

CHASE CORP  
Form 10-Q  
January 11, 2010  
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**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 November 30, 2009

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)

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(508) 279-1789

(Registrant's Telephone Number, Including Area Code)

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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

Smaller reporting company

(Do not check if a 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 December 31, 2009 was 8,776,123.

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**CHASE CORPORATION**

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CONSOLIDATED BALANCE SHEETS**

(UNAUDITED)

*In thousands, except share and per share amounts*

	November 30, 2009	August 31, 2009
<b>ASSETS</b>		
Current Assets:		
Cash	\$ 7,149	\$ 11,643
Accounts receivable, less allowance for doubtful accounts of \$357 and \$350	14,188	14,536
Inventories	16,268	13,941
Prepaid expenses and other current assets	996	607
Deferred income taxes	368	471
Total current assets	38,969	41,198
Property, plant and equipment, net	27,337	23,219
Other Assets:		
Goodwill	23,279	14,606
Intangible assets, less accumulated amortization of \$5,331 and \$4,869	12,254	4,497
Cash surrender value of life insurance	5,742	5,684
Restricted investments	603	573
Deferred income taxes		1,264
Other assets	70	25
	\$ 108,254	\$ 91,066
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 6,671	\$ 6,319
Accrued payroll and other compensation	1,217	2,561
Accrued stock based compensation	318	302
Accrued expenses	4,053	2,555
Accrued income taxes	1,936	1,346
Current portion of long-term debt	3,000	
Total current liabilities	17,195	13,083
Long-term debt, less current portion	9,500	
Deferred compensation	1,543	1,525
Accumulated pension obligation	5,938	5,690
Other liabilities	555	555

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Deferred income taxes		2,235	
Commitments and Contingencies (Note 9)			
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; 8,779,061 shares at			
November 30, 2009 and 8,714,431 shares at August 31, 2009 issued and outstanding		878	871
Additional paid-in capital		8,002	7,489
Accumulated other comprehensive loss		(3,372)	(3,563)
Retained earnings		65,780	65,416
Total stockholders' equity		71,288	70,213
Total liabilities and stockholders' equity	\$	108,254	\$ 91,066

See accompanying notes to the consolidated financial statements

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

(UNAUDITED)

*In thousands, except share and per share amounts*

	<b>Three Months Ended November 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>Revenues</b>		
Sales	\$ 28,328	\$ 30,607
Royalties and commissions	403	462
	28,731	31,069
<b>Costs and Expenses</b>		
Cost of products and services sold	18,754	21,559
Selling, general and administrative expenses	6,657	6,034
<b>Operating income</b>	<b>3,320</b>	<b>3,476</b>
Interest expense	(60)	(6)
Other income	109	117
<b>Income before income taxes</b>	<b>3,369</b>	<b>3,587</b>
Income taxes	1,246	1,327
<b>Net income</b>	<b>\$ 2,123</b>	<b>\$ 2,260</b>
<b>Net income available to common shareholders, per common and common equivalent share</b>		
Basic	\$ 0.24	\$ 0.26
Diluted	\$ 0.24	\$ 0.26
<b>Weighted average shares outstanding</b>		
Basic	8,701,049	8,397,695
Diluted	8,779,524	8,655,588

See accompanying notes to the consolidated financial statements

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

**THREE MONTHS ENDED NOVEMBER 30, 2009**

(UNAUDITED)

*In thousands, except share and per share amounts*

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total Stockholders Equity	Comprehensive Income
Balance at August 31, 2009	8,714,431	\$ 871	\$ 7,489	\$ (3,563)	\$ 65,416	\$ 70,213	
Restricted stock grants	60,930	6	(6)				
Amortization of restricted stock grants			359			359	
Amortization of stock option grants			132			132	
Exercise of stock options	3,700	1	19			20	
Tax benefit from exercise of stock options			9			9	
Cash dividend declared, \$0.20 per share					(1,759)	(1,759)	
Foreign currency translation adjustment, net of tax of \$99				184		184	\$ 184
Net unrealized gain on restricted investments, net of tax of \$5				7		7	7
Net income					2,123	2,123	2,123
Comprehensive income							\$ 2,314
Balance at November 30, 2009	8,779,061	\$ 878	\$ 8,002	\$ (3,372)	\$ 65,780	\$ 71,288	

See accompanying notes to the consolidated financial statements

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

(UNAUDITED)

*Dollars in thousands*

	<b>Three Months Ended November 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 2,123	\$ 2,260
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	792	703
Amortization	417	244
Provision for losses on trade receivables	44	18
Stock based compensation	508	690
Realized loss (gain) on restricted investments	(1)	147
Excess tax benefit from stock based compensation	(9)	(6)
Increase (decrease) from changes in assets and liabilities		
Accounts receivable	1,114	2,246
Inventories	(1,200)	(1,871)
Prepaid expenses & other assets	(305)	(457)
Accounts payable	58	114
Accrued expenses	(1,969)	(3,492)
Accrued income taxes	488	1,176
Deferred compensation	18	(271)
Net cash provided by operating activities	2,078	1,501
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property, plant and equipment	(187)	(633)
Payments for acquisitions, net of cash acquired	(15,894)	
Withdrawals from restricted investments, net of contributions	(18)	47
Distributions from cost based investment		1
Payments for cash surrender value life insurance, including valuation (increase)/decrease	(57)	(34)
Net cash used in investing activities	(16,156)	(619)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Borrowings on long-term debt	10,492	6,040
Payments of principal on debt	(993)	(6,040)
Proceeds from exercise of common stock options	20	16
Excess tax benefit from stock based compensation	9	6
Net cash provided by financing activities	9,528	22
<b>INCREASE (DECREASE) IN CASH</b>	<b>(4,550)</b>	<b>904</b>
Effect of foreign exchange rates on cash	56	(501)
<b>CASH, BEGINNING OF PERIOD</b>	<b>11,643</b>	<b>3,917</b>
<b>CASH, END OF PERIOD</b>	<b>\$ 7,149</b>	<b>\$ 4,320</b>

**Non-cash Investing and Financing Activities**



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Property, plant & equipment additions included in accounts payable	\$	435	\$	72
Cash dividend declared	\$	1,759	\$	2,986
Notes payable to C.I.M. shareholders related to acquisition	\$	3,000	\$	

See accompanying notes to the consolidated financial statements

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

*In thousands, except share and per share amounts*

**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 (the Company, Chase, we, or us) filed audited financial statements which included all information and notes necessary for such presentation for the three years ended August 31, 2009 in conjunction with its 2009 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 November 30, 2009, the results of operations and cash flows for the interim periods ended November 30, 2009 and 2008, and changes in stockholders' equity for the interim period ended November 30, 2009.

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 November 30, 2009 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, 2009, which are contained in the Company's 2009 Annual Report on Form 10-K.

**Note 2 Recent Accounting Policies**

*Recently Adopted Accounting Pronouncements*

In June 2009, the Financial Accounting Standards Board's (FASB) approved the FASB Accounting Standards Codification (ASC or the Codification) as the single source of authoritative nongovernmental U.S. GAAP. The Codification does not change current U.S. GAAP, but is intended to simplify user access to all authoritative U.S. GAAP by providing all the authoritative literature related to a particular topic in one place. All existing accounting standard documents will be superseded and all other accounting literature not included in the Codification will be considered nonauthoritative. The Codification became effective for the Company in the quarter ending November 30, 2009 and the adoption did not have any effect on the Company's consolidated financial position, results of operations or cash flows.

Table of Contents**CHASE CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(UNAUDITED)***In thousands, except share and per share amounts*

In December 2007, the FASB issued ASC Topic 805, Business Combinations (ASC 805). ASC 805 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 noncontrolling interest in the acquiree; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; expenses acquisition related costs as incurred; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The Company adopted ASC 805 as of September 1, 2009, and its September 2009 acquisition of C.I.M. Industries was accounted for under this standard.

*Recently Issued Accounting Pronouncement*

In December 2008, the FASB issued ASC Topic 715, Compensation Retirement Benefits (ASC 715). ASC 715 provides additional guidance on an employer's disclosures about plan assets of a defined benefit pension or other post-retirement plan enabling users of the financial statements to assess the inputs and valuation techniques used to develop fair value measurements of plan assets at the annual reporting date. The guidance requires more detailed disclosures about the assets of a defined benefit pension or other post-retirement plan and is effective for fiscal years ending after December 15, 2009. Since the guidance only requires enhanced disclosures, the Company does not expect the adoption of ASC 715 to have an impact on its consolidated financial position and results of operations.

**Note 3 Inventories**

Inventories consist of the following as of November 30, 2009 and August 31, 2009:

	<b>November 30, 2009</b>		<b>August 31, 2009</b>	
Raw materials	\$	8,906	\$	7,973
Finished and in process		7,362		5,968
Total Inventories	\$	16,268	\$	13,941

**Note 4 Net Income Per Share**

In June 2008, the FASB issued guidance within ASC Topic 260, Earnings Per Share (ASC 260), to clarify that unvested share-based payment awards with a right to receive nonforfeitable dividends are participating securities. The standard provides guidance on how to allocate earnings

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to participating securities and compute earnings per share using the two-class method. The Company adopted the provisions of this standard on September 1, 2009. The presentation of earnings per share for previously reported periods has been adjusted due to retrospective adoption of this standard. The determination of earnings per share under the standard is as follows:

	Three Months Ended November 30,	
	2009	2008
<b>Basic Earnings per Share</b>		
Net income	\$ 2,123	\$ 2,260
Income allocated to participating securities	60	49
Net income available to common shareholders	\$ 2,063	\$ 2,211
Basic weighted averages shares outstanding	8,701,049	8,397,695
Net income per share - Basic	\$ 0.24	\$ 0.26
<b>Diluted Earnings per Share</b>		
Net income	\$ 2,123	\$ 2,260
Income allocated to participating securities	60	47
Net income available to common shareholders	\$ 2,063	\$ 2,213
Basic weighted averages shares outstanding	8,701,049	8,397,695
Additional dilutive common stock equivalents	78,475	257,893
Diluted weighted averages shares outstanding	8,779,524	8,655,588
Net income per share - Diluted	\$ 0.24	\$ 0.26

For the three months ended November 30, 2009 and 2008, stock options to purchase 250,000 shares of common stock were outstanding, but were not included in the calculation of diluted income per share in either period because the options' exercise prices were greater than the average market price of the common stock and thus their inclusion would be anti-dilutive.

Table of Contents**CHASE CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(UNAUDITED)***In thousands, except share and per share amounts***Note 5 Stock Based Compensation**

In August 2008, the Board of Directors of Chase Corporation approved a plan for issuing a performance and service based restricted stock grant of 50,657 shares to key members of management with an issue date of September 1, 2008 and a vesting date of August 31, 2011. Based on the fiscal year 2009 financial results coming in below the target, the grant was reduced by 15,944 shares of restricted stock subsequent to the end of fiscal year 2009 in accordance with the performance measurement criteria. The adjusted restricted stock award of 34,713 shares was finalized in the quarter ended November 30, 2009 and no further performance-based measurements apply to this award. Compensation expense is being recognized on a ratable basis over the vesting period.

In August 2009, the Board of Directors of Chase Corporation approved a plan for issuing a performance and service based restricted stock grant of 76,874 shares to key members of management with an issue date of September 1, 2009 and a vesting date of August 31, 2012. These shares are subject to a performance measurement based upon the results of fiscal year 2010 which will determine the final calculation of the number of shares that will be issued (which may be greater than or less than 76,874 shares). Compensation expense is being recognized on a ratable basis over the vesting period based on quarterly probability assessments.

**Note 6 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, coating and lining systems for use in liquid storage and containment applications, protective coatings for pipeline applications, and moisture protective coatings for electronics and printing services. Electronic Manufacturing Services include printed circuit board and electro-mechanical assembly services for the electronics industry. The Company evaluates segment performance based upon income before income taxes.

The following tables summarize information about the Company's reportable segments:

	<b>Three Months Ended November 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>Revenues from external customers</b>		
Specialized Manufacturing	\$ 24,265	\$ 26,708
Electronic Manufacturing Services	4,466	4,361
Total	\$ 28,731	\$ 31,069

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**Income before income taxes**

Specialized Manufacturing	\$	4,376	\$	4,923
Electronic Manufacturing Services		455		325
Total for reportable segments		4,831		5,248
Corporate and Common Costs		(1,462)		(1,661)
Total	\$	3,369	\$	3,587

The Company's products are sold world-wide. For the three month periods ended November 30, 2009 and 2008, sales from its operations located in the United Kingdom accounted for 8% and 11% of total Company revenues, respectively. No other foreign geographic area accounted for more than 10% of consolidated revenues.

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

*In thousands, except share and per share amounts*

	<b>November 30, 2009</b>	<b>August 31, 2009</b>
<b>Total assets</b>		
Specialized Manufacturing		