

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)

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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.

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**CHASE CORPORATION**

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**For the Quarter Ended February 29, 2008**

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

(UNAUDITED)

|   | February 29,<br>2008 | August 31,<br>2007 |
|---|----------------------|--------------------|
| <b>ASSETS</b>   |                      |                    |
| 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      |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                      |                    |
| 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            |

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|  |               |               |
|--|---------------|---------------|
| 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 |
| <b>Revenue</b>   |                    |                   |                   |                   |
| 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        |
| <b>Costs and Expenses</b>                                |                    |                   |                   |                   |
| 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      |
| <b>Net income per common and common equivalent share</b> |                    |                   |                   |                   |
| Basic  | \$ 0.23            | \$ 0.17           | \$ 0.65           | \$ 0.49           |
| Diluted  | \$ 0.22            | \$ 0.16           | \$ 0.62           | \$ 0.47           |
| <b>Weighted average shares outstanding</b>               |                    |                   |                   |                   |
| 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<br>Shares | Common Stock<br>Amount | Additional<br>Paid-In<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Income | Retained<br>Earnings | Total<br>Stockholders<br>Equity | Comprehensive<br>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 |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                      |                   |                   |
| 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         |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                      |                   |                   |
| 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)       |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                      |                   |                   |
| 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)         |
| <b>INCREASE (DECREASE) IN CASH</b>   | (1,231,096)       | 19,583            |
| Effect of foreign exchange rates on cash   | (73,358)          | 101,626           |
| <b>CASH, BEGINNING OF PERIOD</b>   | 2,443,750         | 2,416,097         |
| <b>CASH, END OF PERIOD</b>   | \$ 1,139,296      | \$ 2,537,306      |
| <b>Non-cash Investing and Financing Activities</b>                               |                   |                   |
| 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        |



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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)

assembly services for the electronics industry. The Company evaluates segment performance based upon income before income taxes.

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

|   | Three Months Ended |                   | Six Months Ended  |                   |
|---|--------------------|-------------------|-------------------|-------------------|
|   | February 29, 2008  | February 28, 2007 | February 29, 2008 | February 28, 2007 |
| <b>Revenues from external customers</b> |                    |                   |                   |                   |
| Specialized Manufacturing               | \$ 24,205,162      | \$ 22,725,032     | \$ 53,795,869     | \$ 49,609,001     |
| Electronic Manufacturing Services       | 4,041,415          | 4,778,656         | 9,086,546         | 9,139,283         |
| Total                                   | \$ 28,246,577      | \$ 27,503,688     | \$ 62,882,415     | \$ 58,748,284     |
| <b>Income before income taxes</b>       |                    |                   |                   |                   |
| Specialized Manufacturing               | \$ 3,752,907       | \$ 2,964,768      | \$ 10,200,770     | \$ 8,059,196      |
| Electronic Manufacturing Services       | 470,253            | 578,850           | 1,046,220         | 951,454           |
| Total for reportable segments           | 4,223,160          | 3,543,618         | 11,246,990        | 9,010,650         |
| Corporate and Common Costs              | (1,263,216)        | (1,366,325)       | (2,772,132)       | (2,789,328)       |
| Total                                   | \$ 2,959,944       | \$ 2,177,293      | \$ 8,474,858      | \$ 6,221,322      |

|                                   | February 29, 2008 | August 31, 2007 |
|-----------------------------------|-------------------|-----------------|
| <b>Total assets</b>               |                   |                 |
| Specialized Manufacturing         | \$ 63,545,632     | \$ 59,725,253   |
| Electronic Manufacturing Services | 13,904,862        | 12,988,314      |
| Total for reportable segments     | 77,450,494        | 72,713,567      |
| Corporate and Common Assets       | 9,366,602         | 11,251,342      |
| Total                             | \$ 86,817,096     | \$ 83,964,909   |

**Note 6 Goodwill and Other Intangibles**

The changes in the carrying value of goodwill, by reportable segment, are as follows:

|  | Specialized<br>Manufacturing | Electronic<br>Manufacturing<br>Services | Consolidated  |
|--|------------------------------|---|---------------|
| Balance at August 31, 2007   | \$ 8,576,752                 | \$ 5,998,888                            | \$ 14,575,640 |
| Acquisition of E-Poxy Engineered Materials - additional<br>earnout | 5,277                        |   | 5,277         |
| Chase Protective Coatings Ltd.                                     | 322,542                      |   | 322,542       |
| FX translation adjustment  | (35,110)                     |   | (35,110)      |

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|                              |    |           |    |           |    |            |
|------------------------------|----|-----------|----|-----------|----|------------|
| Balance at February 29, 2008 | \$ | 8,869,461 | \$ | 5,998,888 | \$ | 14,868,349 |
|------------------------------|----|-----------|----|-----------|----|------------|

Management is still finalizing the purchase price allocation for assets acquired by the Company's wholly owned subsidiary, Chase Protective Coatings Ltd. (see Note 7). Accordingly, the amount allocated to goodwill above as well as other identifiable intangible assets will be finalized no later than the end of the current fiscal year (August 31, 2008).

The Company evaluates the possible impairment of goodwill annually each fourth quarter and whenever events or circumstances indicate the carrying value of goodwill may not be recoverable.

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

Intangible assets subject to amortization consist of the following at February 29, 2008 and August 31, 2007:

|                                  | Weighted-Average<br>Amortization Period | Gross Carrying<br>Value | Accumulated<br>Amortization | Net Carrying<br>Value |
|----------------------------------|---|-------------------------|-----------------------------|-----------------------|
| <b>February 29, 2008</b>         |   |                         |                             |                       |
| Patents and agreements           | 12.7 years                              | 2,243,678               | 1,767,576                   | 476,102               |
| Formulas                         | 9.2 years                               | 1,261,235               | 355,425                     | 905,810               |
| Trade names                      | 3.8 years                               | 281,294                 | 175,718                     | 105,576               |
| Customer lists and relationships | 10.7 years                              | 6,418,791               | 1,410,082                   | 5,008,709             |
| <b>August 31, 2007</b>           |   |                         |                             |                       |
| Patents and agreements           | 12.7 years                              | 2,243,678               | 1,660,166                   | 583,512               |
| Formulas                         | 9.2 years                               | 1,261,235               | 279,647                     | 981,588               |
| Trade names                      | 3.8 years                               | 281,294                 | 136,056                     | 145,238               |
| Customer lists and relationships | 10.7 years                              | 6,399,630               | 1,058,405                   | 5,341,225             |

In addition to the intangible assets summarized above, the Company also has corporate trademarks with an indefinite life and a carrying value of \$11,615 at February 29, 2008 and August 31, 2007.

Aggregate amortization expense related to intangible assets for the six months ended February 29, 2008 and February 28, 2007 was \$587,484 and \$431,483, respectively. Estimated amortization expense for the remainder of fiscal year 2008 and for each of the five succeeding fiscal years is as follows:

| <b>Years ending August 31,</b> |              |
|--------------------------------|--------------|
| 2008 (remaining six months)    | \$ 494,728   |
| 2009                           | 927,941      |
| 2010                           | 828,631      |
| 2011                           | 775,576      |
| 2012                           | 754,986      |
| 2013                           | 638,098      |
|                                | \$ 4,419,960 |

**Note 7 Acquisitions**

*Chase Protective Coatings Ltd.*



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On September 1, 2007, Chase Corporation purchased certain product lines and manufacturing facility in Rye, East Sussex, England through its wholly owned subsidiary, Chase Protective Coatings Ltd. For over 35 years, this business has been a leading manufacturer of waterproofing and corrosion protection systems for oil, gas and water pipelines and has been a major supplier to Europe, the Middle East and Southeast Asia. The purchase price for this acquisition was £738,936 (US \$1,489,769 at the time of the acquisition) and was financed out of cash flow from the Company's operations. The effective date for this acquisition was September 1, 2007 and the results of this acquisition have been included in the Company's financial statements since then.

Management is still finalizing the purchase price allocation as it relates to the value of the intangible assets acquired. All assets acquired, including goodwill, are included in the Company's Specialized Manufacturing Segment.

## CHASE CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

**Note 8 Commitments and Contingencies**

From time to time, the Company is involved in litigation incidental to the conduct of its business. The Company is not party to any lawsuit or proceeding that, in management's opinion, is likely to seriously harm the Company's business, results of operations, financial conditions or cash flows.

The Company is one of over 100 defendants in a personal injury lawsuit, pending in Ohio, which alleges personal injury from exposure to asbestos contained in certain Chase products. The plaintiff in the case issued discovery requests to Chase in August 2005, to which Chase timely responded in September 2005. The trial had initially been scheduled to begin on April 30, 2007. However, that date has since been postponed and no new trial date has been set. Since that time, the Ohio lawsuit has been inactive with respect to Chase.

**Note 9 Long Term Debt**

The Company has a long-term unsecured revolving credit facility available up to a maximum amount of \$10 million at the bank's base lending rate or, at the option of the Company, at the effective 30-Day London Interbank Offered Rate (LIBOR) plus 1.25 percent. The outstanding balance and weighted average interest rate of outstanding balances on this credit facility was \$832,111 and 4.37%, respectively, at February 29, 2008. The outstanding balance on this long-term unsecured credit facility is included in scheduled principal payments at its maturity. On February 29, 2008, the Company executed an amendment to this credit facility, extending its maturity to March 31, 2011. All other terms of the credit facility remain the same.

**Note 10 - Pensions and Other Post Retirement Benefits**

The components of net periodic benefit cost for the three and six months ended February 29, 2008 and February 28, 2007 are as follows:

|                                    | Three Months Ended |                   | Six Months Ended  |                   |
|------------------------------------|--------------------|-------------------|-------------------|-------------------|
|                                    | February 29, 2008  | February 28, 2007 | February 29, 2008 | February 28, 2007 |
| Service cost                       | \$ 103,313         | \$ 104,220        | \$ 206,626        | \$ 208,440        |
| Interest cost                      | 125,913            | 125,320           | 251,826           | 250,640           |
| Expected return on plan assets     | (101,714)          | (110,778)         | (203,428)         | (221,556)         |
| Amortization of prior service cost | 21,996             | 21,996            | 43,992            | 43,992            |
| Amortization of unrecognized loss  | 10,122             | 12,242            | 20,244            | 24,484            |
| Net periodic benefit cost          | \$ 159,630         | \$ 153,000        | \$ 319,260        | \$ 306,000        |

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When funding is required, the Company's policy is to contribute amounts that are deductible for federal income tax purposes. As of February 29, 2008, the Company was not required to make any contributions nor did it make any voluntary contributions to the pension plan in the current fiscal year.

**CHASE CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

**Note 11 Income Taxes**

Effective September 1, 2007, the Company adopted the provisions of Financial Accounting Standards Board ( FASB ) Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 ( FIN 48 ). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements by prescribing a recognition threshold and measurement attribute for recognition and measurement of a tax position taken or expected to be taken in a tax return. As a result of the implementation of FIN 48, the Company performed a comprehensive review of its uncertain tax positions and identified \$230,198 in unrecognized tax benefits that were accounted for as a reduction to the September 1, 2007 balance of retained earnings, in accordance with the adoption provisions of FIN 48. At September 1, 2007, the total amount of unrecognized tax benefits was \$639,530. If this amount were recognized, it would favorably impact the effective tax rate for the period of recognition. The Company does not anticipate unrecognized tax benefits will significantly increase or decrease within the next twelve months.

The unrecognized tax benefits mentioned above include an aggregate \$291,338 of interest and accrued penalties. Upon adoption of FIN 48, the Company has elected an accounting policy to classify interest expense on underpayments of income taxes and accrued penalties related to unrecognized tax benefits in the income tax provision. Prior to the adoption of FIN 48, the Company's policy was to classify interest expense on underpayments of income taxes as interest expense and to classify penalties as an operating expense in arriving at earnings before income taxes.

The Company is subject to U.S. federal income tax as well as to income tax of multiple state jurisdictions and foreign tax jurisdictions. The statute of limitations for all material federal, state, and local tax filings remains open for tax years subsequent to 2003. All tax years in foreign jurisdictions currently remain open, as the company's international operations did not commence until 2005.

**Note 12 Recent Accounting Pronouncements**

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements ( FAS 157 ). The provisions of FAS 157 define fair value, establish a framework for measuring fair value in generally accepted accounting principles, and expand disclosures about fair value measurements. The provisions of FAS 157 are effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position 157-2 ( FSP 157-2 ) which defers the effective date of FAS 157 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). FSP 157-2 will apply to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The Company is currently evaluating the impact of the provisions of FAS 157.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FAS No. 115 ( FAS 159 ). FAS 159 allows measurement at fair value of eligible financial assets and liabilities that are not otherwise measured at fair value. If the fair value option for an eligible item is elected, unrealized gains and losses on that item shall be reported in current earnings at each subsequent reporting date. FAS 159 also establishes presentation and disclosure requirements designed to draw

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comparison between the different measurements attributes the company elects for similar types of assets and liabilities. FAS 159 is effective for fiscal years beginning after November 15, 2007. The Company is assessing the impact, if any, the adoption of FAS 159 will have on its consolidated financial statements.

**CHASE CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* ( FAS 141R ), which replaces FAS 141. FAS 141R establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. FAS 141R is to be applied prospectively to business combinations for which the acquisition date is on or after an entity's fiscal year that begins after December 15, 2008. Earlier adoption is prohibited. The Company expects that FAS 141R will have an impact on accounting for business combinations once adopted, but the effect is dependent upon acquisitions at that time.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* an amendment of Accounting Research Bulletin No. 51 ( FAS 160 ). FAS 160 establishes accounting and reporting standards that require the ownership interest in subsidiaries held by parties other than the parent be clearly identified and presented in the consolidated balance sheets within equity, but separate from the parent's equity; the amount of consolidated net income attributable to the parent and the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of earnings; and changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently. This statement is effective for fiscal years beginning on or after December 15, 2008. Earlier adoption is prohibited. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements.

In September 2006, the FASB ratified Emerging Issues Task Force ( EITF ) Issue 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*. In accordance with EITF Issue 06-4, an agreement by the employer to share a portion of the proceeds of a life insurance policy with the employee during the post retirement period is a postretirement benefit arrangement that must be accounted for under FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions* (FAS 106), or APB Opinion No. 12, *Omnibus Opinion 1967* (APB 12). EITF Issue 06-4 becomes effective in the first quarter of fiscal 2009 (fiscal year beginning September 1, 2008). The Company is currently evaluating the potential impact of EITF Issue 06-4.

In March 2007, the FASB ratified Emerging Issues Task Force ( EITF ) Issue 06-10, *Accounting for the Deferred Compensation and Postretirement Benefits Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements*. In accordance with EITF Issue 06-10, an employer should recognize a liability for the postretirement benefit related to a collateral assignment split-dollar life insurance arrangement in accordance with either FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions* (FAS 106), or APB Opinion 12, *Omnibus Opinion 1967* (APB 12). EITF Issue 06-10 becomes effective in the first quarter of fiscal 2009 (fiscal year beginning September 1, 2008). The Company is currently evaluating the potential impact of EITF Issue 06-10.

## Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion provides an analysis of the Company's financial condition and results of operations and should be read in conjunction with the Consolidated Financial Statements and notes thereto included in Item 1 of Part I of this Quarterly Report on Form 10-Q and the Company's Annual Report on Form 10-K filed for the fiscal year ended August 31, 2007.

### Recent Developments

In September 2007, Chase Corporation purchased certain product lines and manufacturing facility in Rye, East Sussex, England through its wholly owned subsidiary, Chase Protective Coatings Ltd. For over 35 years, this business has been a leading manufacturer of waterproofing and corrosion protection systems for oil, gas and water pipelines and has been a major supplier to Europe, the Middle East and Southeast Asia. This new acquisition joins Chase's North American based Tapecoat® and Royston® brands to broaden the protective coatings product line and better address increasing global demand.

### Overview

The company's overall performance in the first six months of fiscal year 2008 continues to exceed prior year results. Revenue for the Specialized Manufacturing segment displayed a healthy increase over the same period last year, despite the challenging conditions of today's marketplace due to the economic uncertainty that is affecting many manufacturing companies. The formation of Humiseal Europe SARL in March 2007 and Chase Protective Coatings Ltd. in September 2007 contributed to the revenue growth along with the organic sales growth seen from existing facilities and product lines. In spite of the inflation that has impacted raw materials prices, favorable product mix coupled with management's emphasis on making strategic purchases have helped maintain solid margins on most of the Company's key product lines through the first half of fiscal 2008. During the remainder of the fiscal year, management will closely monitor raw material purchasing efforts as additional pressure on profit margins is expected with increasing raw material and energy costs.

The Chase Electronic Manufacturing Services segment observed a decrease in customer orders in the first month of the quarter (December) which led to a reduction in revenues in the second quarter compared to the same period in the prior year. Although sales fell short of prior year results, the related effect on profitability was minimized due to lower than anticipated raw material costs and customer mix. Management's continued focus on expanding its customer base led to an increase in customer orders over the later half of the second quarter. For the remainder of fiscal 2008, management's attention will be to maintain a healthy backlog of customer orders and proactively manage overhead costs to assist with profitability.

The Company continues to renovate its recently acquired manufacturing plant in the Pittsburgh area and anticipates that the majority of the building improvements will be completed over the remainder of the current calendar year. This facility will allow for additional production capacity and improved efficiencies with existing product lines, and will also provide space to integrate future acquisitions.

During the upcoming quarter, management will continue to pay close attention to the overall economy, including the housing market, inflation, and cost of petroleum related goods and services and the impact that the global markets will have on the Company's eight core product lines. Brands such as HumiSeal®, Paper Tyger®, Chase & Sons® and Chase BIH2Ock® remain a primary focus in the Company's effort

to grow sales organically; however, management continues to seek strategic acquisitions to bolster future growth.



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The Company has two reportable segments summarized below:

| Segment                                   | Product Lines  | Manufacturing Focus and Products   |
|---|--|--|
| Specialized Manufacturing Segment         | <ul style="list-style-type: none"> <li>• Wire and Cable</li> <li>• Electronic Coatings</li> <li>• Transportation</li> <li>• Pipeline</li> <li>• Construction</li> <li>• Packaging and Industrial</li> <li>• Digital and Print Media</li> </ul> | Produces protective coatings and tape products including insulating and conducting materials for wire and cable manufacturers, protective coatings for pipeline applications, moisture protective coatings for electronics, high performance polymeric asphalt additives and custom pressure sensitive labels. |
| Electronic Manufacturing Services Segment | <ul style="list-style-type: none"> <li>• Contract Electronic Manufacturing Services</li> </ul>   | Provides assembly and turnkey contract manufacturing services including printed circuit board and electromechanical assembly services to the electronics industry operating principally in the United States.  |

**Results of Operations**

*Revenues and Operating Profit by Segment are as follows (dollars in thousands)*

|   | Revenue   | Income Before<br>Income Taxes   | % of<br>Revenue |
|---|-----------|---------------------------------|-----------------|
| <b>Three Months Ended February 29, 2008</b> |           |                                 |                 |
| Specialized Manufacturing                   | \$ 24,205 | \$ 3,753                        | 16%             |
| Electronic Manufacturing Services           | 4,042     | 470                             | 12              |
|   | \$ 28,247 | 4,223                           | 15              |
|   |           | Less corporate and common costs | (1,263)         |
|   |           | Income before income taxes      | \$ 2,960        |
| <b>Three Months Ended February 28, 2007</b> |           |                                 |                 |
| Specialized Manufacturing                   | \$ 22,725 | \$ 2,965                        | 13%             |
| Electronic Manufacturing Services           | 4,779     | 579                             | 12              |
|   | \$ 27,504 | 3,544                           | 13              |
|   |           | Less corporate and common costs | (1,367)         |
|   |           | Income before income taxes      | \$ 2,177        |
| <b>Six Months Ended February 29, 2008</b>   |           |                                 |                 |
| Specialized Manufacturing                   | \$ 53,796 | \$ 10,201                       | 19%             |
| Electronic Manufacturing Services           | 9,086     | 1,046                           | 12              |
|   | \$ 62,882 | 11,247                          | 18              |
|   |           | Less corporate and common costs | (2,772)         |
|   |           | Income before income taxes      | \$ 8,475        |
| <b>Six Months Ended February 28, 2007</b>   |           |                                 |                 |
| Specialized Manufacturing                   | \$ 49,609 | \$ 8,059                        | 16%             |
| Electronic Manufacturing Services           | 9,139     | 951                             | 10              |
|   | \$ 58,748 | 9,010                           | 15              |
|   |           | Less corporate and common costs | (2,789)         |

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|                            |    |       |
|----------------------------|----|-------|
| Income before income taxes | \$ | 6,221 |
|----------------------------|----|-------|

**Total Revenues**

Total revenues increased \$743,000 or 3% to \$28,247,000 for the quarter ended February 29, 2008 compared to \$27,504,000 in the same quarter of the prior year. Total revenues increased \$4,134,000 or 7% to \$62,882,000 in the fiscal year to date period compared to \$58,748,000 in the same period in fiscal 2007.

Revenues from the Company's Specialized Manufacturing segment increased \$1,480,000 and \$4,187,000, in the current quarter and year to date periods, respectively. The increase in revenues as compared to the prior year periods is primarily due to the following for the current quarter and year to date periods, respectively: (a) increased sales from the Company's European Operations due to the establishment of HumiSeal Europe SARL in March 2007 and Chase Protective Coatings in September 2007 accounted for \$1,507,000 and \$3,290,000, (b) increased sales from the Pipeline and Construction product lines of \$379,000 and \$1,454,000, and (c) increased sales of Electronic Coatings sold from the U.S. of \$201,000 and \$764,000. These increases in revenues were partially offset by the following for the quarter and year to date periods, respectively (a) decreased sales of \$268,000 and \$961,000 in the Wire & Cable market primarily due to decreased demand and greater competition related to co-axial shielding tapes, and (b) decreased sales of \$478,000 and \$432,000 in the Transportation product line.

Compared to the prior year periods, revenues from the Company's Electronic Manufacturing Services segment decreased \$737,000 and \$53,000 in the current quarter and year to date periods, respectively. The decrease in revenues in the current quarter is a result of decreased orders seen in the first month of the quarter (December) as the Company's key customers in this segment were assessing their inventory levels and closely monitoring their customer's demand at the end of the calendar year. The current backlog for Chase EMS is healthy at \$9.0 million as of March 31, 2008.

**Cost of Products and Services Sold**

Cost of products and services sold decreased \$324,000 or 2% to \$19,708,000 for the quarter ended February 29, 2008 compared to \$20,032,000 in the prior year quarter. Cost of products and services sold increased \$845,000 or 2% to \$42,672,000 in the fiscal year to date period compared to \$41,827,000 in the same period in fiscal 2007.

Cost of products and services sold in the Company's Specialized Manufacturing segment were \$16,436,000 and \$35,242,000 in the current quarter and year to date periods compared to \$16,065,000 and \$34,234,000 in the comparable periods in the prior year. Cost of products and services sold in the Company's Electronic Manufacturing Services segment were \$3,272,000 and \$7,430,000 in the current quarter and year to date periods compared to \$3,967,000 and \$7,593,000 in the comparable periods in the prior year.

The following table summarizes the relative percentages of revenues for costs of products and services sold for both of the Company's reporting segments:

|                                   | Three Months Ended |                   | Six Months Ended  |                   |
|-----------------------------------|--------------------|-------------------|-------------------|-------------------|
|                                   | February 29, 2008  | February 28, 2007 | February 29, 2008 | February 28, 2007 |
| Specialized Manufacturing         | 68%                | 71%               | 66%               | 69%               |
| Electronic Manufacturing Services | 81%                | 83%               | 82%               | 83%               |

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|              |     |     |     |     |
|--------------|-----|-----|-----|-----|
| <b>Total</b> | 70% | 73% | 68% | 71% |
|--------------|-----|-----|-----|-----|

The dollar value increase in cost of goods sold in the Specialized Manufacturing segment was a direct result of increased revenues during the first half of fiscal 2008. Favorable product mix coupled with continued focus and scrutiny on material purchases have helped margins on most of the Company's key

product lines through the first half of fiscal 2008. Additionally, a continued focus on leveraging the Company's fixed costs and improving manufacturing efficiencies has helped overall margins.

The decrease in dollar value of cost of products and services sold in the Company's Electronic Manufacturing segment was primarily a result of lower revenues in the first six months of fiscal 2008. The slight decrease as a percentage of revenues in cost of products and services sold in this segment was primarily attributable to the product sales mix observed as there were more sales of higher margin products during the first half of fiscal 2008.

### ***Selling, General and Administrative Expenses***

Selling, general and administrative expenses increased \$527,000 or 10% to \$5,660,000 for the quarter ended February 29, 2008 compared to \$5,133,000 in the prior year quarter. Selling, general and administrative expenses increased \$1,514,000 or 15% to \$11,863,000 in the fiscal year to date period compared to \$10,349,000 in the same period in fiscal 2007.

The increase in the current quarter and year to date period over the prior year periods is attributable to: (a) increased employee head count, due to acquisitions and organic volume growth, along with rising employee-related benefits, including health care costs; (b) the timing of costs related to professional services required for compliance with the internal control reporting requirements of Section 404 of the Sarbanes-Oxley Act as greater costs were incurred in the second half of last year given it was the Company's initial year of compliance; (c) increased stock based compensation related to the Company's long term incentive plan; and (d) increased sales commissions due to the Company's positive sales variance in the current year.

### ***Interest Expense***

Interest expense decreased \$183,000 or 74% to \$63,000 for the quarter ended February 29, 2008 compared to \$246,000 in the prior year quarter. Interest expense decreased \$345,000 or 70% to \$146,000 for the fiscal year to date period ended February 29, 2008 compared to \$491,000 in the same period in fiscal 2007. The decrease in interest expense in both the current quarter and year to date period over the prior year periods is a direct result of the reduction in the Company's overall debt balances through principal payments from operating cash flow and an overall decrease in interest rates in fiscal 2008. The Company expects to continue to pay down its debt through operating cash flow in fiscal 2008 and receive the benefits from favorable borrowing rates from its financial institutions.

### ***Other Income (Expense)***

Other income increased \$60,000 or 71% to \$145,000 for the quarter ended February 29, 2008 compared to \$85,000 in the prior year quarter. Other income increased \$133,000 or 94% to \$274,000 for the fiscal year to date period ended February 29, 2008 compared to \$141,000 in the same period in fiscal 2007. Other income includes bank interest earned by the Company's Humiseal Europe division and monthly rental income of \$14,875 on property (building and land) owned by the Company and leased to Sunburst Electronic Manufacturing Solutions, Inc. under a thirty-six month rental agreement commencing on December 1, 2006 and expiring on November 30, 2009. The quarterly and fiscal year to date increase over the prior year periods consists primarily of bank interest and exchange gains earned by the Company's Humiseal Europe division.

*Net Income*

Net income increased \$493,000 or 36% to \$1,865,000 in the quarter ended February 29, 2008 compared to \$1,372,000 in the prior year quarter. Net income increased \$1,420,000 or 36% to \$5,339,000 for the fiscal year to date period ended February 29, 2008 compared to \$3,919,000 in the same period in fiscal 2007. The increase in net income in both the current quarter and year to date periods over the prior year

periods is primarily due to increased revenue growth in the Company's core product lines coupled with the Company's ability to leverage its fixed costs and properly manage its increasing raw material costs.

### **Liquidity and Sources of Capital**

The Company's cash balance decreased \$1,305,000 to \$1,139,000 at February 29, 2008 from \$2,444,000 at August 31, 2007. Generally, the Company manages its borrowings and payments under its revolving line of credit in order to maintain a low cash balance. The higher cash balance at August 31, 2007 was a result of cash flow generated during the year being held for the assets acquired by Chase Protective Coatings Ltd. which were purchased in September 2007 (fiscal 2008). Management continues to review its current cash balances denominated in foreign currency in light of current tax guidelines and potential acquisitions.

Cash flow provided by operations was \$4,915,000 in the first six months of fiscal year 2008 compared to \$3,181,000 in the prior year period. Cash provided by operations during the first half of fiscal 2008 was primarily due to operating income and increased collection of accounts receivable offset by purchases of raw materials.

The ratio of current assets to current liabilities was 2.4 as of February 29, 2008 compared to 2.3 as of August 31, 2007. Increases in inventory, due to increased demand and overall sales volume, along with decreases in accrued income taxes and the current portion of long-term debt were the primary contributors to the increased working capital.

Cash flow used in investing activities of \$2,897,000 was primarily due to \$1,490,000 paid for the assets acquired by Chase Protective Coatings Ltd., \$630,000 paid for purchases related to the build out of the Company's manufacturing facility in Pittsburgh, and cash paid for purchases of machinery and equipment at the Company's other manufacturing locations during fiscal 2008.

Cash flow used in financing activities of \$3,248,000 reflected the annual dividend payment and the Company's ability to use excess cash generated from operating results to pay off existing long-term debt, including \$2,570,000 to pay the outstanding balance of the term note used to finance the Company's October 2005 acquisition of Concoat Holdings Limited.

On October 15, 2007, the Company announced a cash dividend of \$0.25 per share (totaling \$2,067,715) to shareholders of record on October 31, 2007, payable on December 3, 2007.

The Company continues to have long-term unsecured credit available up to a maximum amount of \$10 million at the bank's base lending rate or, at the option of the Company, at the effective 30-Day London Interbank Offered Rate (LIBOR) plus 1.25 percent. The outstanding balance and weighted average interest rate of outstanding balances on this credit facility was \$0.8 million and 4.37%, respectively, at February 29, 2008. The Company had \$9.2 million in available credit at February 29, 2008 under this credit facility and plans to use this availability to help finance its cash needs in fiscal 2008 and future periods. The outstanding balance on this long-term unsecured credit facility is included in scheduled principal payments at its maturity. On February 29, 2008, the Company executed an amendment to this credit facility, extending its maturity to March 31, 2011.

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As of March 31, 2008, the Company had \$9.5 million in available credit under this credit facility.

Under the terms of the Company's credit facility, the Company must comply with certain debt covenants related to (a) the ratio of total liabilities to tangible net worth and (b) the ratio of operating cash flow to debt service on a rolling twelve month basis. The Company was in compliance with its debt covenants as of February 29, 2008.



The Company currently has an on-going capital project that is related to the build out of its newly acquired manufacturing facility in greater Pittsburgh, PA. It also plans on adding additional machinery and equipment as needed to increase capacity or to enhance operating efficiencies in its other manufacturing plants. Additionally, the Company may consider the acquisitions of companies or other assets in fiscal 2008 which are complementary to its business. The Company believes that its existing resources, including its primary credit facility, together with cash generated from operations and additional bank borrowings, will be sufficient to fund its cash flow requirements through at least the next twelve months. However, there can be no assurances that such financing will be available at favorable terms, if at all.

To the extent that interest rates increase in future periods, the Company will assess the impact of these higher interest rates on the financial and cash flow projections of its potential acquisitions.

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

### **Recently Issued Accounting Standards**

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements ( FAS 157 ). The provisions of FAS 157 define fair value, establish a framework for measuring fair value in generally accepted accounting principles, and expand disclosures about fair value measurements. The provisions of FAS 157 are effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position 157-2 ( FSP 157-2 ) which defers the effective date of FAS 157 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). FSP 157-2 will apply to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The Company is currently evaluating the impact of the provisions of FAS 157.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FAS No. 115 ( FAS 159 ). FAS 159 allows measurement at fair value of eligible financial assets and liabilities that are not otherwise measured at fair value. If the fair value option for an eligible item is elected, unrealized gains and losses on that item shall be reported in current earnings at each subsequent reporting date. FAS 159 also establishes presentation and disclosure requirements designed to draw comparison between the different measurements attributes the company elects for similar types of assets and liabilities. FAS 159 is effective for fiscal years beginning after November 15, 2007. The Company is assessing the impact, if any, the adoption of FAS 159 will have on its consolidated financial statements.

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parent's equity; the amount of consolidated net income attributable to the parent and the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of

earnings; and changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently. This statement is effective for fiscal years beginning on or after December 15, 2008. Earlier adoption is prohibited. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements.

In September 2006, the FASB ratified Emerging Issues Task Force ( EITF ) Issue 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements. In accordance with EITF Issue 06-4, an agreement by the employer to share a portion of the proceeds of a life insurance policy with the employee during the post retirement period is a postretirement benefit arrangement that must be accounted for under FASB Statement No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions (FAS 106), or APB Opinion No. 12, Omnibus Opinion 1967 (APB 12). EITF Issue 06-4 becomes effective in the first quarter of fiscal 2009 (fiscal year beginning September 1, 2008). The Company is currently evaluating the potential impact of EITF Issue 06-4.

In March 2007, the FASB ratified Emerging Issues Task Force ( EITF ) Issue 06-10, Accounting for the Deferred Compensation and Postretirement Benefits Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements. In accordance with EITF Issue 06-10, an employer should recognize a liability for the postretirement benefit related to a collateral assignment split-dollar life insurance arrangement in accordance with either FASB Statement No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions (FAS 106), or APB Opinion 12, Omnibus Opinion 1967 (APB 12). EITF Issue 06-10 becomes effective in the first quarter of fiscal 2009 (fiscal year beginning September 1, 2008). The Company is currently evaluating the potential impact of EITF Issue 06-10.

#### **Critical Accounting Policies**

Effective September 1, 2007, the Company adopted the provisions of Financial Accounting Standards Board ( FASB ) Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 ( FIN 48 ). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements by prescribing a recognition threshold and measurement attribute for recognition and measurement of a tax position taken or expected to be taken in a tax return. As a result of the implementation of FIN 48, the Company performed a comprehensive review of its uncertain tax positions and identified \$230,198 in unrecognized tax benefits that were accounted for as a reduction to the September 1, 2007 balance of retained earnings, in accordance with the adoption provisions of FIN 48. At September 1, 2007, the total amount of unrecognized tax benefits was \$639,530. If this amount were recognized, it would favorably impact the effective tax rate for the period of recognition. The Company does not anticipate unrecognized tax benefits will significantly increase or decrease within the next twelve months.

The unrecognized tax benefits mentioned above include an aggregate \$291,338 of interest and accrued penalties. Upon adoption of FIN 48, the Company has elected an accounting policy to classify interest expense on underpayments of income taxes and accrued penalties related to unrecognized tax benefits in the income tax provision. Prior to the adoption of FIN 48, the Company's policy was to classify interest expense on underpayments of income taxes as interest expense and to classify penalties as an operating expense in arriving at earnings before income taxes.

The Company is subject to U.S. federal income tax as well as to income tax of multiple state jurisdictions and foreign tax jurisdictions. The statute of limitations for all material federal, state, and local tax filings remains open for tax years subsequent to 2003. All tax years in foreign jurisdictions currently remain open, as the company's international operations did not commence until 2005.



**Forward Looking Information**

The part of this Quarterly Report on Form 10-Q captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations" contains certain forward-looking statements, which involve risks and uncertainties. These statements are based on current expectations, estimates and projections about the industries in which we operate, general economic conditions, management's beliefs and assumptions made by management. Readers should refer to the discussions under "Forward Looking Information" and "Risk Factors" contained in the Company's Annual Report on Form 10-K for the year ended August 31, 2007 concerning certain factors that could cause the Company's actual results to differ materially from the results anticipated in such forward-looking statements. These discussions and Risk Factors are hereby incorporated by reference into this Quarterly Report.

**Item 3 - Quantitative and Qualitative Disclosures about Market Risk**

The Company limits the amount of credit exposure to any one issuer. At February 29, 2008, other than the Company's restricted investments (which are restricted for use in a non qualified retirement savings plan for certain key employees and Directors), all of the Company's funds were in demand deposit accounts. If the Company places its funds in other than demand deposit accounts, it uses instruments that meet high credit quality standards such as money market funds, government securities, and commercial paper.

The Company's domestic operations have limited currency exposure since substantially all invoices are denominated in U.S. dollars. With the addition of the Company's European operations over the past two years, the exposure to currency exchange fluctuation has increased. The Company continues to review its policies and procedures to reduce this exposure while maintaining the benefit from these operations and sales to other European customers. Historically, the Company has maintained minimal cash balances outside the U.S. As of February 29, 2008, the Company had cash balances in the United Kingdom for its Humiseal Europe Ltd and Chase Protective Coatings divisions denominated primarily in pounds sterling and equal to US \$631,974 and cash balances in France for its HumiSeal Europe SARL division denominated primarily in euros and equal to US \$450,960. Management continues to review its current cash balances denominated in foreign currency in light of current tax guidelines and potential acquisitions.

The Company incurred a foreign currency translation loss, net of tax for the six months ended February 29, 2008 in the amount of \$23,545 related to its European operations which is recorded in other comprehensive income (loss) within the Company's Statement of Stockholders Equity. The Company does not have or utilize any derivative financial instruments for speculative or trading purposes.

**Item 4 - Controls and Procedures**

*Evaluation of disclosure controls and procedures*

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

The Company carries out a variety of on-going procedures, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, to evaluate the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at a reasonable assurance level as of the end of the period covered by this report.

*Changes in internal control over financial reporting*

There was no change in the Company's internal control over financial reporting during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**Part II OTHER INFORMATION****Item 1 Legal Proceedings**

From time to time, the Company is involved in litigation incidental to the conduct of its business. The Company is not party to any lawsuit or proceeding that, in management's opinion, is likely to seriously harm the Company's business, results of operations, financial conditions or cash flows.

The Company is one of over 100 defendants in a personal injury lawsuit, pending in Ohio, which alleges personal injury from exposure to asbestos contained in certain Chase products. The plaintiff in the case issued discovery requests to Chase in August 2005, to which Chase timely responded in September 2005. The trial had initially been scheduled to begin on April 30, 2007. However, that date has since been postponed and no new trial date has been set. Since that time, the Ohio lawsuit has been inactive with respect to Chase.

**Item 1A Risk Factors**

Please refer to Item 1A in the Company's Form 10-K for the fiscal year ended August 31, 2007 for a complete discussion for the risk factors which could materially affect the Company's business, financial condition or future results.

**Item 4 - Submission of Matters to a Vote of Security Holders**

The following matters were approved at the Company's Annual Stockholders Meeting, which was held on January 30, 2008.

Proposal 1- For the election of nominees for the Board of Directors

| <b>Name of Director</b> | <b>In Favor</b> | <b>Authority Withheld</b> |
|-------------------------|-----------------|---------------------------|
| Peter R. Chase          | 7,547,949       | 95,764                    |
| Mary Claire Chase       | 7,544,609       | 99,104                    |
| William H. Dykstra      | 7,419,907       | 223,806                   |
| J. Brooks Fenno         | 7,568,500       | 75,213                    |
| Lewis P. Gack           | 7,571,031       | 72,682                    |
| George M. Hughes        | 7,384,698       | 259,015                   |
| Ronald Levy             | 7,563,700       | 80,013                    |

Proposal 2- For the approval of an amendment to the Articles of Organization to increase the number of authorized shares of common stock from 10,000,000 to 20,000,000



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| <b>In Favor</b> | <b>Against</b> | <b>Abstained</b> |
|-----------------|----------------|------------------|
| 7,460,831       | 178,046        | 4,832            |

Proposal 3 For the ratification of PricewaterhouseCoopers LLP as the corporation's independent registered public accounting firm for the fiscal year ending August 31, 2008

| <b>In Favor</b> | <b>Against</b> | <b>Abstained</b> |
|-----------------|----------------|------------------|
| 7,614,216       | 24,973         | 4,524            |

**Item 5 Other Information**

On February 29, 2008, the Company entered into an amendment to its existing unsecured credit facility between the Company and Bank of America. The amendment extended the maturity date of the credit facility from March 31, 2009 to March 31, 2011. All other terms of the credit facility remain the same.

**Item 6 - Exhibits**

| <b>Exhibit Number</b> | <b>Description</b>   |
|-----------------------|--|
| 3.1                   | Articles of Amendment to the Articles of Organization of Chase Corporation, dated February 15, 2008                            |
| 10.1                  | FY 2008 Chase Corporation Annual Incentive Plan  |
| 10.2                  | FY 2008 Chase Corporation Long Term Incentive Plan   |
| 10.3                  | Form of restricted stock agreement issued under the Chase Corporation 2005 Incentive Plan for non employee Directors           |
| 10.4                  | Twelfth Amendment to Amended and Restated Loan Agreement between Chase Corporation and Bank of America dated February 29, 2008 |
| 31.1                  | Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                         |
| 31.2                  | Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                         |
| 32.1                  | Certification of principal executive officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002                         |
| 32.2                  | Certification of principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002                         |

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**Chase Corporation**

Dated: April 9, 2008

By: */s/ Peter R. Chase*  
Peter R. Chase,  
Chairman and Chief Executive Officer

Dated: April 9, 2008

By: */s/ Kenneth L. Dumas*  
Kenneth L. Dumas  
Chief Financial Officer and Treasurer