

CHASE CORP
Form 10-Q/A
December 27, 2002

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C., 20549

FORM 10-QA

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarter Ended May 31, 2002 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) 26 Summer St. Bridgewater, Massachusetts (Address of principal executive offices) | 11-1797126 (I.R.S. Employer Identification No.) 02324 (Zip 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 <input checked="" type="checkbox"/> | No |
| <u>Common Shares Outstanding as of June 30, 2002</u> | <u>4,047,317</u> | |

Part 1: FINANCIAL INFORMATION
CHASE CORPORATION
CONSOLIDATED BALANCE SHEET

| ASSETS | May 31, 2002 (UNAUDITED) | Aug 31 2001 (AUDITED) |
|--|--------------------------------|-----------------------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$231,413 | \$49,283 |
| Trade receivables, less allowances for doubtful accounts of \$363,800 and \$264,946 respectively | 11,165,458 | 12,081,284 |
| Note receivable from related party | | 147,000 |
| Inventories (Note B) | | |
| Finished and in process | 4,829,928 | 3,099,182 |
| Raw Materials | <u>4,970,920</u> | <u>5,859,553</u> |
| | 9,800,848 | 8,958,735 |
| Prepaid expenses & other current assets | 882,684 | 458,796 |

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| | | |
|---|-------------------|-------------------|
| Deferred taxes | <u>184,330</u> | <u>186,836</u> |
| TOTAL CURRENT ASSETS | 22,264,733 | 21,881,934 |
| PROPERTY, PLANT AND EQUIPMENT | | |
| Land and improvements | 1,099,517 | 524,423 |
| Buildings | 7,264,613 | 4,642,781 |
| Machinery & equipment | 21,531,349 | 18,612,037 |
| Construction in Process | <u>1,220,746</u> | <u>387,953</u> |
| | 31,116,225 | 24,167,194 |
| Less allowance for depreciation | <u>16,036,814</u> | <u>14,602,820</u> |
| | 15,079,411 | 9,564,374 |
| OTHER ASSETS | | |
| Excess of cost over net assets acquired | 10,503,820 | 10,626,612 |
| Less amortization | <u>1,922,089</u> | <u>1,922,089</u> |
| | 8,581,731 | 8,340,523 |
| Patents, agreements and trademarks | | |
| less amortization of <i>\$962,659 and \$889,690</i> | 678,064 | 751,033 |
| Cash surrender value of life insurance net | 4,422,218 | 3,792,515 |
| Deferred taxes | 689,883 | 534,794 |
| Investment in joint venture | 1,314,595 | 1,179,243 |
| Other | <u>890,346</u> | <u>744,087</u> |
| | <u>16,576,837</u> | <u>15,342,195</u> |
| | \$53,920,981 | \$46,788,503 |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | May 31 2002 (UNAUDITED) | Aug 31 2001 (AUDITED) |
|--|-------------------------------|-----------------------------|
| CURRENT LIABILITIES | | |
| Accounts payable | \$5,200,324 | \$5,261,112 |
| Notes payable | 1,687,046 | 1,763,184 |
| Accrued expenses | 2,301,119 | 2,194,545 |
| Accrued pension expense-current | 407,156 | 353,857 |
| Income taxes | (30,519) | 188,066 |
| Current portion of L.T. debt | <u>2,388,844</u> | <u>2,543,400</u> |
| TOTAL CURRENT LIABILITIES | 11,953,970 | 12,304,164 |
| LONG-TERM DEBT, less current portion | 9,193,784 | 3,562,793 |
| Long-term deferred compensation obligation | 883,346 | 737,088 |
| ACCRUED PENSION EXPENSE | 450,944 | 447,698 |
| STOCKHOLDERS' EQUITY | | |
| First Serial Preferred Stock, par value \$1.00 a share authorized 100,000 shares; (issued-none) | | |
| Common Stock, par value \$.10 a share, Authorized 10,000,000 shares; issued and outstanding 5,135,901 shares at May 31, 2002, and 5,094,389 shares at Aug. 31, 2001 | 513,590 | 509,439 |

respectively.

| | | |
|---|-------------------|-------------------|
| Additional paid-in capital | 4,219,163 | 3,721,442 |
| Treasury Stock, 1,088,584 and 1,088,584 May 31, 2002, and Aug. 31, 2001, respectively | (4,687,565) | (4,687,565) |
| Cum. G/(L) on currency translation | (204,568) | (213,002) |
| Retained earnings | <u>31,598,317</u> | <u>30,406,446</u> |
| | <u>31,438,937</u> | <u>29,736,760</u> |
| | \$53,920,981 | \$46,788,503 |
| | ===== | ===== |

See accompanying notes to the consolidated financial statements and accountants' review report.

CHASE CORPORATION
STATEMENT OF CONSOLIDATED OPERATIONS
(UNAUDITED)

| | Nine Months Ended | | Three Months Ended | |
|---|-------------------|-------------------|--------------------|-------------------|
| | May 31, 2002 | May 31, 2001 | May 31, 2002 | May 31, 2001 |
| Sales | \$50,220,919 | \$51,506,494 | \$18,221,546 | \$16,984,666 |
| Commissions and other income | <u>725,479</u> | <u>522,237</u> | <u>317,592</u> | <u>209,701</u> |
| | 50,946,398 | 52,028,731 | 18,539,138 | 17,194,367 |
| Cost and Expenses | | | | |
| Cost of products sold(Note B) | 37,172,320 | 36,364,028 | 13,302,305 | 12,054,285 |
| Sell, general and admin expenses | 9,684,098 | 9,231,177 | 3,472,066 | 2,935,059 |
| Bad debt expense | 82,435 | 43,609 | 21,008 | 25,609 |
| Interest expense | 406,362 | 650,259 | 140,576 | 180,233 |
| Interest income | <u>178</u> | <u>222</u> | <u>0</u> | <u>2</u> |
| | <u>47,345,037</u> | <u>46,288,851</u> | <u>16,935,955</u> | <u>15,195,184</u> |
| Income before income taxes and minority interest and participation | 3,601,361 | 5,739,880 | 1,603,183 | 1,999,183 |
| Income taxes | <u>1,077,200</u> | <u>1,876,900</u> | <u>481,300</u> | <u>634,600</u> |
| Income before minority interest and participation | 2,524,161 | 3,862,980 | 1,121,883 | 1,364,583 |
| Income from minority interest | <u>110,000</u> | <u>211,000</u> | <u>35,000</u> | <u>85,000</u> |
| NET INCOME | \$2,634,161 | \$4,073,980 | \$1,156,883 | \$1,449,583 |
| | ===== | ===== | ===== | ===== |
| Net income per share of Common Stock | | | | |
| Basic | \$0.652 | \$1.020 | \$0.286 | \$0.362 |
| | ===== | ===== | ===== | ===== |
| Fully Diluted | \$0.637 | \$1.004 | \$0.279 | \$0.357 |
| | ===== | ===== | ===== | ===== |

See accompanying notes to the consolidated financial statements and accountants' review report.

CHASE CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY(continue)
(UNAUDITED)

9 MONTH ENDED May 31, 2002 AND May 31, 2001

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| | Common Stock | | Additional | Treasury Stock | |
|---|--------------|-----------|-------------|----------------|---------------|
| | Shares | Amount | Paid-In | Shares | Amount |
| | Issued | | Capital | | |
| Balance @ Aug 31, 2000 | 5,073,613 | \$507,361 | \$3,625,023 | 1,088,584 | \$(4,687,565) |
| Currency Translation adjustment | | | | | |
| Exercise of stock options | 19,138 | 1,914 | (1,914) | | |
| Compensatory stock issuance | | | 73,874 | | |
| Net Income for 9 months | | | | | |
| Dividend paid in cash \$.36 a share on common stock | | | | | |
| | ----- | ----- | ----- | ----- | ----- |
| Balance @ May 31, 2001 | 5,092,751 | 509,275 | 3,696,983 | 1,088,584 | (4,687,565) |
| | Common Stock | | Additional | Treasury Stock | |
| | Shares | Amount | Paid-In | Shares | Amount |
| | Issued | | Capital | | |
| Balance @ May 31, 2001 | 5,092,751 | 509,275 | 3,696,983 | 1,088,584 | (4,687,565) |
| Currency Translation adjustment | | | | | |
| Exercise of stock options | 1,638 | 164 | (164) | | |
| Compensatory stock issuance | | | 24,623 | | |
| Net Income for 3 months | | | | | |
| | ----- | ----- | ----- | ----- | ----- |
| Balance @ Aug 31, 2001 | 5,094,389 | 509,439 | 3,721,442 | 1,088,584 | (4,687,565) |
| | Common Stock | | Additional | Treasury Stock | |
| | Shares | Amount | Paid-In | Shares | Amount |
| | Issued | | Capital | | |
| Balance @ Aug 31, 2001 | 5,094,389 | 509,439 | 3,721,442 | 1,088,584 | (4,687,565) |
| Currency Translation adjustment | | | | | |
| Treasury Stock dividend | | | | | |
| Exercise of stock options | 1,512 | 151 | (151) | | |
| Issue of 40,000 shares-Tapecoat | 40,000 | 4,000 | 424,000 | | |
| Compensatory stock issuance | | | 73,872 | | |
| Net Income for 9 months | | | | | |
| Dividends paid in cash \$.36 a share on common stock | | | | | |
| | ----- | ----- | ----- | ----- | ----- |
| Balance @ May 31, 2002 | 5,135,901 | \$513,590 | \$4,219,163 | 1,088,584 | \$(4,687,565) |
| | ===== | ===== | ===== | ===== | ===== |

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| | Retained | Effect of | Total | Comprehensive |
|---|--------------|-------------|--------------|---------------|
| | Earnings | Currency | Shareholders | Income |
| | | Translation | Equity | |
| Balance @ Aug 31, 2000 | \$25,964,349 | \$(180,073) | \$25,229,095 | |
| Currency Translation adjustment | | (26,197) | (26,197) | \$(26,197) |
| Exercise of stock options | | | -- | |
| Compensatory stock issuance | | | 73,874 | |
| Net Income for 9 months | 4,073,980 | | 4,073,980 | 4,073,980 |
| Dividends paid in cash \$.36 a share on common stock | (1,431,263) | | (1,431,263) | |
| | ----- | ----- | ----- | ----- |
| Balance @ May 31,2001 | 28,607,066 | (206,270) | 27,919,489 | 4,047,783 |
| | | Cumm | | |
| | | Effect of | Total | Comprehensive |
| | Retained | Currency | Shareholders | Income |
| | Earnings | Translation | Equity | |
| Balance @ May 31,2001 | 28,607,066 | (206,270) | 27,919,489 | 4,047,783 |
| Currency Translation adjustment | | (6,732) | (6,732) | (6,732) |
| Exercise of stock options | | | -- | |
| Compensatory stock issuance | | | 24,623 | |
| Net Income for 3 months | 1,799,380 | | 1,799,380 | 1,799,380 |
| | ----- | ----- | ----- | ----- |
| Balance @ Aug 31, 2001 | 30,406,446 | (213,002) | 29,736,760 | 1,792,648 |
| | | | | ===== |
| | | Cumm | | |
| | | Effect of | Total | Comprehensive |
| | Retained | Currency | Shareholders | Income |
| | Earnings | Translation | Equity | |
| Balance @ Aug 31, 2001 | 30,406,446 | (213,002) | 29,736,760 | 1,792,648 |
| Currency Translation adjustment | | 8,434 | 8,434 | 8,434 |
| Treasury Stock dividend | | | -- | |
| Exercise of stock options | | | -- | |
| Issue of 40,000 shares-Tapecoat | | | 428,000 | |
| Compensatory stock issuance | | | 73,872 | |
| Net Income for 9 months | 2,634,161 | | 2,634,161 | 2,634,161 |
| Dividends paid in cash \$.36 a share on common stock | (1,442,290) | | (1,442,290) | |
| | ----- | ----- | ----- | ----- |
| Balance @ May 31,2002 | \$31,598,317 | \$(204,568) | \$31,438,937 | \$2,642,595 |
| | ===== | ===== | ===== | ===== |

See accompanying notes to the consolidated financial statements and accountants' review report.

CHASE CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)

Nine Months Ended

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| | May 31, 2002 | May 31, 2001 |
|--|--------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Income | \$2,634,161 | \$4,073,980 |
| Adjmts. to reconcile net income to net cash provided by operating activities: | | |
| Income from joint venture | (110,000) | (211,000) |
| Depreciation | 1,433,994 | 1,124,598 |
| Amortization - goodwill | 0 | 495,404 |
| Amortization - patents | 72,967 | 73,290 |
| Provision for losses on accounts receivable | 98,854 | (30,743) |
| Stock issued for compensation | 73,872 | 73,874 |
| Deferred taxes | (152,583) | (432,170) |
| Change in assets and liabilities | | |
| Proceeds from notes receivable | 147,000 | |
| Trade receivables | 2,185,804 | 485,555 |
| Inventories | 804,222 | (986,575) |
| Prepaid. expenses & other current assets | (418,072) | (186,279) |
| Accounts payable | (477,726) | (581,495) |
| Accrued expenses | (705,609) | 273,094 |
| Income taxes payable | (218,585) | 17,562 |
| Deferred compensation | 0 | <u>73,938</u> |
| TOTAL ADJUSTMENTS | 2,734,038 | 189,053 |
| NET CASH FROM OPERATIONS | 5,368,199 | 4,263,033 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Capital expenditures | (2,820,596) | (1,578,019) |
| Cash paid for investment | (25,352) | (20,000) |
| Investment in trustee assets | 0 | (77,859) |
| Investment in subsidiaries | (241,209) | (153,347) |
| Purchase of cash surrender value | (629,703) | (158,235) |
| Dividend received from joint venture | 0 | <u>245,826</u> |
| | (3,716,860) | (1,741,634) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Increase in long-term debt | 8,797,783 | 9,361,172 |
| Payments of principal on debt | (8,748,564) | (10,230,006) |
| Net borrowing under line-of-credit | (76,138) | (278,879) |
| Dividend paid | <u>(1,442,290)</u> | <u>(1,431,263)</u> |
| | (1,469,209) | (2,578,976) |
| NET CHANGE IN CASH | 182,130 | (57,577) |
| CASH AT BEGINNING OF PERIOD | <u>49,283</u> | <u>65,289</u> |
| CASH AT END OF PERIOD | \$231,413 | \$7,712 |
| | ===== | ===== |
| CASH PAID DURING PERIOD FOR: | | |
| Income taxes | \$1,599,064 | \$2,338,624 |
| Interest | \$406,362 | \$650,259 |
| Significant non-cash transactions; see note D | | |

See accompanying notes to the consolidated financial statements and accountants' review report.

CHASE CORPORATION SECURITIES AND EXCHANGE COMMISSION
NOTES TO CONSOLIDATED FINANCIAL STATEMENT

July 08, 2002

Note A - Basis of Presentation

The accompanying unaudited Consolidated Financial Statements have been prepared in accordance with the instructions to Form 10-Q and all adjustments (consisting of nonrecurring accruals) have been made which are, in the opinion of Management, necessary to a fair statement of the results for the interim periods reported. The financial statements of Chase Corporation include the activities of its divisions and its foreign sales subsidiary.

Note B - Inventories

Certain divisions used estimated gross profit rates to determine the cost of goods sold. No significant adjustments have resulted from reconciling with the interim physical inventories as a result of using this method.

Note C - Income per Share of Common Stock

| | Nine Months Ended | | Three Months Ended | |
|--|-------------------|--------------|--------------------|--------------|
| | May 31, 2002 | May 31, 2001 | May 31, 2002 | May 31, 2001 |
| Income available to common shareholders | \$2,634,161 | \$4,073,980 | \$1,156,883 | \$1,449,583 |
| Weighted average common shares outstanding | 4,037,814 | 3,995,667 | 4,047,317 | 4,001,930 |
| Basic earnings per share | 0.65 | 1.02 | 0.29 | 0.36 |
| Weighted average common shares outstanding | 4,037,814 | 3,995,667 | 4,047,317 | 4,001,930 |
| Effect of options outstanding | 97,837 | 61,082 | 96,154 | 62,432 |
| Common shares and share equivalents | 4,135,651 | 4,056,739 | 4,143,471 | 4,064,362 |
| Diluted earnings per share | 0.64 | 1.00 | 0.28 | 0.36 |

Note D - Acquisition of Assets

Chase Corporation (the "Company") has purchased certain operating assets of the Tapecoat Division of TC Manufacturing, Inc. from TC Manufacturing, Inc. The assets were purchased effective November 1, 2001. Operations related to these assets subsequent to acquisition has accounted for \$4,413,128 and \$1,948,834 of revenue and \$379,010 and \$193,101 of net income for the nine and three months ended May 31, 2002. This increased basic earnings per share by \$0.094 and \$0.048 and diluted earnings per share by \$0.092 and \$0.047 for the nine and three month periods.

The assets consisted of:

| | |
|-------------------------|------------------|
| Accounts Receivable | \$1,368,831 |
| Inventory | 1,646,335 |
| Other Current Assets | 5,813 |
| Land and Buildings | 1,700,000 |
| Machinery and Equipment | <u>2,420,000</u> |

| | |
|--|----------------|
| | \$7,140,979 |
| The purchase price consisted of: | |
| Cash | \$5,427,217 |
| Accounts Payable | 417,034 |
| Other Current Liabilities assumed | 868,728 |
| Common Stock issued, 40,000 shares at \$10.70 per share | <u>428,000</u> |
| | \$7,140,979 |

Cash was provided through operating cash and borrowing under the Company's credit facility.

Note E - Recent Accounting Pronouncements

~~— In July 2001, the Financial Accounting Standards Board (FASB) issued FASB Statements Nos. 141 and 142 (FAS 141 and FAS 142), Business Combinations and Goodwill and Other Intangible Assets. FAS 141 replaces APB 16 and eliminates pooling of interests accounting prospectively. It also provides guidance on purchase accounting related to the recognition of intangible assets and accounting for negative goodwill. FAS 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Under FAS 142, goodwill will be tested annually and whenever events or circumstances occur indicating that goodwill might be impaired. All of the Company's acquisitions have been accounted for using the purchase method. However, intangibles may be classified differently in future transactions.~~

Note E - ~~Recently Issued Accounting Standards~~ *Change in Accounting Method*

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 141, "Business Combinations" (FAS 141) and Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets" (FAS 142). FAS 141 requires the purchase method of accounting to be used for all business combinations initiated after June 30, 2001. FAS 141 also specifies criteria that intangible assets acquired must meet to be recognized and reported separately from goodwill. The adoption of FAS 141 will not have any material effect on our results of operations or financial position.

FAS 142 requires that goodwill and intangible assets with indefinite lives no longer be amortized but instead be measured for impairment at least annually, or when events indicate that an impairment exists.

Our adoption date

will be September 1, 2001. As of that date, amortization of goodwill and other indefinite-lived intangible assets, including those recorded in past business combinations, will cease. As a result of the elimination of this amortization, selling, general and administrative expenses will decrease by approximately \$667,000 annually.

As required by FAS 142, we will perform impairment tests on goodwill and other indefinite-lived intangible assets as of the adoption date. Thereafter, we will perform impairment tests annually and whenever events or circumstances indicate that the value of goodwill or other indefinite-lived intangible assets might be impaired. In connection with the FAS 142 transitional goodwill impairment test, we will utilize the required two-step method for determining goodwill impairment as of the adoption date. To accomplish this, we will identify our reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of the adoption date. We will then have up to six months from the adoption date to determine the fair value of each reporting unit and compare it to the carrying amount of the reporting unit. To the extent the carrying amount of a reporting unit exceeds the fair value of the reporting unit, we then will perform the second

step of the transitional impairment test. If necessary, in the second step, we will compare the implied fair value of the reporting unit goodwill with the carrying amount of the reporting unit goodwill, both of which would be measured as of the adoption date. The implied fair value of goodwill will be determined by allocating the fair value of the reporting unit to all of the assets (recognized and unrecognized) and liabilities of the reporting unit in a manner similar to a purchase price allocation, in accordance with FAS 141. The residual fair value after this allocation will be the implied fair value of the reporting unit goodwill. We will record a transitional impairment loss for the excess of the carrying value of goodwill allocated to the reporting unit over the implied fair value. FAS 142 requires that this second step be completed as soon as possible, but no later than the end of the year of adoption.

In connection with the FAS 142 indefinite-lived intangible asset impairment test, we will utilize the required one-step method to determine whether an impairment exists as of the adoption date. The test will consist of a comparison of the fair values of indefinite-lived intangible assets with the carrying amounts. If the carrying amount of an indefinite-lived intangible asset exceeds its fair value, we will recognize an impairment loss in an amount equal to that excess.

The Company paid \$41,209 to Netco Automation stockholder in settlement of adjustment to the purchase price. It was charged to non-amortizable goodwill.

In accordance with statement of financial accounting standards number 142, which the Company adopted September 1, 2001, an interim evaluation of goodwill was conducted on February 28, 2002. Based on the evaluation of estimated future cash flows no adjustment to goodwill has been made at this time. Projected amortization of intangibles not included in goodwill for the next 5 year period is:

2003 - \$97,047

2004 - \$97,047

2005 - \$96,060

2006 - \$93,897

2007 - \$93,897

| | Nine Months Ended | | Three Months Ended | |
|--|-------------------|-----------|--------------------|-----------|
| | May 31, | May 31, | May 31, | May 31, |
| | 2002 | 2001 | 2002 | 2001 |
| Net income as reported | 2,634,161 | 4,073,980 | 1,156,883 | 1,449,583 |
| Amortization Expense related to goodwill | | 0 | 495,404 | 0 |
| Net income | 2,634,161 | 4,569,384 | 1,156,883 | 1,614,811 |

Note F - Review by Independent Public Accountant

The financial information included in this form has been reviewed by an independent public accountant in accordance with established professional standards and procedures. Based upon such review, no adjustments or additional disclosure were recommended.

Letter from the independent public accountant is included as a part of this report.

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors

Chase Corporation

Bridgewater, Massachusetts

We have reviewed the consolidated balance sheet of Chase Corporation and Subsidiaries as of May 31, 2002 and the related consolidated statements of operations, stockholders equity, and cash flows for the periods of three and nine months ended May 31, 2002 and May 31, 2001; in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of Chase Corporation.

A review of interim financial information consists principally of obtaining an understanding of the system for the preparation of interim financial information, applying analytical procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with U.S. generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with U. S. generally accepted auditing standards, the consolidated balance sheet of Chase Corporation and Subsidiaries as of August 31, 2001, and the related statements of operations, stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated November 7, 2001, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of August 31, 2001, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/S/ LIVINGSTON & HAYNES, P.C.

Wellesley, Massachusetts

July 12, 2002

Results of Operations

Net revenues decreased 2% for the first nine months of fiscal 2002 versus the same period last year while third quarter revenue increased 8% when compared to the same period in fiscal 2001. The Company's performance continued to be impacted by the recession, which was somewhat offset from the benefits of our asset acquisition of the Tapecoat Division of TC Manufacturing, Inc. concluded November 1, 2001. The revenue generated by Tapecoat through May 31, 2002 amounted to \$4,413,000. During the third quarter, the Company also had some improvement in certain key product areas that last year were negatively effected by the slowing economy. This is also evidenced by the slight improvement in our operating profit as a percent of sales when comparing our last quarter (11.2%) report to this quarter (11.9%). However, the Company's Electronic Manufacturing Services (EMS) segment continues to be more adversely affected by the economic downturn. Overall, our diversification has enabled us to take advantage of certain construction and manufacturing markets enabling us to continue to operate on a positive basis.

When comparing the nine months fiscal 2001 revenue to that of the prior year, the majority of the 7% increase related to the investments and acquisitions within the EMS segment that were concluded during fiscal 1999. The third quarter of fiscal 2001 was the period that the slowing economy had its first material impact

on Chase Corporation.

Sales and Operating Profit by Segment
(\$-000)

For the nine months ended:

| | | Sales | Operating Profit | % |
|--------------|---|-----------------|------------------|------------|
| May 31, 2002 | | | | |
| | Specialized Manufacturing | \$35,184 | \$5,640 | 16.0 |
| | Electronic Manufacturing Services | <u>\$15,037</u> | <u>\$ 351</u> | <u>2.3</u> |
| | | \$50,221 | \$5,991 | 11.9 |
| | Less: Common Costs | | (2,390) | |
| | Income Before Tax and Minority Interest | | \$3,601 | |
| May 31, 2001 | | | | |
| | Specialized Manufacturing | \$34,859 | \$7,175 | 20.6 |
| | Electronic Manufacturing Services | <u>\$16,648</u> | <u>\$1,505</u> | <u>9.0</u> |
| | | \$51,507 | \$8,680 | 16.9 |
| | Less: Common Costs | | (2,940) | |
| | Income Before Tax and Minority Interest | | \$5740 | |
| May 31, 2000 | | | | |
| | Specialized Manufacturing | \$34,068 | \$6,885 | 20.2 |
| | Electronic Manufacturing Services | <u>\$14,217</u> | <u>\$1,029</u> | <u>7.2</u> |
| | | \$48,285 | \$7,914 | 16.4 |
| | Less: Common Costs | | (2,708) | |
| | Income Before Tax and Minority Interest | | \$5,206 | |

The cost of products sold increased \$1,250,000 during the current quarter when comparing it to the same quarter last year. When comparing the like period for the first nine months of fiscal 2002 to that of the previous year, the increase was \$800,000. To a large extent, these increases are volume related although for the first nine months as a percent of sales, cost of products increased by 4% to 74%. The percent of increase is associated with selling price erosion created by competitive pressure, a product mix change and lower volume during the nine month period, thereby decreasing efficiencies previously achieved through economics of scale.

When comparing the like periods of 2001 and 2000, the cost of product variance was not material. Raw material price increases were offset by the benefits of product mix and a stabilized manufacturing and productivity environment.

Selling and administration expenses increased \$450,000 during the current year, and as a percent of sales have increased by 1.4%. The additional costs are primarily associated with the Tapecoat acquisition. When comparing fiscal 2001 to 2000 the increase of \$634,000 was predominantly volume related. The Company has also invested in personnel required to support future growth while continuing to be focused on cost containment.

Interest expense decreased to \$406,000 for the first nine months of this year as compared to \$650,000 and \$659,000 for the periods of 2001 and 2000. The decrease relates to the repayment of debt incurred for acquisitions and also the reductions to interest rates. The prior period interest expense increase was primarily

associated with the debt incurred to complete acquisitions. The Company continues to benefit from the low borrowing rates from its financial institutions.

A majority of the earnings decline during the nine months ended May 31 are the result of lower sales of products and services and the associated profitability provided by our Electronic Manufacturing Services (EMS) segment. Of the pre tax earnings decline of \$1.3 million, about \$1.15 million relates to the reduced operating profit of the Company's EMS segment. Our more traditional markets continue to perform reasonably well in spite of the recession. The Company has also received the benefit of positive results from the Tapecoat acquisition. As expected, the Company's performance improved during the third quarter. The Company anticipates continued improvement during our fourth quarter and solid improvement during fiscal 2003. It still remains difficult to predict a full recovery of the economy although we appear to be more positive than negative as we look into our next fiscal year.

When comparing 2001 to 2000 a majority of the earnings improvements were from the benefits received from the Company's investments in the EMS segment, which were primarily concluded during the second half of fiscal 1999.

Management will continue to maximize our diversity as we move through this period of economic difficulty. We continue to seek to maximize and expand our current business, while at the same time identifying future opportunities through selective acquisitions.

The effective tax rate over the past few years are lower than the applicable rates. The Company continues to receive the tax benefit of solid export sales through its Chase Export Corporation subsidiary. Also, effective January 1999, the Company acquired 100% ownership of Sunburst EMS which has provided the benefit of consolidating historical losses for income tax purposes.

The increase from minority interest is associated with our 42% equity position in the Stewart Group, Inc., Toronto, Canada.

Liquidity and Sources of Capital

The ratio of current assets to current liabilities was 1.9 at the end of the third quarter of fiscal 2002 as compared to 1.7 at the prior year-end.

Long-term debt increased by \$5,630,000 when compared to the end of fiscal 2001. The majority of the increase is relates to the debt incurred to purchase the assets of Tapecoat and the funds required to purchase the building in West Bridgewater, MA, which is the facility that is occupied by Sunburst EMS.

The Company had \$1,615,000 in available credit at May 31, 2002 under its credit arrangements with its primary bank and plans to utilize this means to help finance its interim needs during the year. Current financial resources and anticipated funds from operations are expected to be adequate to meet requirements for funds in the year ahead.

Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board (FASB) issued FASB Statements Nos.141 and 142 (FAS 141 and FAS 142), Business Combinations and Goodwill and Other Intangible Assets. FAS 141 replaces APB 16 and eliminates pooling-of-interests accounting prospectively. It also provides guidance on purchase accounting related to the recognition of intangible assets and accounting for negative goodwill. FAS 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Under FAS 142, goodwill will be tested annually and whenever events or circumstances occur indicating that

goodwill might be impaired.

FAS 141 and FAS 142 are effective for all business combinations completed after June 30, 2001. Upon adoption of FAS 142, amortization of goodwill recorded for business combinations consummated prior to July 1, 2001 will cease, and intangible assets acquired prior to July 1, 2001 that do not meet the criteria for recognition under FAS 141 will be reclassified to goodwill. Companies are required to adopt FAS 142 for fiscal years beginning after December 15, 2001, but early adoption is permitted. The Company adopted FAS 142 on September 1, 2001, the beginning of fiscal 2002. In connection with the adoption of FAS 142, the Company was required to perform a transitional goodwill impairment assessment. An interim evaluation of goodwill has been conducted based on the evaluation of estimated future cash flow and no adjustments to goodwill are required at this time. Therefore, no amortization of goodwill has been charged to administrative expense for the nine and three-month periods ended May 31, 2002. Administrative expense included amortization of goodwill totaling \$495,404 and \$165,228 respectively for the nine and three-month periods ended May 31, 2001. Amortization of goodwill booked to administrative expense totaled \$491,724 and \$163,908 respectively for the nine and three-month periods ended May 31, 2000.

Forward-Looking Information

From time to time, the Company may publish, verbally or in written form, forward-looking statements relating to such matters as anticipated financial performance, business prospects, technological developments, new products, research and development activities and similar matters. In fact, this Form 10-Q (or any other periodic reporting documents required by the 1934 Act) may contain forward-looking statements reflecting the current views of the Company concerning potential future events or developments. The Private Securities Litigation Reform Act of 1995 (the "Act") provides a "safe harbor" for forward-looking statements. In order to comply with the terms of the "safe harbor," the Company cautions investors that any forward-looking statements made by the Company are not guarantees of future performance and that a variety of factors could cause the Company's actual results and experience to differ materially from the anticipated results or other expectations expressed in the Company's forward-looking statements. The risks and uncertainties which may affect the operations, performance, development and results of the Company's business include, but are not limited to, the following: uncertainties relating to economic conditions; uncertainties relating to government and regulatory policies; uncertainties relating to customer plans and commitments; the pricing and availability of equipment, materials and inventories; technological developments; performance issues with key suppliers and subcontractors; worldwide political stability and economic growth; regulatory uncertainties; delays in testing of new products; rapid technology changes and the highly competitive environment in which the Company operates. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statement was made.

Recently Issued Accounting Standards

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 141, "Business Combinations" (FAS 141) and Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets" (FAS 142). FAS 141 requires the purchase method of accounting to be used for all business combinations initiated after June 30, 2001. FAS 141 also specifies criteria that intangible assets acquired must meet to be recognized and reported separately from goodwill. The adoption of FAS 141 will not have any material effect on our results of operations or financial position.

FAS 142 requires that goodwill and intangible assets with indefinite lives no longer be amortized but instead be measured for impairment at least annually, or when events indicate that an impairment exists. Our adoption date will be September 1, 2001. As of that date, amortization of goodwill and other indefinite-lived intangible assets, including those recorded in past business combinations, will cease. As a result of the elimination of this amortization, selling, general and administrative expenses will decrease by approximately \$667,000 annually.

As required by FAS 142, we will perform impairment tests on goodwill and other indefinite-lived intangible assets as of the adoption date. Thereafter, we will perform impairment tests annually and whenever events or circumstances indicate that the value of goodwill or other indefinite-lived intangible assets might be impaired. In connection with the FAS 142 transitional goodwill impairment test, we will utilize the required two-step method for determining goodwill impairment as of the adoption date. To accomplish this, we will identify our reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of the adoption date. We will then have up to six months from the adoption date to determine the fair value of each reporting unit and compare it to the carrying amount of the reporting unit. To the extent the carrying amount of a reporting unit exceeds the fair value of the reporting unit, we then will perform the second step of the transitional impairment test. If necessary, in the second step, we will compare the implied fair value of the reporting unit goodwill with the carrying amount of the reporting unit goodwill, both of which would be measured as of the adoption date. The implied fair value of goodwill will be determined by allocating the fair value of the reporting unit to all of the assets (recognized and unrecognized) and liabilities of the reporting unit in a manner similar to a purchase price allocation, in accordance with FAS 141. The residual fair value after this allocation will be the implied fair value of the reporting unit goodwill. We will record a transitional impairment loss for the excess of the carrying value of goodwill allocated to the reporting unit over the implied fair value. FAS 142 requires that this second step be completed as soon as possible, but no later than the end of the year of adoption.

In connection with the FAS 142 indefinite-lived intangible asset impairment test, we will utilize the required one-step method to determine whether an impairment exists as of the adoption date. The test will consist of a comparison of the fair values of indefinite-lived intangible assets with the carrying amounts. If the carrying amount of an indefinite-lived intangible asset exceeds its fair value, we will recognize an impairment loss in an amount equal to that excess.

In accordance with statement of financial accounting standards number 142, which the Company adopted September 1, 2001, an interim evaluation of goodwill was conducted on February 28, 2002. Based on the evaluation of estimated future cash flows no adjustment to goodwill has been made at this time.

ITEM 6 EXHIBITS AND REPORTS ON FORM 8-K

(A) Exhibits

Reg. S-K

Item 601

| Subsection | Description of Exhibit | State | Page Number |
|------------|--|-------|-------------|
| | Pursuant to reg. S-K item 601 no exhibits are required. | | |

(b) Reports on Form 8-K

No 8-K reports were filed during the three months ended May 31, 2002.

No financial statements were filed during the three months ended May 31, 2002.

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.

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CHASE CORPORATION

/s/ Peter R. Chase

Peter R. Chase, President & CEO

Dated: July 12, 2002