

CHASE CORP
Form 10-Q
July 17, 2006

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, 2006

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

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(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer Accelerated filer Non-accelerated filer

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, 2006 was 3,896,135.

**CHASE CORPORATION
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For the Quarter Ended May 31, 2006

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Part 1 FINANCIAL INFORMATION**Item 1 Unaudited Financial Statements**

CHASE CORPORATION
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

| | May 31, 2006 | August 31, 2005 |
|---|---------------|-----------------|
| ASSETS | | |
| Current Assets: | | |
| Cash | \$ 1,861,337 | \$ 847,001 |
| Accounts receivable, less allowance for doubtful accounts of \$564,872 and \$345,709 | 14,985,300 | 12,816,464 |
| Inventories | 16,590,694 | 13,889,339 |
| Prepaid expenses and other current assets | 746,956 | 1,389,981 |
| Deferred income taxes | 349,241 | 349,241 |
| Total current assets | 34,533,528 | 29,292,026 |
| Property, plant and equipment, net | 18,738,819 | 18,589,482 |
| Other Assets | | |
| Goodwill | 10,918,330 | 8,178,373 |
| Intangible assets, less accumulated amortization of \$1,905,293 and \$1,414,680 | 5,900,206 | 1,351,959 |
| Cash surrender value of life insurance | 3,653,215 | 4,907,590 |
| Investment in joint venture | 78,222 | 79,797 |
| Restricted investments | 1,361,828 | 1,325,457 |
| Other assets | 230,321 | 202,669 |
| | \$ 75,414,469 | \$ 63,927,353 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current Liabilities | | |
| Accounts payable | \$ 7,084,695 | \$ 5,492,470 |
| Accrued payroll and other compensation | 1,680,299 | 1,673,000 |
| Accrued expenses | 2,814,038 | 1,802,765 |
| Accrued pension expense - current | 982,000 | 354,531 |
| Current portion of long-term debt | 2,949,413 | 2,030,068 |
| Total current liabilities | 15,510,445 | 11,352,834 |
| Long-term debt, less current portion | 13,778,711 | 9,568,750 |
| Deferred compensation | 2,316,226 | 1,325,457 |
| Accrued pension expense | 1,803,990 | 2,343,397 |
| Deferred income taxes | | 496,980 |
| 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 10,000,000 shares; 3,896,135 in 2006 and 3,818,665 in 2005 issued and outstanding | | |
| | 389,613 | 381,866 |
| Additional paid-in capital | 1,299,279 | 180,435 |
| Accumulated other comprehensive loss | (433,675) | (489,043) |
| Retained earnings | 40,749,880 | 38,766,677 |
| Total stockholders equity | 42,005,097 | 38,839,935 |
| Total liabilities and stockholders equity | \$ 75,414,469 | \$ 63,927,353 |

See accompanying notes to the consolidated financial statements

CHASE CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

| | Three Months Ended May 31, 2006 | May 31, 2005 | Nine Months Ended May 31, 2006 | May 31, 2005 |
|--|------------------------------------|---------------------|-----------------------------------|---------------------|
| Revenue | | | | |
| Sales | \$ 27,592,791 | \$ 23,203,143 | \$ 76,356,384 | \$ 64,958,401 |
| Royalty and commissions | 420,806 | 347,747 | 847,074 | 846,581 |
| | 28,013,597 | 23,550,890 | 77,203,458 | 65,804,982 |
| Costs and Expenses | | | | |
| Cost of products and services sold | 20,220,960 | 17,223,563 | 55,684,131 | 48,282,633 |
| Selling, general and administrative expenses | 4,706,814 | 4,012,028 | 13,513,543 | 12,312,175 |
| Stock based compensation expense | 122,584 | | 1,642,657 | |
| Loss on impairment of goodwill | 457,000 | | 457,000 | |
| Deferred compensation expense, net | | | 814,034 | |
| Legal settlement | | 520,000 | | 520,000 |
| Operating income | 2,506,239 | 1,795,299 | 5,092,093 | 4,690,174 |
| Interest expense | (270,575) | (136,917) | (760,847) | (344,044) |
| Misc. (expense)/income | 48,090 | 43,287 | 137,551 | 120,173 |
| Income before income taxes and minority interest | 2,283,754 | 1,701,669 | 4,468,797 | 4,466,303 |
| Income taxes | 913,880 | 591,613 | 1,127,344 | 1,628,313 |
| Income before minority interest | 1,369,874 | 1,110,056 | 3,341,453 | 2,837,990 |
| Loss on impairment of unconsolidated joint venture | | (83,218) | | (83,218) |
| Income from unconsolidated joint venture | | | | 22,487 |
| Net income | \$ 1,369,874 | \$ 1,026,838 | \$ 3,341,453 | \$ 2,777,259 |
| Net income per common and common equivalent share | | | | |
| Basic | \$ 0.35 | \$ 0.27 | \$ 0.86 | \$ 0.74 |
| Diluted | \$ 0.34 | \$ 0.26 | \$ 0.84 | \$ 0.71 |
| Weighted average shares outstanding | | | | |
| Basic | 3,896,135 | 3,821,098 | 3,877,125 | 3,775,142 |
| Diluted | 3,984,997 | 3,918,003 | 3,967,063 | 3,918,862 |

See accompanying notes to the consolidated financial statements

CHASE CORPORATION
CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY
NINE MONTHS ENDED MAY 31, 2006
(UNAUDITED)

| | Common Stock Shares | Amount | Additional Paid-In Capital | Accumulated Other Comprehensive Income (loss) | Retained Earnings | Total Stockholders Equity | Comprehensive Income |
|--|------------------------|------------|----------------------------------|--|----------------------|---------------------------------|-------------------------|
| Balance at August 31, 2005 | 3,818,665 | \$ 381,866 | \$ 180,435 | \$ (489,043) | \$ 38,766,677 | \$ 38,839,935 | |
| Management stock grant | 98,520 | 9,852 | 1,417,703 | | | 1,427,555 | |
| Exercise of stock options | 23,339 | 2,334 | 242,726 | | | 245,060 | |
| Common stock received for payment of stock option exercise | (11,697) | (1,170) | (171,356) | | | (172,526) | |
| Common stock received to pay statutory minimum withholding taxes on common stock | (38,819) | (3,882) | (559,068) | | | (562,950) | |
| Board of Directors stock grant | 6,127 | 613 | 91,905 | | | 92,518 | |
| Tax benefit from exercise of stock options | | | 96,934 | | | 96,934 | |
| Cash dividend paid, \$0.35 per share | | | | | (1,358,250) | (1,358,250) | |
| Foreign currency translation adjustment | | | | 66,039 | | 66,039 | 66,039 |
| Net realized gain on marketable securities, net of tax | | | | (10,671) | | (10,671) | (10,671) |
| Net income | | | | | 3,341,453 | 3,341,453 | 3,341,453 |
| Comprehensive income | | | | | | | \$ 3,396,821 |
| Balance at May 31, 2006 | 3,896,135 | \$ 389,613 | \$ 1,299,279 | \$ (433,675) | \$ 40,749,880 | \$ 42,005,097 | |

See accompanying notes to the consolidated financial statements

CHASE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

| | Nine Months Ended | |
|--|---------------------|---------------------|
| | May 31, 2006 | May 31, 2005 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$ 3,341,453 | \$ 2,777,259 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Income/(loss) from unconsolidated joint venture | | (22,487) |
| Loss on impairment of unconsolidated joint venture | | 83,218 |
| (Gain)loss on sale of equipment | (600) | 24,458 |
| Loss on impairment of goodwill | 457,000 | |
| Gain on settlement of life insurance policies | (404,833) | |
| Depreciation | 1,607,461 | 1,554,222 |
| Amortization | 490,613 | 114,146 |
| Provision for losses on trade receivables | 201,596 | 49,895 |
| Stock issued for compensation | 1,520,073 | |
| Tax benefit from exercise of stock options | | 799,811 |
| Deferred taxes | (496,980) | |
| Increase (decrease) from changes in assets and liabilities | | |
| Accounts receivable | (1,655,012) | (1,306,021) |
| Inventories | (2,502,795) | (1,229,321) |
| Prepaid expenses & other assets | 660,637 | (19,165) |
| Accounts payable | 683,272 | 1,073,317 |
| Accrued expenses | 789,175 | (318,447) |
| Income taxes payable | (42,064) | |
| Deferred compensation | 990,769 | 89,849 |
| Net cash provided by operating activities | 5,639,765 | 3,670,734 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property, plant and equipment | (1,502,012) | (2,541,317) |
| Payments for acquisitions, net of cash acquired | (8,169,410) | (693,000) |
| Contingent purchase price for acquisition | | (106,886) |
| Proceeds from sale of equipment | 600 | 7,500 |
| Withdrawals from/(investment in) restricted investments | (36,371) | (3,000) |
| Distributions from investment in minority interests | 1,575 | 123,419 |
| Proceeds from settlement of CSV life insurance policies | 1,787,540 | |
| Increase in net cash surrender value of life insurance | (128,332) | (386,968) |
| Net cash used in investing activities | (8,046,410) | (3,600,252) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Borrowings on long-term debt | 27,578,027 | 20,790,131 |
| Payments of principal on debt | (22,483,854) | (19,226,378) |
| Payments of statutory minimum taxes on stock grant and stock options | (562,950) | (1,937,511) |
| Dividends paid | (1,358,250) | (1,313,675) |
| Proceeds from exercise of common stock options | 72,534 | 290,042 |
| Tax benefit from exercise of stock options | 96,934 | |
| Net cash provided by (used in) financing activities | 3,342,441 | (1,397,391) |
| INCREASE (DECREASE) IN CASH | 935,796 | (1,326,909) |
| Effect of foreign exchange rates on cash | 78,540 | |
| CASH, BEGINNING OF PERIOD | 847,001 | 1,405,812 |
| CASH, END OF PERIOD | \$ 1,861,337 | \$ 78,903 |

See note 13 for supplemental cash flow information including non-cash financing and investing activities

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, 2005 in conjunction with the Company's 2005 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, 2006, the results of operations and cash flows for the interim periods ended May 31, 2006 and 2005, and changes in stockholders' equity for the interim period ended May 31, 2006.

The financial statements include the accounts of the Company and its wholly-owned subsidiaries. Investments in unconsolidated companies which are at least 20% owned are carried under the equity method since acquisition or investment. All intercompany transactions and balances have been eliminated in consolidation. The Company uses the U.S. dollar as the functional currency for financial reporting. Foreign currency translation gain/ (loss) is determined using current exchange rates for monetary items and historical exchange rates for other balance sheet items.

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, 2006 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, 2005, which are contained in the Company's 2005 Annual Report on Form 10-K.

Note 2 Inventories

Inventories consist of the following as of May 31, 2006 and August 31, 2005:

| | May 31, 2006 | August 31, 2005 |
|-------------------------|---------------------|------------------------|
| Raw materials | \$ 8,428,961 | \$ 7,193,428 |
| Finished and in process | 8,161,733 | 6,695,911 |
| Total Inventories | \$ 16,590,694 | \$ 13,889,339 |

CHASE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 3 Net Income Per Share

Net income per share is calculated as follows:

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|--------------|-------------------|--------------|
| | May 31, 2006 | May 31, 2005 | May 31, 2006 | May 31, 2005 |
| Net income | \$ 1,369,874 | \$ 1,026,838 | \$ 3,341,453 | \$ 2,777,259 |
| Weighted average common shares outstanding | 3,896,135 | 3,821,098 | 3,877,125 | 3,775,142 |
| Additional dilutive common stock equivalents | 88,862 | 96,905 | 89,938 | 143,720 |
| Diluted shares outstanding | 3,984,997 | 3,918,003 | 3,967,063 | 3,918,862 |
| Net income per share - Basic | \$ 0.35 | \$ 0.27 | \$ 0.86 | \$ 0.74 |
| Net income per share - Diluted | \$ 0.34 | \$ 0.26 | \$ 0.84 | \$ 0.71 |

Note 4 Stock Based Compensation

The Company grants stock options to its employees and directors. Such grants are for a fixed number of shares with an exercise price equal to the fair value of the shares at the date of the grant. In December 2004, the Financial Accounting Standards Board (FASB) issued Statement 123 (revised 2004), Share-Based Payment (SFAS 123(R)), which is effective for the Company as of September 1, 2005. The Company has elected the modified prospective approach, as allowed under SFAS 123(R). The adoption of this statement had no impact on the Company's balance sheet or results of operations since all outstanding stock options were fully vested prior to the date the Company adopted SFAS 123(R). Beginning September 1, 2005 the Company is accounting for all share based grants (including stock option issuances) under the provisions of SFAS 123(R).

At a meeting of the Directors of Chase Corporation held on October 17, 2005, the Board authorized a grant of 98,250 shares of common stock to key employees for the achievement of long term results in fiscal years 2002 through 2005. The Compensation and Management Development Committee recommended the award in conjunction with advice from an independent compensation consultant. The grant of common stock was made from the 2001 Senior Management Stock plan. The fair value of the award (based on the market price of the Company's stock on the date of grant) was \$1,427,555 and was recorded as an expense in the quarter ending November 30, 2005.

On November 21, 2005, the Company's 2005 Incentive Plan (the Plan) was approved and adopted by the Board of Directors, subject to the approval of the shareholders of the Company. The Company's shareholders approved the plan on February 3, 2006. The Plan permits the grant of stock options, deferred stock, stock payments or other awards to employees, participating officers, directors, consultants and advisors that are linked directly to increases in shareholder value. The aggregate number of shares available under the Plan is 500,000. Additional shares may become available in connection with share splits, share dividends or similar transactions.

At a meeting of the Board of Directors of Chase Corporation held on February 3, 2006, the Compensation and Management Development Committee authorized a grant of 6,127 shares of common stock to members of the Board. These share grants represent compensation for service on the Company's Board of Directors for fiscal years 2002 through 2005. The Compensation and Management Development Committee recommended the award in conjunction with advice from an independent compensation consultant.

CHASE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

The number of shares granted to each Director was based on his or her time served on the Board of Directors. The grant of common stock was made from the Chase Corporation 2005 Incentive Plan. The fair value of the award (based on the market price of the Company's stock on the date of grant) was \$92,518 and was recorded as an expense in the quarter ending February 28, 2006. Additionally, the Compensation and Management Development Committee approved a stock grant of 8,361 shares of common stock to members of the Board of Directors for service for the period February 2006 through January 2007. The shares will be granted at the conclusion of this service period. The Company is amortizing this expense over the twelve month period beginning February 2006 to January 2007.

On February 3, 2006 the Board of Directors of Chase Corporation approved a performance and service based stock grant of approximately 41,317 shares to key members of management based on the fiscal year 2006 results. These shares will vest over the period February 2006 through August 31, 2008. The actual shares will not be issued until the final fiscal year 2006 results are determined. Compensation expense will be taken over the vesting period on a ratable basis.

As of May 31, 2006, the unamortized expense related to the stock based compensation for key members of management and the Board of Directors as described above, is \$628,000.

The following table illustrates the pro forma effect on net income and net income per share if the Company had applied the fair value recognition provisions of SFAS 123 and SFAS 148 to stock-based employee compensation for periods prior to the Company's adoption of SFAS 123(R):

| | Three Months Ended May 31, 2005 | Nine Months Ended May 31, 2005 |
|---|--|---|
| Net income, as reported | \$ 1,026,838 | \$ 2,777,259 |
| Less: Total stock-based compensation costs determined under the fair value based method, net of tax | (642,326 |) (1,029,554) |
| Net income, pro forma | \$ 384,512 | \$ 1,747,705 |
| Net income per share - as reported | | |
| Basic | \$ 0.27 | \$ 0.74 |
| Diluted | \$ 0.26 | \$ 0.71 |
| Net income per share - pro forma | | |
| Basic | \$ 0.10 | \$ 0.46 |
| Diluted | \$ 0.10 | \$ 0.45 |

Stock option activity under all of the Company's stock plans since August 31, 2005 is summarized as follows:

| | Number Outstanding | Weighted Average Exercise Price |
|--|-------------------------------|--|
| Options exercisable at August 31, 2005 | 473,892 | \$ 10.88 |
| Granted | | |
| Exercised | (23,339) | 10.50 |
| Forfeited or cancelled | | |
| Options exercisable at May 31, 2006 | 450,553 | \$ 10.90 |

CHASE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

The following table summarizes information about stock options outstanding at May 31, 2006:

| Range of Exercise Prices | Options Outstanding | Weighted Avg. Remaining Contractual Life | Weighted Average Exercise Price |
|--------------------------|-----------------------|--|---------------------------------------|
| | Number Outstanding | | |
| \$10.50-11.55 | 440,553 | 5.3 years | \$ 10.79 |
| \$15.93 | 10,000 | 5.0 years | 15.93 |
| | 450,553 | 5.2 years | \$ 10.90 |

All stock options were granted with an exercise price equal to or greater than the market price of the underlying stock on the date of the grant.

There were no option grants during the first nine months of fiscal year 2006. The fair value of each option granted in fiscal year 2005 was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions for fiscal year 2005. The expected volatility for fiscal year 2005 was based on the historical volatility of the Company's stock.

| | 2005 |
|-------------------------|---------|
| Expected dividend yield | 3.0% |
| Expected life | 5 years |
| Expected volatility | 125.0% |
| Risk-free interest rate | 4.0% |

For the nine months ended May 31, 2006, the amount of cash received by the Company from the exercise of stock options (exclusive of stock received for payment of stock option exercises) was \$73,000 with a total tax benefit realized of \$97,000. Also, in accordance with SFAS No. 123(R), the proceeds received and related tax benefits have been reported as net cash provided by financing activities.

Note 5 Segment Information

The Company operates in two business segments, a Specialized Manufacturing segment, consisting of protective coatings and tapes, and an Electronic Manufacturing Services segment. Specialized Manufacturing products include insulating and conducting materials for wire and cable manufacturers, 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 and minority interest.

CHASE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

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

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|----------------|-------------------|----------------|
| | May 31, 2006 | May 31, 2005 | May 31, 2006 | May 31, 2005 |
| Revenues from external customers | | | | |
| Specialized Manufacturing | \$ 24,666,852 | \$ 20,754,820 | \$ 68,071,219 | \$ 56,956,811 |
| Electronic Manufacturing Services | 3,346,745 | 2,796,070 | 9,132,239 | 8,848,171 |
| Total | \$ 28,013,597 | \$ 23,550,890 | \$ 77,203,458 | \$ 65,804,982 |
| Income before income taxes and minority interest | | | | |
| Specialized Manufacturing | \$ 3,293,855 (d) | \$ 3,065,126 | \$ 9,746,534 (d) | \$ 7,688,290 |
| Electronic Manufacturing Services | 257,344 | 167,580 | 670,167 | 794,532 |
| Total for reportable segments | 3,551,199 | 3,232,706 | 10,416,701 | 8,482,822 |
| Corporate and Common Costs | (1,267,445)(a) | (1,531,037)(c) | (5,947,904)(b) | (4,016,519)(c) |
| Total | \$ 2,283,754 | \$ 1,701,669 | \$ 4,468,797 | \$ 4,466,303 |

(a) Includes stock based compensation expense of \$122,584 for the three months ended May 31, 2006.

(b) Includes deferred compensation expense, net, of \$814,034 and stock based compensation expense of \$1,642,657 for the nine months ended May 31, 2006. (See note 4)

(c) Includes legal settlement of \$520,000.

(d) Includes loss on impairment of goodwill of \$457,000. (See note 6)

| | May 31, 2006 | August 31, 2005 |
|-----------------------------------|---------------|-----------------|
| Total assets | | |
| Specialized Manufacturing | \$ 51,684,463 | \$ 40,003,408 |
| Electronic Manufacturing Services | 12,250,387 | 11,187,005 |
| Total for reportable segments | 63,934,850 | 51,190,413 |
| Corporate and Common Assets | 11,479,619 | 12,736,940 |
| Total | \$ 75,414,469 | \$ 63,927,353 |

Note 6 Goodwill and Other Intangibles

The Company has two reporting units with goodwill, the Specialized Manufacturing unit and the Electronic Manufacturing Services unit. These reporting units are also reportable segments (see Note 5). The purchase price allocation for the Company's acquisition of Concoat Holdings Limited was completed during the quarter ended May 31, 2006 (see Note 7).

CHASE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

The changes in the carrying value of goodwill, by reporting unit, are as follows:

| | Specialized Manufacturing | Electronic Manufacturing Services | Consolidated |
|-----------------------------|--------------------------------------|--|---------------------|
| Balance at August 31, 2005 | \$ 2,179,485 | \$ 5,998,888 | \$ 8,178,373 |
| Acquisition of Concoat Ltd. | 3,196,957 | | 3,196,957 |
| Loss on impairment | (457,000) |) | (457,000) |
| Balance at May 31, 2006 | \$ 4,919,442 | \$ 5,998,888 | \$ 10,918,330 |

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.

In the quarter ended May 31, 2006 based on the year to date operating results and the completion of the 2007 budget, management determined that the carrying value of goodwill associated with the Company's Northeast Quality Products (NEQP) division may not be recoverable. Accordingly, the Company completed a goodwill impairment test on this reporting unit. Based on the present value of future cash flows utilizing projected results for the balance of fiscal year 2006 and projections for future years based on the fiscal year 2007 budgeting process, the impairment test on this reporting unit yielded results that would not support the current book value of the goodwill associated with this division. As a result, the Company concluded the carrying amount of goodwill for the NEQP division was not fully recoverable and an impairment charge of \$457,000 was recorded as of May 31, 2006. Goodwill related to NEQP, having a pre-impairment book value of \$1,117,000, was written down to its fair value of \$660,000 in accordance with generally accepted accounting principles (GAAP).

Intangible assets subject to amortization consist of the following at May 31, 2006 and August 31, 2005:

| | Weighted-Average Amortization Period | Gross Carrying Value | Accumulated Amortization | Net Carrying Value |
|----------------------------------|---|---------------------------------|-------------------------------------|-------------------------------|
| May 31, 2006 | | | | |
| Patents and agreements | 13.6 years | 2,021,244 | 1,583,109 | 438,135 |
| Formulas | 9.2 years | 1,031,280 | 88,842 | 942,438 |
| Trade names | 4.1 years | 180,000 | 43,612 | 136,388 |
| Customer lists and relationships | 10.9 years | 4,552,500 | 189,730 | 4,362,770 |
| August 31, 2005 | | | | |
| Patents and agreements | 14.4 years | 1,841,244 | 1,324,735 | 516,509 |
| Formulas | 15.0 years | 281,280 | 7,813 | 273,467 |
| Trade names | 3.0 years | 80,000 | 11,111 | 68,889 |
| Customer lists and relationships | 10.0 years | 552,500 | 71,021 | 481,479 |

In addition to the intangible assets summarized above, the Company also has corporate trademarks with an indefinite life and a carrying value of \$20,475 and \$11,615 as of May 31, 2006 and August 31, 2005, respectively.

CHASE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Amortization expense related to intangible assets for the nine months ended May 31, 2006 and 2005 was \$490,613 and \$114,146, respectively. Estimated amortization expense for the remainder of fiscal year 2006 and for each of the five succeeding fiscal years is as follows:

| Years ending August 31, | |
|-------------------------------|--------------|
| 2006 (remaining three months) | \$ 185,487 |
| 2007 | 741,948 |
| 2008 | 730,837 |
| 2009 | 715,284 |
| 2010 | 715,284 |
| 2011 | 666,284 |
| | \$ 3,755,124 |

Note 7 Acquisitions

Concoat Holdings Limited

In October 2005, the Company acquired all of the capital stock of Concoat Holdings Limited (Concoat), based in Camberley, Surrey, England for approximately \$8,616,000 (using foreign exchange rates at the time of the transaction, inclusive of acquisition related costs and adjustments and holdbacks, net of cash acquired). The adjustments and holdbacks include balance sheet retentions, property retentions, and retentions for warranty and indemnifications and tax retentions. The outstanding balances of the holdbacks and retentions total approximately \$442,000 and have been recorded in accrued expenses as of May 31, 2006.

The Concoat business had been an agent, distributor and manufacturing licensee of the Company's Humiseal® product line for nearly 25 years. Concoat will be incorporated into the Company's Specialized Manufacturing segment as a manufacturer of the Humiseal product line as well as providing valuable research and development expertise to further enhance the Company's conformal coatings business and serve as a foundation for the Company in Europe.

The effective date for this acquisition was October 14, 2005 and the results of Concoat's operations have been included in the Company's financial statements since then. The purchase price was primarily funded through a loan from Citizens Bank of Massachusetts with the balance funded through operating cash and borrowings under the Company's credit facility (See Note 9).

The allocation of the purchase price, including direct costs of the acquisition was based on the fair values of the acquired assets and liabilities assumed as follows:

| | |
|---------------------------------------|--------------|
| Current assets, net of cash acquired | \$ 1,045,214 |
| Property and equipment | 254,786 |
| Intangible assets | 5,030,000 |
| Goodwill | 3,196,957 |
| Accounts payable and accrued expenses | (911,345) |
| Total purchase price | \$ 8,615,612 |

CHASE CORPORATION
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All assets, including goodwill, acquired as part of Concoat are included in the Specialized Manufacturing segment. Identifiable intangible assets purchased with this transaction are as follows:

| Intangible Asset | Amount | Useful life |
|----------------------------------|---------------|--------------------|
| Patents and agreements | \$ 180,000 | 5 years |
| Formulas | 750,000 | 7 years |
| Trade names | 100,000 | 5 years |
| Customer lists and relationships | 4,000,000 | 11 years |
| Total Concoat intangible assets | \$ 5,030,000 | |

Effective May 2006, Concoat was renamed Humiseal Europe.

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 materially 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 Chase products. The plaintiff in the case issued discovery requests to Chase in August 2005, to which Chase timely responded in September 2005. The case was inactive with respect to Chase until recently, when the claim against Chase placed on the active docket. The Court has set a trial date of April 30, 2007. The Company had been a defendant in another personal injury lawsuit in Mississippi alleging injury from exposure to asbestos contained in Chase products. However, the Company was dismissed without prejudice from that lawsuit in June 2005.

Note 9 Long Term Debt

The Company borrowed \$7,800,000 from Citizens Bank of Massachusetts in October 2005 in order to fund the acquisition of Concoat. This borrowing involved an unsecured, five year term note with interest payments due monthly and principal payments due quarterly. Interest is calculated at the applicable LIBOR rate plus a margin of 1.5% per annum. At May 31, 2006, the effective interest rate on this note was 6.53%. Interest payments are due on the first day of each month. In addition to monthly interest payments, Chase Corporation must make quarterly payments of principal in the amount of \$390,000 on each quarterly anniversary of the first interest payment date during the term of the note. Prepayment of the note is allowed at any time during the term of the loan.

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Note 10 Pensions and Other Post Retirement Benefits

The components of net periodic benefit cost for the three and nine month periods ended May 31, 2006 and 2005, respectively, are as follows:

| | Three Months Ended | | Nine Months Ended | |
|------------------------------------|--------------------|--------------|-------------------|--------------|
| | May 31, 2006 | May 31, 2005 | May 31, 2006 | May 31, 2005 |
| Service cost | \$ 118,263 | \$ 85,293 | \$ 354,789 | \$ 255,881 |
| Interest cost | 121,661 | 125,345 | 364,983 | 376,033 |
| Expected return on plan assets | (85,475) | (102,586) | (256,425) | (307,760) |
| Amortization of prior service cost | 21,996 | 21,995 | 65,988 | 65,987 |
| Amortization of unrecognized loss | 35,861 | 16,207 | 107,583 | 48,621 |
| Actuarial settlement adjustment | | 50,000 | | 50,000 |
| Net periodic benefit cost | \$ 212,306 | \$ 196,254 | \$ 636,918 | \$ 488,762 |

As of May 31, 2006 the Company has contributed \$546,000 in the current fiscal year to fund its obligations under the pension plan. This amount equals the total planned contributions for fiscal year 2006. The Company plans to contribute an additional \$982,000 to fund pension plan obligations in the first quarter of fiscal year 2007.

Note 11 Deferred Compensation

During the nine months ended May 31, 2006, the Company recorded a gain of \$403,000 realized on the surrender of two split dollar life insurance policies per the terms of a November 2005 agreement between the Company and a former officer's widow. In surrendering the policies, the Company received approximately \$1,790,000 in cash in the quarter ended February 28, 2006 and has agreed to pay an annuity payment in the amount of \$37,500 per quarter beginning October 31, 2005. The present value of the expected quarterly payments resulted in a deferred compensation charge of \$1,217,000 which was recorded as an expense by the Company in the first quarter of fiscal 2006. Accordingly, the net expense of the surrender of the two life insurance policies was \$814,000.

Note 12 Income Taxes

In November 2005, the Company concluded that it was more likely than not that the deferred tax asset in the form of a capital loss carryforward of \$1.7 million would be realized prior to its expiration in 2008 as a result of the anticipated sale of real property currently owned by the Company. Accordingly, the valuation allowance previously recorded against this deferred tax asset was reversed resulting in a tax benefit of \$669,000. The gain on the sale of this property will be recorded for both financial reporting and tax purposes in the period in which title is transferred from the Company to the buyer of the property. The anticipated effective tax rate in fiscal year 2006 is 40% with a net effective rate after reversal of the valuation allowance of approximately 31% compared to 37% in fiscal year 2005.

CHASE CORPORATION
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Note 13 Supplemental Cash Flow Data

Supplemental cash flow information for the nine months ended May 31, 2006 and 2005, respectively, are as follows:

| | Nine Months Ended May 31, 2006 | May 31, 2005 |
|---|---|---------------------|
| Accrued contingent payments related to acquisition of Concoat | \$ 446,202 | \$ |
| Common stock received for payment of stock option exercises | | 774,186 |

Note 14 Recent Accounting Pronouncements

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20 and SFAS No. 3, which requires retrospective application to prior periods financial statements of changes in accounting principle, unless it is impracticable to do so. When it is impracticable to determine the effect on all prior periods, this statement requires that the new principle be applied to the earliest period practicable. This statement carries forward without changing the guidance in APB Opinion No. 20 for reporting the correction of an error in previously issued financial statements and a change in accounting estimates. SFAS No. 154 shall be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. However, early adoption is permitted. The adoption of SFAS No. 154 will not have a material impact on the Company's financial statements.

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, 2005.

Recent Developments

On October 14, 2005, Chase Corporation acquired all of the capital stock of Concoat Holdings Limited and its subsidiaries of Camberley, Surrey, England for approximately US \$8,668,000 (using foreign exchange rates at the time of the transaction, inclusive of acquisition related costs and adjustments and holdbacks, net of cash acquired). The adjustments and holdbacks include balance sheet retentions, property retentions, retentions for warranty and indemnifications and tax retentions. The value of the holdbacks and retentions totaled approximately US \$1,352,000. The balance sheet retentions relate to a 90 day review of the aged balances of the trade receivables and inventories, tax retentions relate to possible tax liabilities that may be incurred after the closing date, property retentions concern repairs and/or possible structural issues related to a Concoat Holdings Limited facility and the warranty/indemnification retention is intended to cover estimated claims and/or liabilities related to Concoat Holdings Limited products. Claims related to the retentions must be made on or before 18 months from the acquisition date. Monies not used for retention claims must be paid in full to the sellers' representatives not more than 10 calendar days following 18 months from the acquisition date. The transaction did not include the equipment portion of the Concoat business known as Concoat Systems which was spun off prior to Chase's acquisition. The assets acquired by Chase Corporation include inventories, trade receivables, cash, and other current assets.

During the nine months ended May 31, 2006, the Company paid approximately \$910,000 to the sellers' representatives as payment of the holdbacks related to the balance sheet retentions (as discussed above) per the terms of the agreement.

Concoat had been an agent, distributor and manufacturing licensee of Chase Corporation's HumiSeal product line for nearly 25 years. The Company believes that this acquisition will strengthen the HumiSeal/Concoat conformal coatings business and serve as a foundation for Chase Corporation in Europe.

Overview

Overall performance in the first nine months of fiscal year 2006 continues to show significant revenue and profit increases as a result of strategic acquisitions, efficiency improvements and keen attention to the manufacturing cost structure of the business. Revenue for the Specialized Manufacturing segment achieved significant increases over the same period last year, providing a solid basis for continued optimism as the Company enters its final quarter of fiscal 2006. Since a substantial portion of the Company's raw materials are petroleum based, the rising price of oil translates directly to increased raw material costs. Profitability continues to be impacted by these raw material cost increases; however, price increases introduced to customers will partially alleviate the increased costs going forward. During the remainder of the fiscal year, management expects additional pressure on profit margins as raw material and energy cost increases outpace the Company's ability to raise prices putting more pressure on productivity improvements. Continued strong revenue growth will assist in the Company's ability to leverage its fixed costs.

The Chase Electronic Manufacturing Services segment demonstrated improvement in both revenues and profitability in the quarter, reflecting the Company's continued focus on maximizing new business

opportunities coupled with broadening existing customer projects and offerings. With the move to the new Winchester plant adding growth capacity and capabilities, Chase EMS has positioned itself to fulfill existing contracts and continue to focus on generating new opportunities which will have a positive impact on both top and bottom line growth. Additionally, new customers brought on board in the first half of the year began to generate revenue for this division in the latter part of the Company's second quarter and contributed solid performance in the third quarter ended May 31, 2006.

The financial impact of implementing the internal control provisions of the Sarbanes-Oxley Act imposes significant costs on small businesses such as Chase. These costs will be greatest during the implementation phase of the project, which will last through August 2007. Ongoing compliance costs beyond the initial implementation will lessen; however, they will still be present in fiscal years beyond 2007. Under current SEC regulations, Chase must comply with the internal control provisions of Section 404 of the Sarbanes-Oxley Act as of August 31, 2007, although the SEC has indicated its intention to postpone the compliance deadline for a further year.

The Company continues to identify and pursue efficiency enhancements to its manufacturing operations as a means of better positioning its businesses and maximizing resources.

The Company has two reportable segments summarized below:

| Segment | Divisions | Manufacturing Focus and Products |
|---|---|--|
| Specialized Manufacturing Segment | <ul style="list-style-type: none"> • Chase Coating & Laminating • Chase Specialty Coatings • Northeast Quality Products, Inc. (NEQP) | Produces protective coatings and tape products including insulating and conducting materials for wire and cable manufacturers, protective coatings for pipeline applications and moisture protective coatings for electronics and printing services, bridge deck waterproofing systems, reflective cracking and waterproofing membranes, as well as high performance polymeric asphalt additives and custom pressure sensitive labels. |
| Electronic Manufacturing Services Segment | <ul style="list-style-type: none"> • Chase EMS | 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 Income Taxes and Minority Interest | % of Revenue | |
|--|-----------|--|-----------------|------|
| Three Months Ended May 31, 2006 | | | | |
| Specialized Manufacturing | \$ 24,667 | \$ 3,294 | 13 | % |
| Electronic Manufacturing Services | 3,347 | 257 | 8 | |
| | \$ 28,014 | 3,551 | 13 | |
| Less corporate and common costs | | (1,267) | |)(a) |
| Income before income taxes and minority interest | | \$ 2,284 | | |
| Three Months Ended May 31, 2005 | | | | |
| Specialized Manufacturing | \$ 20,755 | \$ 3,065 | 15 | % |
| Electronic Manufacturing Services | 2,796 | 168 | 6 | |
| | \$ 23,551 | 3,233 | 14 | |
| Less corporate and common costs | | (1,531) | |)(b) |
| Income before income taxes and minority interest | | \$ 1,702 | | |

(a) Includes stock based compensation expense of \$122,584 for the three months ended May 31, 2006

(b) Includes legal settlement of \$520,000

Total Revenues

Total revenues increased \$4,463,000 or 19% to \$28,014,000 for the quarter ended May 31, 2006 compared to revenues of \$23,551,000 for the same period in fiscal 2005. Total revenues increased \$11,398,000 or 17% to \$77,203,000 for the fiscal year to date period ended May 31, 2006 compared to \$65,805,000 for the same period in fiscal 2005. The increase in revenues for both the quarter and year to date periods from the Company's Specialized Manufacturing segment is primarily due to the following: (a) the acquisitions of the E-Poxy and Concoat businesses, offset by a slight revenue decrease in roadway additives, contributed additional revenues of \$1,162,000 and \$3,623,000 for the quarter and nine months ended May 31, 2006, respectively; and (b) increased sales of the Coating & Laminating division's Chase BLH2OCK® product and wire and cable product lines due to oil and gas companies increasing maintenance budgets, increased industrial power and power transmission projects and significant roadway infrastructure enhancement projects contributed additional revenue of \$2,724,000 and \$6,379,000 for the quarter and nine months ended May 31, 2006, respectively.

The increased revenues in Specialized Manufacturing were complemented by a significant increase in revenues from the Company's Electronic Manufacturing Services segment during the quarter. Revenues from the EMS segment increased \$551,000 or 20% to \$3,347,000 for the quarter ended May 31, 2006 compared to \$2,796,000 in the same period in fiscal 2005. This increase was primarily due to new customer order activity combined with existing customers taking delivery of products previously included as part of the Company's backlog. Revenues from the EMS segment for the fiscal year to date period ended May 31, 2006 increased \$284,000 or 3% to \$9,132,000 compared to revenues of \$8,848,000 for the same period in fiscal 2005 due to new customer orders and increased demand from existing customers.

Royalty revenues in the Specialized Manufacturing segment increased \$73,000 or 21% for the quarter ended May 31, 2006 compared to the same period in fiscal 2005. Total royalties remained consistent for the fiscal year to date period ended May 31, 2006 compared to the same period in fiscal 2005. The increase for the quarter is primarily attributable to increased royalty rates to existing customers, offset by the loss of royalty revenue primarily attributable to the Company's acquisition of Concoat, which was previously a source of royalty income prior to its acquisition by the Company.

Cost of Products and Services Sold

Cost of products and services sold increased \$2,997,000 or 17% to \$20,221,000 in the quarter ended May 31, 2006 compared to \$17,224,000 in the same period in fiscal 2005. Cost of products and services sold increased \$7,401,000 or 15% to \$55,684,000 for the fiscal year to date period ended May 31, 2006 compared to \$48,283,000 in the same period in fiscal 2005. As a percentage of revenues, cost of products and services sold decreased to 72% in the current quarter and fiscal year to date periods compared to 73% in the same periods in fiscal 2005.

Cost of products and services sold in the Company's Specialized Manufacturing segment were \$17,389,000 in the quarter ended May 31, 2006 compared to \$14,810,000 in the same period in fiscal 2005. Cost of products and services sold in the Company's Specialized Manufacturing segment for the fiscal year to date period ended May 31, 2006 were \$47,978,000 compared to \$40,838,000 in the same period in fiscal 2005. The majority of the dollar value increase was a result of increased revenues during the first nine months of fiscal 2006. As a percentage of revenues, cost of products and services sold in the Company's Specialized Manufacturing segment remained stable at 70% in the quarter ended May 31, 2006, compared to the same period in fiscal 2005. As a percentage of revenues, cost of products and services sold in the Company's Specialized Manufacturing segment decreased to 70% in the nine months ended May 31, 2006, compared to 71% in the same period in fiscal 2005.

Management's continued focus on improving manufacturing efficiencies as well as continued emphasis on strategic purchases helped offset raw material cost increases on some of the Company's key product lines. Continued strong revenue growth in the Specialized Manufacturing segment will continue to assist the Company's ability to leverage its fixed costs.

Cost of products and services sold in the Company's Electronic Manufacturing Services segment were \$2,832,000 in the quarter ended May 31, 2006 compared to \$2,414,000 in the same period in fiscal 2005. Cost of products and services sold in the Company's Electronic Manufacturing Services segment for the fiscal year to date period ended May 31, 2006 were \$7,706,000 compared to \$7,445,000 in the same period in fiscal 2005. The dollar value increase in cost of products and services sold is primarily attributable to increased revenues for the first nine months of fiscal 2006 coupled with an increase in fixed manufacturing costs attributable to the new plant. As a percentage of revenues, cost of products and services sold in this segment decreased to 85% for the quarter ended May 31, 2006 compared to 86% for the same period in fiscal 2005. As a percentage of revenues, cost of products and services sold in the Company's Electronic Manufacturing Services segment remained steady at 84% for the fiscal year to date period compared to the same period in fiscal 2005.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$695,000 or 17% to \$4,707,000 in the quarter ended May 31, 2006 compared to \$4,012,000 in the same period in fiscal 2005. Selling, general and administrative expenses increased \$1,201,000 or 10% to \$13,513,000 for the fiscal year to date period ended May 31, 2006 compared to \$12,312,000 in the same period in fiscal 2005. As a percent of revenues, selling, general and administrative expenses were 17% and 18% for the quarter ended and fiscal year to date period ended May 31, 2006, respectively, compared to 17% and 19% in the same periods in fiscal 2005. The dollar increase in both the fiscal 2006 quarter and fiscal year to date relates primarily to additional selling, general and administrative expenses related to the Company's acquisition of Concoat; increased salary and benefit costs; health care costs; information technology and telecommunication costs; and higher public company expenses, including accounting and legal fees. The percentage decrease during the first nine months of fiscal 2006 compared to the same periods in fiscal 2005 can be attributed to the Company's increased revenue base and ongoing efforts to leverage its fixed costs wherever possible.

Stock Based Compensation

The Company recorded non-cash stock based compensation expense in the amount of \$1,643,000 in the nine months ended May 31, 2006. This charge relates to the issuance of 98,250 shares of Company stock to certain key members of management and 6,100 shares to members of the Board of Directors in recognition of services performed during fiscal years 2002 through 2005. Additionally, the Company is ratably recognizing expense for additional stock based compensation to be granted to members of the Board of Directors and key members of management. The Board of Directors stock based compensation is for services from February 2006 through January 2007. Stock based compensation for key members of management will be based on the final fiscal year 2006 results and will vest over the period from February 2006 through August 31, 2008.

Deferred Compensation Expense

During the first quarter of fiscal 2006, the Company recorded a gain of \$403,000 realized on the surrender of two split dollar life insurance policies in accordance with the terms of a November 2005 agreement between the Company and a former officer's widow. In surrendering the policies, the Company received approximately \$1,790,000 in cash in the quarter ended February 28, 2006 and has agreed to pay the former officer's widow an annuity payment in the amount of \$37,500 per quarter beginning October 31, 2005. The present value of the expected quarterly payments resulted in a deferred compensation charge of \$1,217,000, which was recorded as an expense by the Company in the first quarter of fiscal 2006. Accordingly, the net expense of the surrender of the two life insurance policies was \$814,000.

The \$1,790,000 in additional cash provided the Company with increased flexibility in building its core businesses and looking for strategic acquisitions. Furthermore, by surrendering these two split dollar life insurance policies, the Company can cease making premium payments on these policies which are not currently tax deductible and will now receive a tax deduction on the quarterly payments as they are made.

Loss on Impairment of Goodwill

In the current quarter, the Company concluded the carrying amount of goodwill for the Northeast Quality Products (NEQP) division was not fully recoverable and an impairment charge of \$457,000 was recorded as of May 31, 2006. Goodwill related to NEQP, having a pre-impairment book value of \$1,117,000, was written down to its fair value of \$660,000.

Interest Expense

Interest expense increased \$134,000 or 98% to \$271,000 in the quarter ended May 31, 2006 compared to \$137,000 in the same period in fiscal 2005. Interest expense increased \$417,000 or 121% to \$761,000 for the fiscal year to date period ended May 31, 2006 compared to \$344,000 in the same period in fiscal 2005. The increase in interest expense is a direct result of (a) increased debt due to the October 2005 acquisition of Concoat and (b) rising interest rates over the past eighteen months. The increase in debt due to the Concoat acquisition was offset by the Company's ability to reduce existing debt balances through principal payments from operating cash flow. The Company expects to continue to pay down its debt through operating cash flow in fiscal 2006 and receive the benefits from favorable borrowing rates from its financial institutions.

Other Income (Expense)

Other income increased \$5,000 to \$48,000 in the quarter ended May 31, 2006 compared to \$43,000 in the same period in fiscal 2005. Other income increased \$17,000 to \$138,000 for the fiscal year to date period ended May 31, 2006 compared to \$120,000 in the same period in fiscal 2005. Other income consists predominantly of monthly rental income of \$11,900 on property (building and land) owned by the Company and leased to Sunburst Electronic Manufacturing Solutions, Inc. under a 36 month rental agreement entered into in conjunction with the Company's sale of Sunburst in December 2003. The quarterly and fiscal year to date increase in other income consists primarily of bank interest earned by the Company's Concoat division.

Income Taxes

In November 2005, the Company concluded that it was more likely than not that the deferred tax asset in the form of a capital loss carryforward of \$1.7 million would be realized prior to its expiration in 2008 as a result of the anticipated sale of real property currently owned by the Company. Accordingly, the valuation allowance previously recorded against this deferred tax asset was reversed in the previous fiscal quarter resulting in a tax benefit of \$669,000. The gain on the sale of this property will be recorded for both financial reporting and tax purposes in the period in which title is transferred from the Company to the buyer of the property. The anticipated effective tax rate in fiscal year 2006 is 40% with a net effective rate after reversal of the valuation allowance of approximately 31% compared to 37% in fiscal year 2005.

Income Before Minority Interest

Income before minority interest increased \$260,000 or 23% to \$1,370,000 in the quarter ended May 31, 2006 compared to \$1,110,000 in the same period in fiscal 2005. Income before minority interest increased \$503,000 or 18% to \$3,341,000 for the fiscal year to date period ended May 31, 2006 compared to \$2,838,000 in the same period in fiscal 2005. The increase in both the quarter and year to date periods is primarily attributable to increased profitability from the Company's core product lines in the Specialized Manufacturing Segment due to increased sales in both the Chase Coating and Laminating and Specialty Coatings divisions.

Net Income

Net income increased \$343,000 or 33% to \$1,370,000 in the quarter ended May 31, 2006 compared to \$1,027,000 in the same period in fiscal 2005. Net income increased \$564,000 or 20% to \$3,341,000 for the fiscal year to date period ended May 31, 2006 compared to \$2,777,000 in the same fiscal period in 2005. The increase in net income for both the 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. Additionally, the Company received the benefit of a lower effective tax rate for the nine months ended May 31, 2006 as discussed above.

Liquidity and Sources of Capital

The Company's cash balance increased \$1,014,000 to \$1,861,000 at May 31, 2006 from \$847,000 at August 31, 2005. Generally, the Company manages its borrowings and payments under its revolving line of credit in order to maintain a low cash balance. The higher cash balance at May 31, 2006 was primarily the result of the timing of cash collections that had not yet been used by the Company to pay down its revolving line of credit prior to the quarter end in addition to the cash acquired as part of the Concoat acquisition.

Cash flow provided by operations was \$5,640,000 for the nine months ended May 31, 2006 compared to \$2,870,923 in the prior year period. Cash provided by operations during the first nine months of fiscal year 2006 was primarily due to operating income offset by increased inventory and accounts receivable balances which were higher due to an increase in sales volume.

The ratio of current assets to current liabilities was 2.2 as of May 31, 2006 compared to 2.6 as of August 31, 2005. The decrease in the Company's current ratio is primarily attributable to increases in accounts payable, accrued expenses including accrued pension expense and current portion of long term debt which exceeded increases to cash, inventory and accounts receivable.

Cash flow used in investing activities of \$8,046,000 was primarily due to purchases of property, plant and equipment and the acquisition of the Concoat business, offset by cash received from the settlement of cash surrender value life insurance policies.

Cash flow provided by financing activities of \$3,342,000 was primarily due to the new term loan used to fund the Company's acquisition of Concoat, offset by (a) payments made on the term loan and the Company's line of credit arrangement; (b) payments of minimum taxes on stock grant and stock options; and (c) payment of the annual dividend.

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 London Interbank Offered Rate (LIBOR) or Eurodollar rate plus 1.5 percent, or at the effective 30-day LIBOR rate plus 1.75 percent. The outstanding balance and weighted average interest rate of outstanding balances on this credit facility was \$6.9 million and 6.61%, respectively, at May 31, 2006. The Company had \$3.1 million in available credit at May 31, 2006 under this credit facility and plans to use this availability to help finance its cash needs in fiscal 2006. The outstanding balance on this long-term unsecured credit facility is included in scheduled principal payments at its maturity. On February 28, 2006, the Company executed an amendment to this credit facility, extending its maturity to March 31, 2009.

As of June 30, 2006, the Company had \$3.6 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, 2006.

In addition to this primary credit facility, the Company borrowed \$7,800,000 from Citizens Bank of Massachusetts in October 2005 in order to fund its acquisition of Concoat Holdings Limited. This borrowing involved an unsecured, five year term note with interest payments due monthly and principal payments due quarterly. Interest is calculated at the applicable LIBOR rate plus a margin of 1.5% per annum. Interest payments are due on the first day of each month. In addition to monthly interest

payments, Chase Corporation must make quarterly payments of principal in the amount of \$390,000 on each quarterly anniversary of the first interest payment date during the term of the note.

The loan is subject to certain debt covenants similar to the Company's credit facility as discussed above. Prepayment of the note is allowed at any time during the term of the loan.

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.

On October 17, 2005, the Company announced a cash dividend of \$0.35 per share (totaling \$1,358,000) to shareholders of record on October 31, 2005 which was paid on December 5, 2005.

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

The Company currently has no significant capital commitments but plans to add additional machinery and equipment as needed to increase capacity or to enhance operating efficiencies in its manufacturing plants. Additionally, the Company may consider the acquisitions of companies or other assets in fiscal 2006 that are complementary to its business. The Company believes that its existing resources, including its 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.

Recently Issued Accounting Standards

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20 and SFAS No. 3, which requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to do so. When it is impracticable to determine the effect on all prior periods, this statement requires that the new principle be applied to the earliest period practicable. This statement carries forward without changing the guidance in APB Opinion No. 20 for reporting the correction of an error in previously issued financial statements and a change in accounting estimates. SFAS No. 154 shall be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. However, early adoption is permitted. The adoption of SFAS No. 154 will not have a material impact on the Company's financial statements.

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, 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, 2005 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 are hereby incorporated by reference into this Quarterly Report.

Item 3 Quantitative and Qualitative Disclosures about Market Risk

The Company faces limited exposure to financial market risks, including adverse movements in foreign currency exchange rates and changes in interest rates. These exposures may change over time as business practices evolve and could have a material adverse impact on the Company's financial results.

The Company limits the amount of credit exposure to any one issuer. At May 31, 2006, 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 in demand deposit accounts. If the Company places its funds in other than demand deposit accounts, it uses instruments that meet high credit quality standards such as money market funds, government securities, and commercial paper.

The Company has very limited currency exposure since all invoices are denominated in U.S. dollars except for invoices from the Company's UK operations (Concoat) to European customers. Historically, the Company has maintained minimal cash balances outside the U.S. As of May 31, 2006, the Company had cash balances in the United Kingdom for its Concoat division denominated primarily in pounds sterling and equal to US \$1,579,000.

On May 19, 2005, the Company entered into a forward currency hedge denominated in British pounds sterling in anticipation of its pending acquisition of Concoat Holdings Limited, based in the United Kingdom. The forward contract, entered into with the Company's primary bank, called for the Company to purchase £1,875,000 in US dollars at an exchange rate equal to 1.855 and to purchase an additional £1,875,000 in US dollars at an exchange rate equal to the lesser of 1.855 or the spot rate on the initial settlement date, which was 1.765. The forward contract was to initially settle on June 30, 2005 (the initial settlement date) but was extended several times through October 12, 2005 at which time the contract was settled in conjunction with the Company's acquisition of Concoat on October 14, 2005. The Company did not elect hedge accounting for this transaction under SFAS 133. Upon the final settlement date, the impact of this foreign currency contract was included in the total purchase price of the Company's acquisition of Concoat. This transaction had no impact on the Company's statement of operations.

The Company incurred a foreign currency translation gain in the nine months ended May 31, 2006 in the amount of \$66,000 related to its Concoat division 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

Our management evaluated, under the supervision and with the participation of our Chief Executive Officer (who currently acts as both our principal executive officer and our principal financial officer), the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our Chief Executive Officer has concluded that our disclosure controls and procedures were effective to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

Changes in internal control over financial reporting

There was no change in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our 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 materially 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 Chase products. The plaintiff in the case issued discovery requests to Chase in August 2005, to which Chase timely responded in September 2005. The case was inactive with respect to Chase until recently, when the claim against Chase placed on the active docket. The Court has set a trial date of April 30, 2007. The Company had been a defendant in another personal injury lawsuit in Mississippi alleging injury from exposure to asbestos contained in Chase products. However, the Company was dismissed without prejudice from that lawsuit in June 2005.

Item 5 Other Information

On July 10, 2006, the Board of Directors approved an agreement superseding the Change in Control and Severance Agreement for the Chief Executive Officer of the Company dated November 2, 1998. The new agreement provides for severance payments and continued benefits for two years in the event of a termination without cause and also in the case of a resignation by the CEO for "Good Reason" in connection with a change in control. The agreement has also been updated to comply with the requirements of the Internal Revenue Code Section 409A. This agreement which is attached as exhibit 10.1 was signed on July 11, 2006.

On July 14, 2006 the Amended and Restated Employees' Supplemental Pension and Savings Plan was approved. The Plan (attached as Exhibit 10.2) has been amended and restated to comply with recent changes in the law, including Section 409A of the Internal Revenue Code of 1986.

Item 6 Exhibits

| Exhibit Number | Description |
|----------------|---|
| 10.1 | Severance agreement between Chase Corporation and its Chief Executive Officer |
| 10.2 | Amended and Restated Employees' Supplemental Pension and Savings Plan. |
| 31.1 | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification 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 14, 2006

By:

/s/ Peter R. Chase
Peter R. Chase, President and
Chief Executive Officer (Principal Executive
Officer & Principal Financial Officer)

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