CHASE CORP
Form 10-Q
January 08, 2019
Table of Contents

It

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, 2018

Commission File Number: 1-9852

CHASE CORPORATION

(Exact name of registrant as specified in its charter)

Massachusetts	11-1797126
(State or other jurisdiction of incorporation of organization)	(I.R.S. Employer Identification No.)

295 University Avenue, Westwood, Massachusetts 02090

(Address of Principal Executive Offices, Including Zip Code)

(781) 332-0700

(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 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act.

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, 2018 was 9,402,706

Table of Contents

CHASE CORPORATION

INDEX TO FORM 10-Q

For the Quarter Ended November 30, 2018

Ca

Cautionary Note Concerning Forward-Looking Statements	3
Part I - FINANCIAL INFORMATION	
Item 1 – Unaudited Condensed Consolidated Financial Statements	
Condensed Consolidated Balance Sheets as of November 30, 2018 and August 31, 2018	4
Condensed Consolidated Statements of Operations for the three months ended November 30, 2018 and 2017	5
Condensed Consolidated Statements of Comprehensive Income for the three months ended November 30, 2018 and 2017	6
Condensed Consolidated Statement of Equity for the three months ended November 30, 2018 and 2017	7
Condensed Consolidated Statements of Cash Flows for the three months ended November 30, 2018 and 2017	8
Notes to Condensed Consolidated Financial Statements	9
Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations	31
Item 3 – Quantitative and Qualitative Disclosures About Market Risk	41
Item 4 – Controls and Procedures	42
Part II – OTHER INFORMATION	
Item 1 – Legal Proceedings	43
Item 1A – Risk Factors	43
Item 6 – Exhibits	44
SIGNATURES	45

2

Table of Contents

Cautionary Note Concerning Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements, including without limitation forward-looking statements made under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” involve risks and uncertainties. Any statements contained in this Quarterly Report that are not statements of historical fact may be deemed to be forward-looking statements. Forward-looking statements include, without limitation, statements as to our future operating results; seasonality expectations; plans for the development, utilization or disposal of manufacturing facilities; future economic conditions; our expectations as to legal proceedings; the effect of our market and product development efforts; and expectations or plans relating to the implementation or realization of our strategic goals and future growth, including through potential future acquisitions. Forward-looking statements may also include, among other things, statements relating to future sales, earnings, cash flow, results of operations, use of cash and other measures of financial performance, as well as statements relating to future dividend payments. Other forward-looking statements may be identified through the use of words such as “believes,” “anticipates,” “may,” “should,” “will,” “plans,” “projects,” “expects,” “expectations,” “estimates,” “predicts,” “targ “strategy,” and other words of similar meaning in connection with the discussion of future operating or financial performance. These statements are based on current expectations, estimates and projections about the industries in which we operate, and the beliefs and assumptions made by management. Because forward-looking statements relate to the future, they are subject to inherent risks, uncertainties and changes in circumstances that are difficult to predict. Accordingly, the Company’s actual results may differ materially from those contemplated by the forward-looking statements. Investors, therefore, are cautioned against relying on any of these forward-looking statements. They are neither statements of historical fact nor guarantees or assurances of future performance. Readers should refer to the discussions under “Risk Factors” contained in our Annual Report on Form 10-K for the fiscal year ended August 31, 2018 concerning certain factors that could cause our actual results to differ materially from the results anticipated in such forward-looking statements. These Risk Factors are hereby incorporated by reference into this Quarterly Report.

Table of Contents

Item 1 — Unaudited Condensed Consolidated Financial Statements

CHASE CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

In thousands, except share and per share amounts

	November 30, 2018	August 31, 2018
ASSETS		
Current Assets		
Cash and cash equivalents	$ 35,520	$ 34,828
Accounts receivable, less allowance for doubtful accounts of $588 and $559	42,998	44,610
Inventory	43,335	39,699
Prepaid expenses and other current assets	3,701	2,595
Due from sale of businesses	—	400
Prepaid income taxes	1,327	4,100
Total current assets	126,881	126,232
Property, plant and equipment, less accumulated depreciation of $50,124 and $49,212	32,215	32,845
Other Assets		
Goodwill	84,605	84,696
Intangible assets, less accumulated amortization of $56,991 and $54,039	62,206	65,330
Cash surrender value of life insurance	4,530	4,530
Restricted investments	1,083	1,090
Funded pension plan	272	301
Deferred income taxes	1,218	1,347
Other assets	87	98
Total assets	$ 313,097	$ 316,469
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable	$ 17,877	$ 17,810
Accrued payroll and other compensation	4,903	6,639
Accrued expenses	4,211	4,486
Dividend payable	7,522	—
Total current liabilities	34,513	28,935

Long-term debt	15,000	25,000
Deferred compensation	1,097	1,105
Accumulated pension obligation	10,453	10,736
Other liabilities	329	283
Accrued income taxes	3,512	3,654
Commitments and Contingencies (Note 10)		
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; 9,402,706 shares at November 30, 2018 and 9,396,947 shares at August 31, 2018 issued and outstanding	940	939
Additional paid-in capital	13,608	13,104
Accumulated other comprehensive loss	(12,727)	(12,336)
Retained earnings	246,372	245,049
Total equity	248,193	246,756
Total liabilities and equity	$ 313,097	$ 316,469

See accompanying notes to the condensed consolidated financial statements

Table of Contents

CHASE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

In thousands, except share and per share amounts

	Three Months Ended November 30, 2018	2017
Revenue		
Sales	$ 71,364	$ 60,577
Royalties and commissions	1,139	1,340
	72,503	61,917
Costs and Expenses		
Cost of products and services sold	46,575	36,895
Selling, general and administrative expenses	13,362	11,896
Exit costs related to idle facility (Note 15)	260	—
Operating income	12,306	13,126
Interest expense	(204)	(45)
Other income (expense)	(294)	(482)
Income before income taxes	11,808	12,599
Income taxes (Note 18)	2,985	4,284
Net income	$ 8,823	$ 8,315
Net income available to common shareholders, per common and common equivalent share (Note 4)		
Basic	$ 0.94	$ 0.89
Diluted	$ 0.93	$ 0.88
Weighted average shares outstanding		
Basic	9,329,570	9,281,877
Diluted	9,381,303	9,384,426

Annual cash dividends declared per share	$ 0.80	$ 0.80

See accompanying notes to the condensed consolidated financial statements

5

Table of Contents

CHASE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

In thousands, except share and per share amounts

	Three Months Ended November 30, 2018	2017
Net income	$ 8,823	$ 8,315
Other comprehensive income (loss):		
Net unrealized (loss) gain on restricted investments, net of tax	(21)	31
Change in funded status of pension plans, net of tax	236	80
Foreign currency translation adjustment	(606)	1,570
Total other comprehensive income (loss)	(391)	1,681
Comprehensive income	$ 8,432	$ 9,996

See accompanying notes to the condensed consolidated financial statements

Table of Contents

CHASE CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF EQUITY

THREE MONTHS ENDED NOVEMBER 30, 2018 AND 2017

(UNAUDITED)

In thousands, except share and per share amounts

	Common Stock		Additional Paid-In	Accumulated Other Comprehensive	Retained	Total Stockholders'
	Shares	Amount	Capital	Income (Loss)	Earnings	Equity
Balance at August 31, 2017	9,354,136	$ 935	$ 14,060	$ (13,469)	$ 209,403	$ 210,929
Restricted stock grants, net of forfeitures	13,121	1	(1)			—
Amortization of restricted stock grants			421			421
Amortization of stock option grants			112			112
Exercise of stock options	10,859	1	448			449
Common stock received for payment of stock option exercises	(3,276)	—	(306)			(306)
Cash dividend accrued, $0.80 per share					(7,497)	(7,497)
Change in funded status of pension plans, net of tax $41				80		80
Foreign currency translation adjustment				1,570		1,570
Net unrealized gain (loss) on restricted investments, net of tax $15				31		31
Net income					8,315	8,315
Balance at November 30, 2017	9,374,840	$ 937	$ 14,734	$ (11,788)	$ 210,221	$ 214,104
Balance at August 31, 2018	9,396,947	$ 939	$ 13,104	$ (12,336)	$ 245,049	$ 246,756
Restricted stock grants, net of forfeitures	4,709	1	(1)			—
Amortization of restricted stock grants			380			380

Amortization of stock option grants			125			125
Exercise of stock options	2,004	—	120			120
Common stock received for payment of stock option exercises	(954)	—	(120)			(120)
Cash dividend accrued, $0.80 per share					(7,522)	(7,522)
Change in funded status of pension plans, net of tax $83				236		236
Foreign currency translation adjustment				(606)		(606)
Net unrealized gain (loss) on restricted investments, net of tax ($7)				(21)		(21)
Adoption of ASC 606 (Note 9)					22	22
Net income					8,823	8,823
Balance at November 30, 2018	9,402,706	$ 940	$ 13,608	$ (12,727)	$ 246,372	$ 248,193

See accompanying notes to the condensed consolidated financial statements

Table of Contents

CHASE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

In thousands

	Three Months Ended November 30, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 8,823	$ 8,315
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	1,238	1,254
Amortization	3,113	2,314
Provision (recovery) of allowance for doubtful accounts	30	(126)
Stock-based compensation	505	533
Realized loss (gain) on restricted investments	17	(1)
Pension curtailment and settlement loss	200	—
Deferred taxes	28	—
Increase (decrease) from changes in assets and liabilities		
Accounts receivable	1,523	3,329
Inventory	(3,692)	(1,593)
Prepaid expenses and other assets	(1,102)	(725)
Accounts payable	131	(1,348)
Accrued compensation and other expenses	(1,875)	(2,397)
Accrued income taxes	2,638	(3,001)
Net cash provided by operating activities	11,577	6,554
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(639)	(851)
Cost to acquire intangible assets	(18)	(1)
Proceeds from sale of businesses	400	—
Changes in restricted investments	(38)	(46)
Net cash used in investing activities	(295)	(898)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of principal on debt	(10,000)	—
Proceeds from exercise of common stock options	—	143
Net cash (used in) provided by financing activities	(10,000)	143
INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	1,282	5,799
Effect of foreign exchange rates on cash	(590)	1,109

CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	34,828	47,354
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 35,520	$ 54,262
Non-cash Investing and Financing Activities		
Common stock received for payment of stock option exercises	$ 120	$ 306
Property, plant and equipment additions included in accounts payable	$ 158	$ 176
Annual cash dividend declared	$ 7,522	$ 7,497

See accompanying notes to the condensed consolidated financial statements

Table of Contents

Note 1 — Basis of Financial Statement Presentation

Description of Business

Chase Corporation (the "Company," "Chase," "we," or "us"), a global specialty chemicals company founded in 1946, is a leading manufacturer of protective materials for high-reliability applications. Our strategy is to maximize the performance of our core businesses and brands while seeking future opportunities through strategic acquisitions.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with United States of America generally accepted accounting principles ("U.S. GAAP") 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 disclosures necessary for a complete presentation of Chase Corporation's financial position, results of operations and cash flows, in conformity with generally accepted accounting principles. The year-end condensed balance sheet data was derived from audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America. Chase Corporation filed audited consolidated financial statements, which included all information and notes necessary for such a complete presentation, for the three years ended August 31, 2018, in conjunction with its 2018 Annual Report on Form 10-K. Certain immaterial reclassifications have been made to the prior year amounts to conform to the current year's presentation.

The results of operations for the interim period ended November 30, 2018 are not necessarily indicative of the results to be expected for any future period or the entire fiscal year. These interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended August 31, 2018, which are contained in the Company's 2018 Annual Report on Form 10-K.

The accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of normal recurring items) that are, in the opinion of management, necessary for a fair statement of the Company's financial position as of November 30, 2018, the results of its operations, comprehensive income, changes in equity and cash flows for the interim periods ended November 30, 2018 and 2017.

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. The financial position and results of operations of the Company's U.K.-based operations are measured using the British pound as the functional currency. The financial position and results of operations of the Company's operations based in France are measured using the euro as the functional currency. The financial position and results of the Company's HumiSeal India Private Limited business are measured using the Indian rupee as the functional currency. The functional currency for all our other operations is the U.S. dollar. 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. Transaction gains and losses generated from the remeasurement of assets and liabilities denominated in currencies other than the functional currency of each applicable operation are included in other income (expense) on the condensed consolidated statements of operations, and were $52 and ($353) for the three-month periods ended November 30, 2018 and 2017, respectively.

Table of Contents

Other Business Developments

On June 25, 2018, the Company announced to its employees the planned closing of its Pawtucket, RI manufacturing facility effective August 31, 2018. This is in line with the Company's ongoing efforts to consolidate its manufacturing plants and streamline its existing processes. The manufacturing of products previously produced in the Pawtucket, RI facility was moved to Company facilities in Oxford, MA and Lenoir, NC during a two-month transition period, with certain additional expenditures recognized in fiscal 2019. During the quarter ended November 30, 2018, the Company recognized $260 in expenses related to this move. The Company expensed $1,272 in the fourth quarter of fiscal 2018 related to the closure, including: (a) cash-related employee-related, logistics and uncapitalized facility improvement costs of $590; and (b) non-cash-related accelerated depreciation expense of $682. Future costs related to this move are not anticipated to be significant to the condensed consolidated financial statements.

On April 20, 2018, Chase finalized an agreement with an unrelated party to sell all inventory, operational machinery and equipment and intangible assets of the Company's structural composites rod business, as well as a license related to the production and sale of rod, for proceeds of $2,232, net of transaction costs and following certain working capital adjustments. This business, which was part of the structural composites product line within the Industrial Materials segment, had limited growth and profitability prospects as part of the Company, and was outside the areas Chase has identified for strategic emphasis. The resulting pre-tax gain on sale of $1,480 was recognized in the third quarter of fiscal 2018 as a gain on sale of businesses within the condensed consolidated statement of operations. Chase received $2,075, net of transaction costs, in the third quarter of fiscal 2018, with the remaining $157 received in the fourth quarter of fiscal 2018 as a result of a working capital true-up. Chase will provide certain transitional manufacturing and administrative support to the purchaser for which the Company will receive additional consideration upon the performance of services. The purchaser also entered into a royalty agreement with the Company. The purchaser will make royalty payments to Chase based on future sales of certain structural composite material manufactured by the purchaser.

On December 29, 2017, Chase entered an agreement to acquire Stewart Superabsorbents, LLC ("SSA, LLC"), an advanced superabsorbent polymer (SAP) formulator and solutions provider, with operations located in Hickory and McLeansville, NC. The transaction closed on December 31, 2017. In the most recently completed fiscal year prior to the acquisition, SSA, LLC, and its recently-acquired Zappa-Tec business (collectively "Zappa Stewart") had combined revenue in excess of $24,000. This acquisition proved to be immediately accretive to the Company's earnings, after adjusting for nonrecurring costs associated with the transaction and financing cost. The business was acquired for a purchase price of $73,469, after final working capital adjustments and excluding acquisition-related costs. As part of this transaction, Chase acquired all assets of the business, and entered multiyear leases at both locations. The Company expensed $393 of acquisition-related costs associated with this acquisition during the second quarter of fiscal 2018. The purchase was funded from a combination of Chase's existing revolving credit facility and available cash on hand. Zappa Stewart's protective materials technology complements Chase's current specialty chemicals offerings. This acquisition is aligned with the Company's core strategies and extends its reach into growing medical, environmental and consumer applications. The Company finalized purchase accounting in the first quarter of fiscal 2019, without any adjustment to amounts recorded at August 31, 2018. Following the effective date of the acquisition the financial results of Zappa Stewart's operations have been included in the Company's financial statements in the specialty chemical intermediates product line, contained within the Industrial Materials operating segment. See Note 14 to the condensed consolidated financial statements for additional information on the acquisition of Zappa Stewart.

Significant Accounting Policies

The Company’s significant accounting policies are detailed in Note 1 — “Summary of Significant Accounting Policies” within Item 8 of the Company’s Annual Report on Form 10-K for the year ended August 31, 2018. Significant changes to these accounting policies as a result of adopting ASC 606 “Revenue from Contracts with Customers” during the first quarter of fiscal 2019 are discussed within Note 2 — “Recent Accounting Standards” and Note 9 — “Revenue from Contracts with Customers” within this Current Quarterly Report on Form 10-Q.

Table of Contents

Note 2 — Recent Accounting Standards

Recently Issued Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-02, “Leases (Topic 842).” Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (a) a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and (b) a right-of-use asset, which represents the lessee’s right to use, or control the use of, a specified asset for the lease term. The ASU will be effective for the Company beginning September 1, 2019 (fiscal 2020). Early application is permitted. Lessees must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company is currently evaluating the impact of the application of this ASU on our consolidated financial statements and disclosures thereto.

In February 2018, the FASB issued ASU No. 2018-02, “Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.” Under previously existing U.S. GAAP, the effects of changes in tax rates and laws on deferred tax balances are recorded as a component of income tax expense in the period in which the law was enacted. When deferred tax balances related to items originally recorded in accumulated other comprehensive income are adjusted, certain tax effects become stranded in accumulated other comprehensive income. The amendments in ASU 2018-02 allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017 (the “Tax Act”). The amendments in this ASU also require certain disclosures about stranded tax effects. The guidance is required for fiscal years beginning after December 15, 2018 (our fiscal year 2020), and interim periods within those fiscal years. Early adoption in any period is permitted. The Company is currently evaluating the effect that ASU No. 2018-02 will have on its financial statements and related disclosures. See Note 18 to the condensed consolidated financial statements for additional information on the effects of the Tax Act on our financial position and result of operations, including provisional transitional adjustments that were recorded during fiscal 2018 and 2019 related to the Tax Act.

Recently Adopted Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606)”. The amended guidance establishes a single comprehensive model for companies to use in accounting for revenue arising from contracts with customers and supersedes most of the existing revenue recognition guidance, including industry-specific guidance.

The amended guidance clarifies that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying the amended guidance, an entity will (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the contract's performance obligations; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. ASC 606 is effective for the Company's interim and annual reporting periods beginning September 1, 2018 (fiscal 2019), and is to be adopted using either a full retrospective or modified retrospective transition method.

The Company adopted the amended guidance and all related amendments using the modified retrospective approach on September 1, 2018, at which time it became effective for the Company. The Company recognized the cumulative effect of initially applying the new revenue standard to all open contracts requiring recognition over time that were not completed on the date of adoption as an adjustment to the opening balance of retained earnings.

At the adoption date, the cumulative impact of revenue that would have been recognized over time was $80. The related adoption impact to retained earnings was $22, net of tax. The impact to net sales and net income as a result of applying ASC 606 was an increase of $105 and $45, respectively, for the quarter ended November 30, 2018. See Note 9 — "Revenue from Contracts with Customers" for further discussion of the effects of adoption.

Table of Contents

In August 2016, the FASB issued ASU No. 2016-15, “Statement of Cash Flows (Topic 230).” This ASU provides guidance on the presentation and classification of specific cash flow items to improve consistency within the statement of cash flows. The Company adopted ASU No. 2016-15 on September 1, 2018, and the adoption did not have a material effect on its financial statements and related disclosures.

In January 2017, the FASB issued ASU No. 2017-01, “Business Combinations (Topic 805): Clarifying the Definition of a Business.” The new guidance dictates that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, it should be treated as an acquisition or disposal of an asset. The Company adopted the ASU on September 1, 2018. The adoption had no material effect on the financial statements and related disclosures in the first quarter of fiscal 2019. The effect ASU No. 2017-01 will have on the financial statements and related disclosures of the Company in future periods will be dependent on the nature of potential future acquisitions and divestitures.

In March 2017, the FASB issued ASU No. 2017-07, “Compensation — Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.” This ASU applies to all employers that offer to their employees defined benefit pension plans, other postretirement benefit plans, or other types of benefits accounted for under Topic 715, Compensation — Retirement Benefits. The ASU requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are used to present the other components of net benefit cost, that line item or items must be appropriately described. If a separate line item or items are not used, the line item or items used in the income statement to present the other components of net benefit cost must be disclosed. The ASU also allows only the service cost component to be eligible for capitalization when applicable (e.g., as a cost of internally manufactured inventory or a self-constructed asset). The Company adopted ASU No. 2017-07 on September 1, 2018, which resulted in the reclassification of $163 in expense, previously reported in selling, general and administrative expense, to other income (expense) for the three-month period ended November 30, 2017 (prior year). Further reclassifications will be required on the condensed consolidated statement of operations for periods of fiscal 2018 subsequent to November 30, 2017. The adoption of ASU 2017-07 did not have any effect on the historically stated condensed consolidated balance sheets or condensed consolidated statement of cash flows.

In May 2017, the FASB issued ASU No. 2017-09, "Scope of Modification Accounting." This ASU provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The Company adopted the ASU 2017-09 on September 1, 2018. The adoption had no material effect on the financial statements and related disclosures in the first quarter of fiscal 2019. The effect ASU No. 2017-09 will have on the financial statements and related disclosures of the Company in future periods will be dependent on the nature of potential future changes the Company may make to the terms or conditions of any share-based payment awards.

Note 3 — Inventory

Inventory consisted of the following as of November 30, 2018 and August 31, 2018:

	November 30, 2018	August 31, 2018
Raw materials	$ 23,350	$ 21,998
Work in process	7,972	7,653
Finished goods	12,013	10,048
Total Inventory	$ 43,335	$ 39,699

Table of Contents

Note 4 — Net Income Per Share

The Company has unvested share-based payment awards with a right to receive nonforfeitable dividends which are considered participating securities under ASC Topic 260, “Earnings Per Share.” The Company allocates earnings to participating securities and computes earnings per share using the two-class method. The determination of earnings per share under the two-class method is as follows:

	Three Months Ended November 30,	
	2018	2017
Basic Earnings per Share		
Net income	$ 8,823	$ 8,315
Less: Allocated to participating securities	69	79
Net income available to common shareholders	$ 8,754	$ 8,236
Basic weighted average shares outstanding	9,329,570	9,281,877
Net income per share - Basic	$ 0.94	$ 0.89
Diluted Earnings per Share		
Net income	$ 8,823	$ 8,315
Less: Allocated to participating securities	69	79
Net income available to common shareholders	$ 8,754	$ 8,236
Basic weighted average shares outstanding	9,329,570	9,281,877
Additional dilutive common stock equivalents	51,733	102,549
Diluted weighted average shares outstanding	9,381,303	9,384,426
Net income per share - Diluted	$ 0.93	$ 0.88

For the three months ended November 30, 2018 and 2017, stock options to purchase 12,418 and 9,622 shares of common stock were outstanding but were not included in the calculation of diluted income per share because their inclusion would be anti-dilutive. Included in the calculation of dilutive common stock equivalents are the unvested portion of restricted stock and stock options.

Table of Contents

Note 5 — Stock-Based Compensation

In August 2017, the Board of Directors of the Company approved the fiscal year 2018 Long Term Incentive Plan ("2018 LTIP") for the executive officers and other members of management. The 2018 LTIP is an equity-based plan with a grant date of September 1, 2017 and contains a performance and service-based restricted stock grant of 4,249 shares in the aggregate, subject to adjustment, with a vesting date of August 31, 2020. Based on the fiscal year 2018 financial results, 572 additional shares of restricted stock (total of 4,821 shares) were earned and granted subsequent to the end of fiscal year 2018 in accordance with the performance measurement criteria. No further performance-based measurements apply to this award. Compensation expense is being recognized on a ratable basis over the vesting period.

In August 2018, the Board of Directors of the Company approved the fiscal year 2019 Long Term Incentive Plan ("2019 LTIP") for the executive officers and other members of management. The 2019 LTIP is an equity-based plan with a grant date of September 1, 2018 and contains the following equity components:

Restricted Shares — (a) a performance and service-based restricted stock grant of 3,541 shares in the aggregate, subject to adjustment based on fiscal 2019 results, with a vesting date of August 31, 2021. Compensation expense is recognized on a ratable basis over the vesting period based on quarterly probability assessments; and (b) a time-based restricted stock grant of 3,068 shares in the aggregate, with a vesting date of August 31, 2021. Compensation expense is recognized on a ratable basis over the vesting period.

Stock options — options to purchase 8,603 shares of common stock in the aggregate with an exercise price of $123.95 per share. The options will vest in three equal annual installments beginning on August 31, 2019 and ending on August 31, 2021. Of the options granted, 3,927 options will expire on August 31, 2028, and 4,676 options will expire on September 1, 2028. Compensation expense is recognized over the period of the award consistent with the vesting terms.

In September 2018, restricted stock in the amount of 2,472 shares related to a first quarter of fiscal 2017 grant was forfeited in conjunction with the termination of employment of a non-executive member of management of the Company.

Note 6 — Segment Data and Foreign Operations

The Company is organized into two reportable operating segments, an Industrial Materials segment and a Construction Materials segment. The segments are distinguished by the nature of the products and how they are delivered to their respective markets.

The Industrial Materials segment includes specified products that are used in, or integrated into, another company's product, with demand typically dependent upon general economic conditions. Industrial Materials products include insulating and conducting materials for wire and cable manufacturers, moisture protective coatings and customized sealant and adhesive systems for electronics, laminated durable papers, laminates for the packaging and industrial laminate markets, custom manufacturing services, pulling and detection tapes used in the installation, measurement and location of fiber optic cables and water and natural gas lines, cover tapes essential to delivering semiconductor components via tape and reel packaging, composite materials and elements, polymeric microspheres, polyurethane dispersions and superabsorbent polymers. Beginning December 31, 2017, the Industrial Materials segment includes the acquired operations of Zappa Stewart, included in the Company's specialty chemical intermediates product line. Following the April 20, 2018 sale of the structural composites rod business, future product sales of composite materials and elements are not anticipated to be significant to the condensed consolidated financial statements.

The Construction Materials segment is principally composed of project-oriented product offerings that are primarily sold and used as "Chase" branded products. Construction Materials products include protective coatings for pipeline applications, coating and lining systems for use in liquid storage and containment applications, adhesives and sealants used in architectural and building envelope waterproofing applications, high-performance polymeric asphalt additives, and expansion and control joint systems for use in the transportation and architectural markets.

Table of Contents

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

	Three Months Ended November 30,		
	2018		2017
Revenue			
Industrial Materials	$ 60,160		$ 49,985
Construction Materials	12,343		11,932
Total	$ 72,503		$ 61,917
Income before taxes			
Industrial Materials	$ 14,803	(a)	$ 15,365
Construction Materials	4,466		4,246
Total for reportable segments	19,269		19,611
Corporate and common costs	(7,461)	(b)	(7,012)
Total	$ 11,808		$ 12,599
Includes the following costs by segment:			
Industrial Materials			
Interest	$ 163		$ 36
Depreciation	839		800
Amortization	2,790		1,987
Construction Materials			
Interest	$ 41		$ 9
Depreciation	175		190
Amortization	323		327

(a) Includes $260 of expense related to the closure and exit of our Pawtucket, RI location recognized in the first quarter of fiscal 2019
(b) Includes $200 of pension-related settlement costs due to the timing of lump-sum distributions

Table of Contents

Total assets for the Company’s reportable segments as of November 30, 2018 and August 31, 2018 were:

	November 30, 2018	August 31, 2018
Total Assets		
Industrial Materials	$ 229,353	$ 229,559
Construction Materials	34,631	36,757
Total for reportable segments	263,984	266,316
Corporate and common assets	49,113	50,153
Total	$ 313,097	$ 316,469

The Company’s products are sold worldwide. Revenue for the three-month period ended November 30, 2018 and 2017 were attributed to operations located in the following countries:

	Three Months Ended November 30,	
	2018	2017
Revenue		
United States	$ 64,351	$ 52,477
United Kingdom	4,016	4,397
All other foreign (1)	4,136	5,043
Total	$ 72,503	$ 61,917

(1) Comprises sales originated from our Paris, France location, royalty revenue attributable to our licensed manufacturer in Asia, and Chase foreign manufacturing operations.

As of November 30, 2018 and August 31, 2018, the Company had long-lived assets (defined as tangible assets providing the Company with a future economic benefit beyond the current year or operating period, including buildings, equipment and leasehold improvements) and goodwill and intangible assets, less accumulated amortization, in the following countries:

	November 30, 2018	August 31, 2018
Long-Lived Assets		
United States		
Property, plant and equipment, net	$ 27,893	$ 28,770
Goodwill and Intangible assets, less accumulated amortization	140,558	143,539
United Kingdom		

Property, plant and equipment, net	2,762	2,911
Goodwill and Intangible assets, less accumulated amortization	5,033	5,239
All other foreign		
Property, plant and equipment, net	1,560	1,164
Goodwill and Intangible assets, less accumulated amortization	1,220	1,248
Total		
Property, plant and equipment, net	$ 32,215	$ 32,845
Goodwill and Intangible assets, less accumulated amortization	$ 146,811	$ 150,026

Table of Contents

Note 7 — Goodwill and Other Intangibles

The changes in the carrying value of goodwill were as follows:

	Industrial Materials	Construction Materials	Consolidated
Balance at August 31, 2018	$ 74,002	$ 10,694	$ 84,696
Foreign currency translation adjustment	(87)	(4)	(91)
Balance at November 30, 2018	$ 73,915	$ 10,690	$ 84,605

The Company's goodwill is allocated to each reporting unit based on the nature of the products manufactured by the respective business combinations that originally created the goodwill. The Company has identified a total of twelve reporting units within its two operating segments that are used to evaluate the possible impairment of goodwill. Goodwill impairment exists when the carrying value of goodwill exceeds its fair value. Assessments of possible impairment of goodwill are made when events or changes in circumstances indicate that the carrying value of the asset may not be recoverable through future operations. Additionally, testing for possible impairment of recorded goodwill and certain intangible asset balances is required annually. The amount and timing of any impairment charges based on these assessments require the estimation of future cash flows and the fair market value of the related assets based on management's best estimates of certain key factors, including future selling prices and volumes; operating, raw material and energy costs; and various other projected operating and economic factors. When testing, fair values of the reporting units and the related implied fair values of their respective goodwill are established using discounted cash flows. The Company evaluates the possible impairment of goodwill annually during the fourth quarter, and whenever events or circumstances indicate the carrying value of goodwill may not be recoverable.

Intangible assets subject to amortization consisted of the following as of November 30, 2018 and August 31, 2018: