor raw material purchasing efforts as additional pressure on profit margins is expected with increasing raw material and energy costs.

The Chase Electronic Manufacturing Services segment experienced strong demand during the third quarter that resulted in a record high in revenues. This segment is benefiting from management's continued emphasis on expanding its customer base in order to utilize investments made in capital equipment over the past few years, although rising manufacturing costs and ongoing pressure from key customers to keep sale prices low continues to negatively impact margins. For the remainder of fiscal 2008, management's attention will be to maintain a healthy backlog of customer orders and proactively manage overhead costs to assist with profitability.

The Company continues to renovate its manufacturing plant (acquired in April 2007) in the Pittsburgh area and anticipates that the majority of the building improvements will be completed over the remainder of the current calendar year. This facility will allow for additional production capacity and improved productivity with existing product lines as the Company continues **to review efficiency enhancements to its manufacturing operations as a means of better positioning its businesses and maximizing resources.**

For the remainder of the fiscal year, management will continue to pay close attention to the overall economy, including the housing market, inflation, and cost of petroleum related goods and services and the impact that the global markets will

have on the Company's eight core product lines. Brands such as HumiSeal®, Paper Tyger®, Chase & Sons® and Chase BIH2Ock® remain a primary focus in the Company's effort to grow sales organically; however, management continues to seek strategic acquisitions to drive future growth.



The Company has two reportable segments summarized below:

| Segment                                   | Product Lines                                                                                                                                                                                                                                  | Manufacturing Focus and Products                                                                                                                                                                                                                                                                               |
|-------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Specialized Manufacturing Segment         | <ul style="list-style-type: none"> <li>• Wire and Cable</li> <li>• Electronic Coatings</li> <li>• Transportation</li> <li>• Pipeline</li> <li>• Construction</li> <li>• Packaging and Industrial</li> <li>• Digital and Print Media</li> </ul> | Produces protective coatings and tape products including insulating and conducting materials for wire and cable manufacturers, protective coatings for pipeline applications, moisture protective coatings for electronics, high performance polymeric asphalt additives and custom pressure sensitive labels. |
| Electronic Manufacturing Services Segment | <ul style="list-style-type: none"> <li>• Contract Electronic Manufacturing Services</li> </ul>                                                                                                                                                 | Provides assembly and turnkey contract manufacturing services including printed circuit board and electromechanical assembly services to the electronics industry operating principally in the United States.                                                                                                  |

## Results of Operations

*Revenues and Operating Profit by Segment are as follows (dollars in thousands)*

|                                        | Revenue   | Income Before<br>Income Taxes   | % of<br>Revenue |
|----------------------------------------|-----------|---------------------------------|-----------------|
| <b>Three Months Ended May 31, 2008</b> |           |                                 |                 |
| Specialized Manufacturing              | \$ 28,596 | \$ 5,675                        | 20%             |
| Electronic Manufacturing Services      | 5,330     | 680                             | 13              |
|                                        | \$ 33,926 | 6,355                           | 19              |
|                                        |           | Less corporate and common costs | (1,247)         |
|                                        |           | Income before income taxes      | \$ 5,108        |
| <b>Three Months Ended May 31, 2007</b> |           |                                 |                 |
| Specialized Manufacturing              | \$ 29,622 | \$ 5,986                        | 20%             |
| Electronic Manufacturing Services      | 4,921     | 691                             | 14              |
|                                        | \$ 34,543 | 6,677                           | 19              |
|                                        |           | Less corporate and common costs | (2,133)         |
|                                        |           | Income before income taxes      | \$ 4,544        |
| <b>Nine Months Ended May 31, 2008</b>  |           |                                 |                 |
| Specialized Manufacturing              | \$ 82,392 | \$ 15,875                       | 19%             |
| Electronic Manufacturing Services      | 14,416    | 1,726                           | 12              |
|                                        | \$ 96,808 | 17,601                          | 18              |
|                                        |           | Less corporate and common costs | (4,018)         |

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|                                       |                                   |    |        |        |            |
|---------------------------------------|-----------------------------------|----|--------|--------|------------|
|                                       | Income before income taxes        |    | \$     | 13,583 |            |
| <b>Nine Months Ended May 31, 2007</b> |                                   |    |        |        |            |
|                                       | Specialized Manufacturing         | \$ | 79,231 | \$     | 14,045 18% |
|                                       | Electronic Manufacturing Services |    | 14,061 |        | 1,642 12   |
|                                       |                                   | \$ | 93,292 |        | 15,687 17  |
|                                       | Less corporate and common costs   |    |        |        | (4,922)    |
|                                       | Income before income taxes        |    | \$     | 10,765 |            |

***Total Revenues***

Total revenues decreased \$617,000 or 2% to \$33,926,000 for the quarter ended May 31, 2008 compared to \$34,543,000 in the same quarter of the prior year. Total revenues increased \$3,516,000 or 4% to \$96,808,000 in the fiscal year to date period compared to \$93,292,000 in the same period in fiscal 2007.

Revenues from the Company's Specialized Manufacturing segment decreased \$1,026,000 or 3% to \$28,596,000 for the quarter ended May 31, 2008 compared to \$29,622,000 in the same quarter of the prior year. The primary drivers in the revenue shortfall in the current quarter relate to decreased sales of \$810,000 from the Wire & Cable product line, as well as decreased sales of \$875,000 from the Construction product line, due to less Rosphalt 50® project sales. These were partially offset by increased revenues of \$600,000 from the establishment of Chase Protective Coatings Ltd. in September 2007, and increased sales of \$320,000 from the Pipeline product line. Although revenues for the quarter did not reach the record level experienced in the prior year, the Specialized Manufacturing segment revenues increased \$3,161,000 or 4% to \$82,392,000 in the fiscal year to date period compared to \$79,231,000 in the same period in fiscal 2007. The increase in revenues was primarily due to the following: (a) the establishment of HumiSeal Europe SARL in March 2007 and Chase Protective Coatings Ltd. in September 2007 which combined have accounted for the majority of the \$4,018,000 increased revenue from the Company's European Operations; (b) increased sales of \$1,082,000 from the Pipeline product line; (c) increased sales of \$1,014,000 from the Electronic Coatings product line; and (d) increased sales of \$926,000 from a large, nonrecurring construction project that was completed in the first quarter of this fiscal year. These increases were partially offset by the following: (a) decreased sales of \$1,781,000 in the Wire & Cable market primarily due to decreased demand and greater competition related to coaxial shielding tapes; (b) decreased sales of 1,626,000 due to the reduction in Rosphalt 50® project sales which experienced record levels in fiscal 2007; and (c) decreased sales of \$1,468,000 in the Transportation and Packaging & Industrial product lines.

Revenues from the Company's Electronic Manufacturing Services segment increased \$409,000 or 8% to \$5,330,000 in the current quarter compared to \$4,921,000 in the same period last year. As a result of the record high in revenues observed in the current quarter, this segment's revenues increased \$355,000 or 4% to \$14,416,000 in the fiscal year to date period compared to \$14,061,000 in the same period in fiscal 2007. The increased revenue was primarily due to increased order activity over the past quarter and existing customers taking delivery of products previously included as part of the Company's backlog at the end of the prior quarter. The current backlog for Chase EMS remains healthy at \$8.5 million as of May 31, 2008.

***Cost of Products and Services Sold***

Cost of products and services sold decreased \$430,000 or 2% to \$22,922,000 for the quarter ended May 31, 2008 compared to \$23,352,000 in the prior year quarter. Cost of products and services sold increased \$416,000 or 1% to \$65,595,000 in the fiscal year to date period compared to \$65,179,000 in the same period in fiscal 2007.

Cost of products and services sold in the Company's Specialized Manufacturing segment were \$18,611,000 and \$53,853,000 in the current quarter and year to date periods, respectively, compared to \$19,437,000 and \$53,671,000 in the comparable periods in the prior year. Cost of products and services sold in the Company's Electronic Manufacturing Services segment were \$4,311,000 and \$11,742,000 in the current quarter and year to date periods compared to \$3,915,000 and \$11,508,000 in the comparable periods in the prior year.

The following table summarizes the relative percentages of revenues for costs of products and services sold for both of the Company's reporting segments:

|                                   | Three Months Ended May 31, |            | Nine Months Ended May 31, |            |  |
|-----------------------------------|----------------------------|------------|---------------------------|------------|--|
|                                   | 2008                       | 2007       | 2008                      | 2007       |  |
| Specialized Manufacturing         | 65%                        | 66%        | 65%                       | 68%        |  |
| Electronic Manufacturing Services | 81%                        | 80%        | 81%                       | 82%        |  |
| <b>Total</b>                      | <b>68%</b>                 | <b>68%</b> | <b>68%</b>                | <b>70%</b> |  |

The percentage decrease in cost of goods sold in the Specialized Manufacturing segment during the current quarter and year to date periods compared to the prior year periods was a direct result of a favorable product mix coupled with continued focus and scrutiny on material purchases that have helped stabilize margins on many of the Company's key product lines. The dollar value increase in cost of goods sold in the Specialized Manufacturing segment during the first nine months of fiscal 2008 compared to the prior year period was primarily attributable to increased revenues offset by management's emphasis on leveraging the Company's fixed costs and improving manufacturing efficiencies.

The increase in dollar value of cost of products and services sold in the Company's Electronic Manufacturing segment was a direct result of increased revenues and rising manufacturing costs in the current quarter and year to date periods. The variance in cost of products and services sold as a percent of revenues reflects the increasing manufacturing costs and competitive pricing pressures placed on this segment by many of its key customers in the current quarter.

#### *Selling, General and Administrative Expenses*

Selling, general and administrative expenses decreased \$174,000 or 3% to \$5,977,000 for the quarter ended May 31, 2008 compared to \$6,151,000 in the prior year quarter. The decrease in the current quarter over the prior year period is primarily attributable to the timing of costs related to professional services required for compliance with the internal control reporting requirements of Section 404 of the Sarbanes-Oxley Act as greater costs were incurred in the second half of last year given it was the Company's initial year of compliance.

Selling, general and administrative expenses increased \$1,340,000 or 8% to \$17,840,000 in the fiscal year to date period compared to \$16,500,000 in the same period in fiscal 2007. The increase in the year to date period over the same period in fiscal 2007 is attributable to: (a) increased employee head count, due to acquisitions and organic volume growth, along with rising employee-related benefits, including health care costs; (b) increased stock based compensation related to the Company's long term incentive plan; and (c) increased sales commissions due to the Company's positive sales variance in the current year.

#### *Loss on Impairment of Goodwill*

During the third quarter of fiscal 2007, the Company concluded the carrying amount of goodwill for the Northeast Quality Products (NEQP) division was not fully recoverable and an impairment charge of \$311,000 was recorded as of May 31, 2007. Goodwill related to NEQP, having a pre-impairment book value of \$660,000, was written down to its current fair value of \$349,000. The Company will continue to assess the realizability of this asset under appropriate generally accepted accounting principles, including the continued annual impairment test, which is completed each August in conjunction with the Company's fiscal year end.



***Interest Expense***

Interest expense decreased \$205,000 or 85% to \$35,000 for the quarter ended May 31, 2008 compared to \$240,000 in the prior year quarter. Interest expense decreased \$551,000 or 75% to \$181,000 for the fiscal year to date period ended May 31, 2008 compared to \$732,000 in the same period in fiscal 2007. The decrease in interest expense in both the current quarter and year to date period over the prior year periods is a direct result of the reduction in the Company's overall debt balances through principal payments from operating cash flow and an overall decrease in interest rates in fiscal 2008. The Company expects to continue to pay down its debt through operating cash flow in fiscal 2008 and receive the benefits from favorable borrowing rates from its financial institutions.

***Other Income (Expense)***

Other income increased \$61,000 or 111% to \$116,000 for the quarter ended May 31, 2008 compared to \$55,000 in the prior year quarter. Other income increased \$195,000 or 100% to \$390,000 for the fiscal year to date period ended May 31, 2008 compared to \$195,000 in the same period in fiscal 2007. Other income includes bank interest earned by the Company's Humiseal Europe division and monthly rental income of \$14,875 on property (building and land) owned by the Company and leased to Sunburst Electronic Manufacturing Solutions, Inc. under a thirty-six month rental agreement commencing on December 1, 2006 and expiring on November 30, 2009. The quarterly and fiscal year to date increase over the prior year periods consists primarily of bank interest and exchange gains earned by the Company's Humiseal Europe division.

***Net Income***

Net income increased \$355,000 or 12% to \$3,218,000 in the quarter ended May 31, 2008 compared to \$2,863,000 in the prior year quarter. Net income increased \$1,775,000 or 26% to \$8,557,000 for the fiscal year to date period ended May 31, 2008 compared to \$6,782,000 in the same period in fiscal 2007. The increase in net income in both the current quarter and year to date periods is primarily due to increased revenue growth in the Company's core product lines coupled with the Company's ability to leverage its fixed costs and properly manage increasing raw material costs.

**Liquidity and Sources of Capital**

The Company's cash balance increased \$1,285,000 to \$3,729,000 at May 31, 2008 from \$2,444,000 at August 31, 2007. Generally, the Company manages its borrowings and payments under its revolving line of credit in order to maintain a low cash balance. The high cash balance at May 31, 2008 was a result of cash flow generated during the year which was subsequently used in June 2008 to repay the outstanding balance of \$2 million on the term loan used to finance the purchase of a new manufacturing facility (acquired in June 2007) in greater Pittsburgh, PA. Management continues to review its current cash balances denominated in foreign currency in light of current tax guidelines and potential acquisitions.

Cash flow provided by operations was \$10,997,000 in the first nine months of fiscal year 2008 compared to \$5,559,000 in the prior year period. Cash provided by operations was primarily due to operating income, increased collections of accounts receivables and increased accounts payable offset by purchases of raw materials.

The ratio of current assets to current liabilities was 2.3 as of May 31, 2008 and August 31, 2007. Increases in the Company's cash balance and inventory, due to increased demand and overall sales volume, along with a decrease in the current portion of long-term debt were offset by related increases in accounts payable and accrued expenses.

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Cash flow used in investing activities of \$4,013,000 was primarily due to \$1,490,000 paid for the assets acquired by Chase Protective Coatings Ltd., purchases related to the build out of the Company's manufacturing facility in Pittsburgh of \$760,000, and cash paid for purchases of machinery and equipment at the Company's other manufacturing locations during fiscal 2008.

Cash flow used in financing activities of \$5,587,000 reflected the annual dividend payment and the Company's ability to use excess cash generated from operating results to pay off existing long-term debt, including \$4,033,000 to pay the total outstanding balances of the term notes used to finance the Company's acquisitions of Concoat Holdings Limited (acquired in October 2005) and Capital Services of New York, Inc. (acquired in September 2006).

On October 15, 2007, the Company announced a cash dividend of \$0.25 per share (totaling \$2,067,715) to shareholders of record on October 31, 2007, payable on December 3, 2007.

The Company continues to have long-term unsecured credit available up to a maximum amount of \$10 million at the bank's base lending rate or, at the option of the Company, at the effective 30-Day London Interbank Offered Rate (LIBOR) plus 1.25 percent. As of 5/31/08 the entire amount of \$10 million was available for use under this credit facility. The Company plans to use this availability to help finance its cash needs including acquisitions in fiscal 2008 and future periods. The outstanding balance on this long-term unsecured credit facility will be included in scheduled principal payments at its maturity. On February 29, 2008, the Company executed an amendment to this credit facility, extending its maturity to March 31, 2011.

As of June 30, 2008, the Company had \$9.7 million in available credit under this credit facility.

Under the terms of the Company's credit facility, the Company must comply with certain debt covenants related to (a) the ratio of total liabilities to tangible net worth and (b) the ratio of operating cash flow to debt service on a rolling twelve month basis. The Company was in compliance with its debt covenants as of May 31, 2008.

The Company currently has an on-going capital project related to the build out of its manufacturing facility in greater Pittsburgh, PA. It also plans on adding additional machinery and equipment as needed to increase capacity and to enhance operating efficiencies in its other manufacturing plants. Additionally, the Company may consider the acquisitions of companies or other assets in fiscal 2008 which are complementary to its business. The Company believes that its existing resources, including its primary credit facility, together with cash generated from operations and additional bank borrowings, will be sufficient to fund its cash flow requirements through at least the next twelve months. However, there can be no assurances that such financing will be available at favorable terms, if at all.

To the extent that interest rates increase in future periods, the Company will assess the impact of these higher interest rates on the financial and cash flow projections of its potential acquisitions.

The Company does not have any significant off balance sheet arrangements.



**Recently Issued Accounting Standards**

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements ( FAS 157 ). The provisions of FAS 157 define fair value, establish a framework for measuring fair value in generally accepted accounting principles, and expand disclosures about fair value measurements. The provisions of FAS 157 are effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position 157-2 ( FSP 157-2 ) which defers the effective date of FAS 157 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in

the financial statements on a recurring basis (at least annually). FSP 157-2 will apply to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The Company is currently evaluating the impact of the provisions of FAS 157.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* including an amendment of FAS No. 115, ( FAS 159 ). FAS 159 allows measurement at fair value of eligible financial assets and liabilities that are not otherwise measured at fair value. If the fair value option for an eligible item is elected, unrealized gains and losses on that item shall be reported in current earnings at each subsequent reporting date. FAS 159 also establishes presentation and disclosure requirements designed to draw comparison between the different measurements attributes a company elects for similar types of assets and liabilities. FAS 159 is effective for fiscal years beginning after November 15, 2007. The Company is assessing the impact, if any, the adoption of FAS 159 will have on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* ( FAS 141R ), which replaces FAS 141. FAS 141R establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. FAS 141R is to be applied prospectively to business combinations for which the acquisition date is on or after an entity's fiscal year that begins after December 15, 2008. Earlier adoption is prohibited. The Company expects that FAS 141R will have an impact on accounting for business combinations once adopted, but the effect is dependent upon acquisitions at that time.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* an amendment of Accounting Research Bulletin No. 51 ( FAS 160 ). FAS 160 establishes accounting and reporting standards that require the ownership interest in subsidiaries held by parties other than the parent be clearly identified and presented in the consolidated balance sheets within equity, but separate from the parent's equity; the amount of consolidated net income attributable to the parent and the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of earnings; and changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently. This statement is effective for fiscal years beginning on or after December 15, 2008. Earlier adoption is prohibited. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements.

In September 2006, the FASB ratified Emerging Issues Task Force ( EITF ) Issue 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*. In accordance with EITF Issue 06-4, an agreement by the employer to share a portion of the proceeds of a life insurance policy with the employee during the post retirement period is a postretirement benefit arrangement that must be accounted for under FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions* (FAS 106), or APB Opinion No. 12, *Omnibus Opinion 1967* (APB 12). EITF Issue 06-4 becomes effective in the first quarter of fiscal 2009 (fiscal year beginning September 1, 2008). The Company is currently evaluating the potential impact of EITF Issue 06-4.

In March 2007, the FASB ratified Emerging Issues Task Force ( EITF ) Issue 06-10, *Accounting for the Deferred Compensation and Postretirement Benefits Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements*. In accordance with EITF Issue 06-10, an employer should recognize a liability for the postretirement benefit related to a collateral assignment split-dollar life insurance arrangement in accordance with either FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions* (FAS 106), or APB Opinion 12, *Omnibus Opinion 1967* (APB 12). EITF Issue 06-10 becomes effective in the first quarter of fiscal 2009 (fiscal year beginning September 1, 2008). The Company is currently evaluating the potential impact of EITF Issue 06-10.



## Critical Accounting Policies

Effective September 1, 2007, the Company adopted the provisions of Financial Accounting Standards Board ( FASB ) Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 ( FIN 48 ). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements by prescribing a recognition threshold and measurement attribute for recognition and measurement of a tax position taken or expected to be taken in a tax return. As a result of the implementation of FIN 48, the Company performed a comprehensive review of its uncertain tax positions and identified \$230,198 in unrecognized tax benefits that were accounted for as a reduction to the September 1, 2007 balance of retained earnings, in accordance with the adoption provisions of FIN 48. At September 1, 2007, the total amount of unrecognized tax benefits was \$639,530. If this amount were recognized, it would favorably impact the effective tax rate for the period of recognition. The Company does not anticipate unrecognized tax benefits will significantly increase or decrease within the next twelve months.

The unrecognized tax benefits mentioned above include an aggregate \$291,338 of interest and accrued penalties. Upon adoption of FIN 48, the Company has elected an accounting policy to classify interest expense on underpayments of income taxes and accrued penalties related to unrecognized tax benefits in the income tax provision. Prior to the adoption of FIN 48, the Company s policy was to classify interest expense on underpayments of income taxes as interest expense and to classify penalties as an operating expense in arriving at earnings before income taxes.

The Company is subject to U.S. federal income tax as well as to income tax of multiple state jurisdictions and foreign tax jurisdictions. The statute of limitations for all material federal, state, and local tax filings remains open for tax years subsequent to 2003. All tax years in foreign jurisdictions currently remain open, as the company s international operations did not commence until 2005.

## Forward Looking Information

The part of this Quarterly Report on Form 10-Q captioned Management s Discussion and Analysis of Financial Condition and Results of Operations contains certain forward-looking statements, which involve risks and uncertainties. These statements are based on current expectations, estimates and projections about the industries in which we operate, general economic conditions, management s beliefs and assumptions made by management. Readers should refer to the discussions under Forward Looking Information and Risk Factors contained in the Company s Annual Report on Form 10-K for the year ended August 31, 2007 concerning certain factors that could cause the Company s actual results to differ materially from the results anticipated in such forward-looking statements. These discussions and Risk Factors are hereby incorporated by reference into this Quarterly Report.

**Item 3 - Quantitative and Qualitative Disclosures about Market Risk**

The Company limits the amount of credit exposure to any one issuer. At May 31, 2008, other than the Company's restricted investments (which are restricted for use in a non qualified retirement savings plan for certain key employees and Directors), all of the Company's funds were either in demand deposit accounts or investment instruments that meet high credit quality standards such as money market funds, government securities, or commercial paper.

The Company's domestic operations have limited currency exposure since substantially all invoices are denominated in U.S. dollars. With the addition of the Company's European operations over the past two years, the exposure to currency exchange fluctuation has increased. The Company continues to review its policies and procedures to reduce this exposure while maintaining the benefit from these operations and sales to other European customers. Historically, the Company has maintained minimal cash balances outside the U.S. As of May 31, 2008, the Company had cash balances in the United Kingdom for its Humiseal Europe Ltd and Chase Protective Coatings divisions denominated primarily in pounds sterling and equal to US \$967,845 and cash balances in France for its HumiSeal Europe SARL division denominated primarily in euros and equal to US \$619,373. Management continues to review its current cash balances denominated in foreign currency in light of current tax guidelines and potential acquisitions.

The Company incurred a foreign currency translation loss, net of tax for the nine months ended May 31, 2008 in the amount of \$29,446 related to its European operations which is recorded in other comprehensive income (loss) within the Company's Statement of Stockholders' Equity. The Company does not have or utilize any derivative financial instruments for speculative or trading purposes.

**Item 4 - Controls and Procedures**

*Evaluation of disclosure controls and procedures*

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

The Company carries out a variety of on-going procedures, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, to evaluate the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at a reasonable assurance level as of the end of the period covered by this report.

*Changes in internal control over financial reporting*

There was no change in the Company's internal control over financial reporting during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**Part II OTHER INFORMATION**

**Item 1 Legal Proceedings**

From time to time, the Company is involved in litigation incidental to the conduct of its business. The Company is not party to any lawsuit or proceeding that, in management's opinion, is likely to seriously harm the Company's business, results of operations, financial conditions or cash flows.

The Company is one of over 100 defendants in a personal injury lawsuit, pending in Ohio, which alleges personal injury from exposure to asbestos contained in certain Chase products. The plaintiff in the case issued discovery requests to Chase in August 2005, to which Chase timely responded in September 2005. The trial had initially been scheduled to begin on April 30, 2007. However, that date has since been postponed and no new trial date has been set. Since that time, the Ohio lawsuit has been inactive with respect to Chase.

**Item 1A Risk Factors**

Please refer to Item 1A in the Company's Form 10-K for the fiscal year ended August 31, 2007 for a complete discussion for the risk factors which could materially affect the Company's business, financial condition or future results.

**Item 5 Other Information**

On July 8, 2008, the Board of Directors of Chase Corporation approved the amended and restated Supplemental Pension Plan and Supplemental Savings Plan. These two plans supercede the Amended and Restated Employee's Supplemental Pension and Savings Plan (the Plan) which was effective January 1, 2005. The Plan needed to be amended and restated in order to comply with recent changes in the law, including Section 409A of the Internal Revenue Code of 1986. Participation in the plans is at the full discretion of the Board of Directors. As part of the current amendment and restatement of the Plan, the Board of Directors felt it was more appropriate to have these benefits broken up into two plan documents in order to provide greater flexibility with respect to plan participation going forward.

Copies of the amended and restated Supplemental Pension Plan and Supplemental Savings Plan are attached as Exhibits 10.1 and 10.2, respectively, to this Quarterly Report on Form 10-Q.

On July 8, 2008, the Board of Directors approved the participation of Adam P. Chase, Kenneth L. Dumas and Terry M. Jones in the Supplemental Pension Plan and invited Adam P. Chase, Kenneth L. Dumas, Terry M. Jones and one other officer to participate in the Supplemental Savings Plan.

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On July 8, 2008, the Board of Directors authorized a grant of stock options to Adam P. Chase and Kenneth L. Dumas to purchase 150,000 and 100,000 shares of common stock, respectively. Each of these options has an exercise price of \$16.53 per share, will vest in full on the fifth anniversary of the grant date, and will expire on the tenth anniversary of the grant date.



**Item 6 - Exhibits**

| <b>Exhibit<br/>Number</b> | <b>Description</b>                                                                                     |
|---------------------------|--------------------------------------------------------------------------------------------------------|
| 10.1                      | Chase Corporation Supplemental Pension Plan dated July 8, 2008                                         |
| 10.2                      | Chase Corporation Supplemental Savings Plan dated July 8, 2008                                         |
| 31.1                      | Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2                      | Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1                      | Certification of principal executive officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2                      | Certification of principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

**SIGNATURES**

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.

**Chase Corporation**

Dated: July 10, 2008

By: /s/ Peter R. Chase  
Peter R. Chase,  
Chairman and Chief Executive Officer

Dated: July 10, 2008

By: /s/ Kenneth L. Dumas  
Kenneth L. Dumas  
Chief Financial Officer and Treasurer