

CHASE CORP
Form 10-Q
April 09, 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 February 29, 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)

Edgar Filing: CHASE CORP - Form 10-Q

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 March 31, 2008 was 8,313,477.

CHASE CORPORATION

INDEX TO FORM 10-Q

For the Quarter Ended February 29, 2008

Part I FINANCIAL INFORMATION

Item 1 Unaudited Financial Statements

<u>Consolidated Balance Sheets as of February 29, 2008 and August 31, 2007</u>	3
<u>Consolidated Statements of Operations for the three and six months ended February 29, 2008 and February 28, 2007</u>	4
<u>Consolidated Statement of Stockholders' Equity for the six months ended February 29, 2008</u>	5
<u>Consolidated Statements of Cash Flows for the six months ended February 29, 2008 and February 28, 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 4 Submission of Matters to a Vote of Security Holders</u>	23
---	----

<u>Item 5 Other Information</u>	24
---------------------------------	----

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

<u>SIGNATURES</u>	25
--------------------------	----

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

(UNAUDITED)

	February 29, 2008	August 31, 2007
ASSETS		
Current Assets:		
Cash	\$ 1,139,296	\$ 2,443,750
Accounts receivable, less allowance for doubtful accounts of \$598,824 and \$579,536	16,282,446	17,653,982
Inventories	18,789,558	15,135,773
Prepaid expenses and other current assets	930,094	753,818
Deferred income taxes	729,885	729,885
Total current assets	37,871,279	36,717,208
Property, plant and equipment, net	21,890,014	19,758,276
Other Assets		
Goodwill	14,868,349	14,575,640
Intangible assets, less accumulated amortization of \$3,708,801 and \$3,134,274	6,507,812	7,063,178
Cash surrender value of life insurance	4,650,199	4,588,600
Restricted investments	975,542	1,187,488
Other assets	53,901	74,519
	\$ 86,817,096	\$ 83,964,909
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 7,720,128	\$ 7,135,266
Accrued payroll and other compensation	2,615,389	2,857,524
Accrued expenses - current	3,915,065	2,864,457
Accrued income taxes	751,736	1,092,766
Current portion of long-term debt	1,050,000	2,210,000
Total current liabilities	16,052,318	16,160,013
Long-term debt, less current portion	3,365,709	3,822,500
Deferred compensation	3,228,282	3,489,763
Accrued pension expense	3,591,161	3,271,901
Accrued expenses		254,052
Deferred income taxes	728,760	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 February 29, 2008 and 10,000,000 shares at August 31, 2007; 8,305,977 shares at February 29, 2008 and 8,219,350 shares at August 31, 2007 issued and outstanding	830,598	821,935

Edgar Filing: CHASE CORP - Form 10-Q

Additional paid-in capital	3,368,981	2,680,170
Accumulated other comprehensive income	483,981	583,799
Retained earnings	55,167,306	52,126,058
Total stockholders' equity	59,850,866	56,211,962
Total liabilities and stockholders' equity	\$ 86,817,096	\$ 83,964,909

See accompanying notes to the consolidated financial statements

CHASE CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended		Six Months Ended	
	February 29, 2008	February 28, 2007	February 29, 2008	February 28, 2007
Revenue				
Sales	\$ 27,871,519	\$ 27,082,315	\$ 62,095,397	\$ 57,767,743
Royalty and commissions	375,058	421,373	787,018	980,541
	28,246,577	27,503,688	62,882,415	58,748,284
Costs and Expenses				
Cost of products and services sold	19,708,382	20,031,761	42,672,334	41,827,359
Selling, general and administrative expenses	5,660,308	5,133,211	11,863,485	10,348,989
Operating income	2,877,887	2,338,716	8,346,596	6,571,936
Interest expense	(62,751)	(246,423)	(145,703)	(491,351)
Other income, net	144,808	85,000	273,965	140,737
Income before income taxes	2,959,944	2,177,293	8,474,858	6,221,322
Income taxes	1,095,179	805,598	3,135,697	2,301,889
Net income	\$ 1,864,765	\$ 1,371,695	\$ 5,339,161	\$ 3,919,433
Net income per common and common equivalent share				
Basic	\$ 0.23	\$ 0.17	\$ 0.65	\$ 0.49
Diluted	\$ 0.22	\$ 0.16	\$ 0.62	\$ 0.47
Weighted average shares outstanding				
Basic	8,280,098	8,031,670	8,226,315	7,957,306
Diluted	8,633,253	8,338,918	8,570,050	8,267,270

See accompanying notes to the consolidated financial statements

CHASE CORPORATION
CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

SIX MONTHS ENDED FEBRUARY 29, 2008

(UNAUDITED)

	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, 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	53,169	5,317	(5,317)				
Amortization of restricted stock grants			148,638			148,638	
Stock grants	400	40	7,600			7,640	
Exercise of stock options	27,500	2,750	145,687			148,437	
Common stock received for payment of stock option exercise	(1,091)	(109)	(20,891)			(21,000)	
Tax benefit from exercise of stock options			308,759			308,759	
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				(23,545)		(23,545)	\$ (23,545)
Net unrealized (loss) on restricted investments, net of tax				(76,273)		(76,273)	(76,273)
Net income					5,339,161	5,339,161	5,339,161
Comprehensive income							\$ 5,239,343
Balance at February 29, 2008	8,305,977	\$ 830,598	\$ 3,368,981	\$ 483,981	\$ 55,167,306	\$ 59,850,866	

See accompanying notes to the consolidated financial statements

CHASE CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)

	Six Months Ended	
	February 29, 2008	February 28, 2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 5,339,161	\$ 3,919,433
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	1,342,836	1,178,224
Amortization	587,484	431,483
Provision for losses on trade receivables	19,582	122,471
Stock based compensation	925,590	430,011
Excess tax benefit from exercise of stock options	(308,759)	(1,929,730)
Increase (decrease) from changes in assets and liabilities		
Accounts receivable	1,426,881	1,151,144
Inventories	(3,290,128)	(2,156,784)
Prepaid expenses & other assets	(178,182)	(1,760,262)
Accounts payable	284,944	(219,646)
Accrued expenses	(125,630)	1,336,188
Accrued income taxes	(285,603)	1,153,416
Deferred compensation	(823,531)	(474,650)
Net cash provided by operating activities	4,914,645	3,181,298
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(1,497,078)	(565,109)
Purchases of intangible assets		(5,999)
Contingent purchase price for acquisition	(5,277)	
Payments for acquisitions, net of cash acquired	(1,489,769)	(1,690,000)
Investment in restricted investments, net of withdrawals	135,673	2,579
Distributions from cost based investment	20,619	
Payments for cash surrender value life insurance, net of valuation decrease	(61,599)	(61,599)
Net cash used in investing activities	(2,897,431)	(2,320,128)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings on long-term debt	14,719,810	19,460,749
Payments of principal on debt	(16,336,601)	(19,882,820)
Dividend paid	(2,067,715)	(1,589,162)
Proceeds from exercise of common stock options	127,437	684,768
Excess tax benefit from exercise of stock options	308,759	1,929,730
Payments of statutory minimum taxes on stock options and restricted stock		(1,444,852)
Net cash used in financing activities	(3,248,310)	(841,587)
INCREASE (DECREASE) IN CASH	(1,231,096)	19,583
Effect of foreign exchange rates on cash	(73,358)	101,626
CASH, BEGINNING OF PERIOD	2,443,750	2,416,097
CASH, END OF PERIOD	\$ 1,139,296	\$ 2,537,306
Non-cash Investing and Financing Activities		
Issuance of stock based compensation previously accrued for	\$ 105,000	\$ 113,933
Common stock received for payment of stock option exercises	\$ 21,000	\$ 3,079,588
Accrued contingent payments related to acquisitions	\$	\$ 110,000

Edgar Filing: CHASE CORP - Form 10-Q

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 February 29, 2008, the results of operations and cash flows for the interim periods ended February 29, 2008 and February 28, 2007, and changes in stockholders' equity for the interim period ended February 29, 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.

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 February 29, 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.

On June 27, 2007, Chase Corporation completed a two-for-one stock split, in the form of a 100% stock dividend. The stock split entitled all stockholders of record at the close of business on June 13, 2007 to receive one additional share of the Company's common stock, par value \$.10 per share, for each share of Common Stock held on that date. All references to common shares and per share amounts herein have been restated to reflect the stock split for all periods presented.

CHASE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 2 Inventories

Inventories consist of the following as of February 29, 2008 and August 31, 2007:

	February 29, 2008		August 31, 2007	
Raw materials	\$	10,596,436	\$	8,245,933
Finished and in process		8,193,122		6,889,840
Total Inventories	\$	18,789,558	\$	15,135,773

Note 3 Net Income Per Share

Net income per share is calculated as follows:

	Three Months Ended		Six Months Ended	
	February 29, 2008	February 28, 2007	February 29, 2008	February 28, 2007
Net income	\$ 1,864,765	\$ 1,371,695	\$ 5,339,161	\$ 3,919,433
Weighted average common shares outstanding	8,280,098	8,031,670	8,226,315	7,957,306
Additional dilutive common stock equivalents	353,155	307,248	343,735	309,964
Diluted shares outstanding	8,633,253	8,338,918	8,570,050	8,267,270
Net income per share - Basic	\$ 0.23	\$ 0.17	\$ 0.65	\$ 0.49
Net income per share - Diluted	\$ 0.22	\$ 0.16	\$ 0.62	\$ 0.47

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 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)