

CHASE CORP
Form 10-Q
July 10, 2012
Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended May 31, 2012

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) 819-4200

Edgar Filing: CHASE CORP - Form 10-Q

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 June 30, 2012 was 9,052,701.

Table of Contents

CHASE CORPORATION

INDEX TO FORM 10-Q

For the Quarter Ended May 31, 2012

Part I - FINANCIAL INFORMATION

Item 1 Unaudited Financial Statements

<u>Consolidated Balance Sheets as of May 31, 2012 and August 31, 2011</u>	3
<u>Consolidated Statements of Operations for the three and nine months ended May 31, 2012 and 2011</u>	4
<u>Consolidated Statements of Comprehensive Income for the three and nine months ended May 31, 2012 and 2011</u>	5
<u>Consolidated Statement of Stockholders' Equity for the nine months ended May 31, 2012</u>	6
<u>Consolidated Statements of Cash Flows for the nine months ended May 31, 2012 and 2011</u>	7
<u>Notes to Consolidated Financial Statements</u>	8

<u>Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
---	----

<u>Item 3 Quantitative and Qualitative Disclosures About Market Risk</u>	26
--	----

<u>Item 4 Controls and Procedures</u>	26
---------------------------------------	----

Part II OTHER INFORMATION

<u>Item 1 Legal Proceedings</u>	27
---------------------------------	----

<u>Item 1A Risk Factors</u>	27
-----------------------------	----

<u>Item 6 Exhibits</u>	28
------------------------	----

<u>SIGNATURES</u>	29
--------------------------	----

Table of Contents**Part 1 FINANCIAL INFORMATION****Item 1 Unaudited Financial Statements**

CHASE CORPORATION
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

In thousands, except share and per share amounts

	May 31, 2012	August 31, 2011
ASSETS		
Current Assets:		
Cash & cash equivalents	\$ 13,189	\$ 14,982
Accounts receivable, less allowance for doubtful accounts of \$500 and \$473	18,533	19,103
Inventories	22,988	20,841
Prepaid expenses and other current assets	1,803	1,502
Assets held for sale (Note 12)		1,004
Deferred income taxes	559	559
Total current assets	57,072	57,991
Property, plant and equipment, net	30,922	28,594
Other Assets:		
Goodwill	18,039	18,060
Intangible assets, less accumulated amortization of \$11,735 and \$10,374	14,020	16,185
Cash surrender value of life insurance	7,107	6,915
Restricted investments	803	740
Deferred income taxes	329	332
Other assets	81	92
	\$ 128,373	\$ 128,909
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	\$ 7,255	\$ 7,276
Accrued payroll and other compensation	1,693	2,624
Accrued expenses	4,781	4,237
Accrued income taxes	1,932	1,387
Current portion of long-term debt	4,400	4,400
Total current liabilities	20,061	19,924
Long-term debt, less current portion	4,717	8,267
Deferred compensation	1,622	1,597
Accumulated pension obligation	5,792	6,713

Edgar Filing: CHASE CORP - Form 10-Q

Other liabilities	102	528
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; 9,052,701 shares at May 31, 2012 and 8,952,910 shares at August 31, 2011 issued and outstanding	905	895
Additional paid-in capital	12,162	10,678
Accumulated other comprehensive loss	(4,693)	(3,666)
Retained earnings	87,705	83,973
Total stockholders' equity	96,079	91,880
Total liabilities and stockholders' equity	\$ 128,373	\$ 128,909

See accompanying notes to the consolidated financial statements

Table of Contents

CHASE CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

In thousands, except share and per share amounts

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2012	2011	2012	2011
Revenues				
Sales	\$ 34,378	\$ 32,132	\$ 94,868	\$ 88,622
Royalties and commissions	761	494	1,821	1,532
	35,139	32,626	96,689	90,154
Costs and Expenses				
Cost of products and services sold	22,210	21,230	65,231	58,732
Selling, general and administrative expenses	7,603	7,209	21,108	20,461
Operating income	5,326	4,187	10,350	10,961
Interest expense	(31)	(45)	(103)	(154)
Other income (expense)	(266)	48	203	172
Income before income taxes	5,029	4,190	10,450	10,979
Income taxes	1,656	1,224	3,553	3,668
Net income	\$ 3,373	\$ 2,966	\$ 6,897	\$ 7,311
Net income available to common shareholders, per common and common equivalent share				
Basic	\$ 0.37	\$ 0.33	\$ 0.76	\$ 0.82
Diluted	\$ 0.37	\$ 0.33	\$ 0.76	\$ 0.81
Weighted average shares outstanding				
Basic	8,766,112	8,733,336	8,759,472	8,717,427
Diluted	8,798,269	8,778,884	8,782,564	8,763,850
Cash dividends declared per share			\$ 0.35	\$ 0.35

See accompanying notes to the consolidated financial statements

Table of Contents

CHASE CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

In thousands, except share and per share amounts

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2012	2011	2012	2011
Net income	\$ 3,373	\$ 2,966	\$ 6,897	\$ 7,311
Other comprehensive income:				
Net unrealized gain (loss) on restricted investments, net of tax	(34)	9	2	83
Pension amortization, net of tax	57	47	171	141
Pension settlement loss, net of tax	268		268	
Foreign currency translation adjustment	(586)	619	(1,468)	1,680
Total other comprehensive income (loss)	(295)	675	(1,027)	1,904
Comprehensive income	\$ 3,078	\$ 3,641	\$ 5,870	\$ 9,215

See accompanying notes to the consolidated financial statements

Table of Contents

CHASE CORPORATION
CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY
NINE MONTHS ENDED MAY 31, 2012
(UNAUDITED)

In thousands, except share and per share amounts

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (loss)	Retained Earnings	Total Stockholders Equity
Balance at August 31, 2011	8,952,910	\$ 895	\$ 10,678	\$ (3,666)	\$ 83,973	\$ 91,880
Restricted stock grants, net of forfeitures	98,135	10	(10)			
Amortization of restricted stock grants			1,052			1,052
Amortization of stock option grants			421			421
Common stock issuance	1,656		21			21
Cash dividend paid, \$0.35 per share					(3,165)	(3,165)
Pension amortization, net of tax of \$92				171		171
Pension settlement loss, net of tax of \$145				268		268
Foreign currency translation adjustment				(1,468)		(1,468)
Net unrealized gain on restricted investments, net of tax of \$1				2		2
Net income					6,897	6,897
Balance at May 31, 2012	9,052,701	\$ 905	\$ 12,162	\$ (4,693)	\$ 87,705	\$ 96,079

See accompanying notes to the consolidated financial statements

Table of Contents

CHASE CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)

In thousands, except share and per share amounts

	Nine Months Ended May 31,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 6,897	\$ 7,311
Adjustments to reconcile net income to net cash provided by operating activities		
Loss on disposal/sale of fixed assets	30	
Depreciation	2,083	1,868
Amortization	1,703	1,729
Provision for losses on accounts receivable	38	14
Stock based compensation	1,494	1,269
Realized gain on restricted investments	(20)	(16)
Increase in cash surrender value life insurance	(45)	(15)
Pension settlement loss	(413)	
Excess tax benefit from stock based compensation		(27)
Increase (decrease) from changes in assets and liabilities		
Accounts receivable	278	470
Inventories	(2,300)	(6,619)
Prepaid expenses & other assets	(328)	(266)
Accounts payable	102	1,943
Accrued expenses	(1,150)	(560)
Accrued income taxes	565	(1,337)
Deferred compensation	25	154
Net cash provided by operating activities	8,959	5,918
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(4,479)	(3,079)
Contingent purchase price for acquisition	(155)	(57)
Net proceeds from sale of fixed assets	1,032	
Additional proceeds from sale of discontinued operations		1,478
Net contributions from restricted investments	(41)	(37)
Payments for cash surrender value life insurance	(137)	(137)
Net cash used in investing activities	(3,780)	(1,832)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings on long-term debt	9,085	1,191
Payments of principal on debt	(12,635)	(4,741)
Dividend paid	(3,165)	(3,131)
Payments of statutory minimum taxes on stock options and restricted stock		(13)
Excess tax benefit from stock based compensation		27
Net cash used in financing activities	(6,715)	(6,667)
DECREASE IN CASH	(1,536)	(2,581)
Effect of foreign exchange rates on cash	(257)	442

Edgar Filing: CHASE CORP - Form 10-Q

CASH, BEGINNING OF PERIOD		14,982		17,340
CASH, END OF PERIOD	\$	13,189	\$	15,201
Non-cash Investing and Financing Activities				
Common stock received for payment of stock option exercises	\$		\$	386
Accrual for contingent payments related to acquisitions	\$	201	\$	217
Property, plant & equipment additions included in accounts payable	\$	148	\$	150
Gain on termination of Evanston sale leaseback transaction (Note 11)	\$	425	\$	

See accompanying notes to the consolidated financial statements

Table of Contents

CHASE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

In thousands, except share and per share amounts

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 (the Company, Chase, we, or us) filed audited financial statements which included all information and notes necessary for such presentation for the three years ended August 31, 2011 in conjunction with its 2011 Annual Report on Form 10-K.

The accompanying unaudited consolidated financial statements contain all adjustments (consisting of normal recurring items) which are, in the opinion of management, necessary for a fair presentation of the Company's financial position as of May 31, 2012, the results of operations, comprehensive income and cash flows for the interim periods ended May 31, 2012 and 2011, and changes in stockholders' equity for the interim period ended May 31, 2012.

The financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation. The Company uses the U.S. dollar as the reporting currency for financial reporting. The financial position and results of operations of the Company's HumiSeal Europe Ltd and Chase Protective Coatings Ltd divisions are measured using the UK pound sterling as the functional currency and the financial position and results of operations of the Company's HumiSeal Europe SARL division in France are measured using the euro as the functional currency. Foreign currency translation gains and losses are determined using current exchange rates for monetary items and historical exchange rates for other balance sheet items and are recorded as a change in other comprehensive income. Translation gains and losses generated from the remeasurement of assets and liabilities denominated in currencies other than the functional currency of our foreign operations are included in other income/(expense) on the consolidated statements of operations.

The Company has evaluated events and transactions subsequent to the balance sheet date. Based on this evaluation, and other than the June 2012 acquisition of NEPTCO, Inc. and the related debt bank financing arrangement with Bank of America, each as detailed in Note 13, the Company is not aware of any events or transactions that occurred subsequent to the balance sheet date but prior to filing that would require recognition or disclosure in its consolidated financial statements.

The results of operations for the interim period ended May 31, 2012 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, 2011, which are contained in the Company's 2011 Annual Report on Form 10-K.

Out of Period Adjustment

During the quarter ending May 31, 2012 the Company capitalized certain internal costs related to production equipment projects associated with the Company's long-term plant consolidation plans that had previously been included incorrectly in cost of products and services sold in its consolidated statements of operations. The correction of \$388, consisting of \$161 and \$227 for the three month periods ending November 30, 2011 and February 29, 2012, respectively, was recorded in the three month

Table of Contents

CHASE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

In thousands, except share and per share amounts

period ending May 31, 2012. These corrections were not considered to be material to any of the periods ending November 30, 2011, February 29, 2012 or May 31, 2012.

Note 2 Recent Accounting Policies

Recently Issued Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-05, Comprehensive Income (ASC Topic 220): Presentation of Comprehensive Income, (ASU 2011-05) which amends current comprehensive income guidance. This accounting update eliminates the option to present the components of other comprehensive income as part of the statement of shareholders equity. Instead, the Company must report comprehensive income in either a single continuous statement of comprehensive income which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. The items that must be reported in other comprehensive income were not changed. In December 2011, the FASB issued ASU No. 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05, (ASU 2011-12) which amends ASU 2011-05 by indefinitely deferring the requirement under ASU 2011-05 to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which net income is presented and the statement in which other comprehensive income is presented. The Company adopted ASU 2011-05 with retrospective application as required, except for the components of ASU 2011-05 which were indefinitely deferred by ASU 2011-12, and has included in these condensed consolidated financial statements separate unaudited statements of comprehensive income. The adoption of ASU 2011-05 did not have an impact on the Company s consolidated financial position, results of operations or cash flows as it only required a change in the format of the current presentation.

In September 2011, the FASB issued ASU No. 2011-08, Intangibles - Goodwill and Other (ASC Topic 350) - Testing Goodwill for Impairment, (ASU 2011-08) which gives companies the option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount before performing the two-step test mandated prior to this update. ASU 2011-08 also provides companies with a revised list of examples of events and circumstances to consider, in their totality, to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If a company concludes that this is the case, it must perform the two-step test. Otherwise, a company may skip the two-step test. Companies are not required to perform the qualitative assessment and may instead proceed directly to the first step of the two-part test. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The adoption of ASU 2011-08 will not have an impact on the Company s consolidated financial position, results of operations or cash flows.

Table of Contents

CHASE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

In thousands, except share and per share amounts