

CHASE CORP  
Form 10-Q  
July 10, 2013  
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**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, 2013**

**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)

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(508) 819-4200

(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 ☐

Smaller reporting company ☐

(Do not check if a 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, 2013 was 9,082,097.

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**CHASE CORPORATION**

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**For the Quarter Ended May 31, 2013**

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**CHASE CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
(UnAUDITED)

*In thousands, except share and per share amounts*

	May 31, 2013	August 31, 2012
<b>ASSETS</b>		
Current Assets:		
Cash & cash equivalents	\$ 19,049	\$ 15,180
Accounts receivable, less allowance for doubtful accounts of \$571 and \$817, respectively	30,570	31,621
Inventories	35,934	32,323
Prepaid expenses and other current assets	2,767	1,810
Deferred income taxes	2,705	2,855
Total current assets	91,025	83,789
Property, plant and equipment, net	47,280	49,279
Other Assets:		
Goodwill	38,706	38,793
Intangible assets, less accumulated amortization of \$16,187 and \$12,847, respectively	32,773	36,363
Cash surrender value of life insurance	7,141	7,145
Restricted investments	1,058	874
Other assets	218	244
	\$ 218,201	\$ 216,487
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 11,627	\$ 11,559
Accrued payroll and other compensation	4,178	5,219
Accrued expenses	5,793	6,005
Accrued income taxes	1,058	1,892
Current portion of long-term debt	5,600	5,600
Total current liabilities	28,256	30,275
Long-term debt, less current portion	60,200	64,400
Deferred compensation	1,922	1,775
Accumulated pension obligation	7,618	7,702
Other liabilities	78	92
Deferred income taxes	12,600	12,598

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## Commitments and Contingencies (Note 10)

### Equity:

First Serial Preferred Stock, \$1.00 par value: Authorized 100,000 shares; none issued

Common stock, \$.10 par value: Authorized 20,000,000 shares; 9,082,097 shares at May 31, 2013 and 9,001,582 shares at August 31, 2012 issued and outstanding

	908	900
Additional paid-in capital	13,356	12,109
Accumulated other comprehensive loss	(5,818)	(5,030)
Retained earnings	97,838	90,146
Chase Corporation stockholders' equity	106,284	98,125
Non-controlling interest related to NEPTCO joint venture	1,243	1,520
Total equity	107,527	99,645
Total liabilities and equity	\$ 218,201	\$ 216,487

See accompanying notes to the consolidated financial statements

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**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,	
	2013	2012	2013	2012
<b>Revenues</b>				
Sales	\$ 55,096	\$ 34,378	\$ 155,787	\$ 94,868
Royalties and commissions	636	761	1,718	1,821
	55,732	35,139	157,505	96,689
<b>Costs and Expenses</b>				
Cost of products and services sold	36,833	22,210	107,571	65,231
Selling, general and administrative expenses	10,784	7,603	32,241	21,108
<b>Operating income</b>	<b>8,115</b>	<b>5,326</b>	<b>17,693</b>	<b>10,350</b>
Interest expense	(312)	(31)	(989)	(103)
Other income (expense)	(2)	(266)	282	203
<b>Income before income taxes</b>	<b>7,801</b>	<b>5,029</b>	<b>16,986</b>	<b>10,450</b>
Income taxes	2,730	1,656	5,945	3,553
<b>Net income</b>	<b>5,071</b>	<b>3,373</b>	<b>11,041</b>	<b>6,897</b>
Add: net loss attributable to non-controlling interest, net of tax of \$35 and \$150, respectively	63		277	
<b>Net income attributable to Chase Corporation</b>	<b>\$ 5,134</b>	<b>\$ 3,373</b>	<b>\$ 11,318</b>	<b>\$ 6,897</b>
<b>Net income available to common shareholders, per common and common equivalent share</b>				
Basic	\$ 0.57	\$ 0.37	\$ 1.25	\$ 0.76
Diluted	\$ 0.56	\$ 0.37	\$ 1.24	\$ 0.76
<b>Weighted average shares outstanding</b>				
Basic	8,864,047	8,766,112	8,856,813	8,759,472
Diluted	8,966,756	8,798,269	8,949,963	8,782,564
<b>Cash dividends paid per share</b>			\$ 0.40	\$ 0.35

See accompanying notes to the consolidated financial statements



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**CHASE CORPORATION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(UNAUDITED)

*In thousands, except share and per share amounts*

	<b>Three Months Ended May 31,</b>		<b>Nine Months Ended May 31,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Net income	\$ 5,071	\$ 3,373	\$ 11,041	\$ 6,897
Other comprehensive income:				
Net unrealized gain (loss) on restricted investments, net of tax	33	(34)	66	2
Change in funded status of pension plans, net of tax	32	325	139	439
Foreign currency translation adjustment	34	(586)	(993)	(1,468)
Total other comprehensive income (loss)	99	(295)	(788)	(1,027)
Comprehensive income	5,170	3,078	10,253	5,870
Comprehensive loss attributable to non-controlling interest, net of tax	63		277	
Comprehensive income attributable to Chase Corporation	\$ 5,233	\$ 3,078	\$ 10,530	\$ 5,870

See accompanying notes to the consolidated financial statements



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**CHASE CORPORATION**  
**CONSOLIDATED STATEMENT OF EQUITY**  
**NINE MONTHS ENDED MAY 31, 2013**  
**(UNAUDITED)**

*In thousands, except share and per share amounts*

	Common Stock		Additional	Accumulated Other	Retained	Chase	Non-controlling	Total
	Shares	Amount	Paid-In	Comprehensive	Earnings	Stockholders	Interest	Equity
			Capital	Income (loss)		Equity		
Balance at August 31, 2012	9,001,582	\$ 900	\$ 12,109	\$ (5,030)	\$ 90,146	\$ 98,125	\$ 1,520	\$ 99,645
Restricted stock grants, net of forfeitures	71,801	7	(7)					
Amortization of restricted stock grants			863			863		863
Amortization of stock option grants			375			375		375
Common stock issuance	566		10			10		10
Exercise of stock options	18,750	2	207			209		209
Common stock received for payment of stock option exercises	(10,602)	(1)	(208)			(209)		(209)
Excess tax benefit from stock based compensation			7			7		7
Annual cash dividend paid, \$0.40 per share					(3,626)	(3,626)		(3,626)
Change in funded status of pension plan, net of tax of \$75				139		139		139
Foreign currency translation adjustment				(993)		(993)		(993)
Net unrealized gain on restricted investments, net of tax of \$36				66		66		66
Net income (loss)					11,318	11,318	(277)	11,041
Balance at May 31, 2013	9,082,097	\$ 908	\$ 13,356	\$ (5,818)	\$ 97,838	\$ 106,284	\$ 1,243	\$ 107,527

See accompanying notes to the consolidated financial statements



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**CHASE CORPORATION**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**(UNAUDITED)**

*In thousands, except share and per share amounts*

	<b>Nine Months Ended May 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 11,041	\$ 6,897
Adjustments to reconcile net income to net cash provided by operating activities		
(Gain) loss on disposal/sale of fixed assets	(11)	30
Depreciation	4,418	2,083
Amortization	3,598	1,703
Cost of sale of inventory step-up	564	
Provision (recovery) for allowance for doubtful accounts	(260)	38
Stock based compensation	1,248	1,494
Realized gain on restricted investments	(42)	(20)
Decrease (increase) in cash surrender value life insurance	112	(45)
Excess tax benefit from stock based compensation	(7)	
Pension curtailment and settlement loss	1,223	413
Increase (decrease) from changes in assets and liabilities		
Accounts receivable	1,232	278
Inventories	(4,330)	(2,300)
Prepaid expenses & other assets	(948)	(328)
Accounts payable	131	102
Accrued compensation and other expenses	(2,373)	(1,976)
Accrued income taxes	(718)	565
Deferred compensation	147	25
Net cash provided by operating activities	15,025	8,959
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property, plant and equipment	(2,675)	(4,479)
Cost to acquire intangible assets	(281)	
Contingent consideration paid for acquisition	(141)	(155)
Payments for acquisitions, net of cash acquired	84	
Proceeds from sale of fixed assets	105	1,032
Contributions from restricted investments, net	(41)	(41)
Payments for cash surrender value life insurance	(137)	(137)
Net cash used in investing activities	(3,086)	(3,780)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Borrowings on debt	313	9,085
Payments of principal on debt	(4,513)	(12,635)
Dividend paid	(3,626)	(3,165)
Excess tax benefit from stock based compensation	7	
Net cash used in financing activities	(7,819)	(6,715)
<b>INCREASE (DECREASE) IN CASH &amp; CASH EQUIVALENTS</b>	<b>4,120</b>	<b>(1,536)</b>

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Effect of foreign exchange rates on cash	(251)	(257)
CASH & CASH EQUIVALENTS, BEGINNING OF PERIOD	15,180	14,982
CASH & CASH EQUIVALENTS, END OF PERIOD	\$ 19,049	\$ 13,189
<b>Non-cash Investing and Financing Activities</b>		
Common stock received for payment of stock option exercises	\$ 209	
Accrued contingent payments related to acquisitions	\$	\$ 201
Property, plant & equipment additions included in accounts payable	\$ 74	\$ 148
Gain on sale leaseback transaction	\$	\$ 425

See accompanying notes to the consolidated financial statements

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

*In thousands, except share and per share amounts*

**Note 1 - Basis of Presentation**

The accompanying unaudited condensed 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 consolidated financial statements, which included all information and notes necessary for such presentation for the three years ended August 31, 2012 in conjunction with its 2012 Annual Report on Form 10-K. Certain immaterial reclassifications have been made to the prior year amounts to conform to the current year's presentation.

The results of operations for the interim periods ended May 31, 2013 are not necessarily indicative of the results to be expected for any future period or the entire fiscal year. These interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended August 31, 2012, which are contained in the Company's 2012 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 statement of the Company's financial position as of May 31, 2013, the results of operations, comprehensive income and cash flows for the interim periods ended May 31, 2013 and 2012, and changes in equity for the interim period ended May 31, 2013.

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 US dollar as the reporting currency for financial reporting. The financial position and results of operations of the Company's UK based operations are measured using the UK pound sterling as the functional currency and the financial position and results of operations of the Company's operations based 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 (expense) / income on the consolidated statements of operations.

An immaterial error was identified in the presentation of two line items within the operating activities section of the Company's previously reported statement of cash flows. The Company has revised the prior period statement of cash flows to reflect the appropriate presentation of these two line items within the operating activities section. This immaterial change to the statement of cash flows results in pension curtailment and settlement loss changing from (\$413) to \$413 and accrued compensation and other expenses changing from (\$1,150) to (\$1,976) for the nine months ended May 31, 2012. There was no impact on the balance sheet, statement of operations, total cash provided by operating activities or

overall cash flows.

The Company has evaluated events and transactions subsequent to the balance sheet date. Based on this evaluation, 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.

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

*In thousands, except share and per share amounts*

**Note 2 Recent Accounting Policies**

*Recently Issued Accounting Pronouncements*

In July 2012, the Financial Accounting Standards Board ( FASB ) issued ASU 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment. This ASU amends ASC 350, Intangibles Goodwill and Other to allow entities an option to first assess qualitative factors to determine whether it is necessary to perform the quantitative impairment test. Under that option, an entity no longer would be required to calculate the fair value of the intangible asset unless the entity determines, based on that qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The amendments in this ASU are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The adoption of ASU 2012-02 will not have an impact on the Company's consolidated financial position, results of operations or cash flows.

In February 2013, the FASB issued ASU 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. This ASU expands the presentation of changes in accumulated other comprehensive income. The new guidance requires an entity to disaggregate the total change of each component of other comprehensive income either on the face of the net income statement or as a separate disclosure in the notes. ASU 2013-02 is effective for fiscal years beginning after December 15, 2012. The Company believes that the adoption of this ASU will not have an impact on its consolidated financial position, results of operations or cash flows.

**Note 3 Inventories**

Inventories consist of the following as of May 31, 2013 and August 31, 2012:

	<b>May 31, 2013</b>		<b>August 31, 2012</b>
Raw materials	\$ 17,554	\$	12,388
Work in process	4,831		7,384
Finished goods	13,549		12,551
Total Inventories	\$ 35,934	\$	32,323





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**CHASE CORPORATION**  
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*In thousands, except share and per share amounts*

**Note 4 Net Income Per Share**

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

	<b>Three Months Ended May 31,</b>		<b>Nine Months Ended May 31,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>Basic Earnings per Share</b>				
Net income attributable to Chase Corporation	\$ 5,134	\$ 3,373	\$ 11,318	\$ 6,897
Less: Allocated to participating securities	120	107	259	218
Net income available to common shareholders	\$ 5,014	\$ 3,266	\$ 11,059	\$ 6,679
Basic weighted average shares outstanding	8,864,047	8,766,112	8,856,813	8,759,472
Net income per share - Basic	\$ 0.57	\$ 0.37	\$ 1.25	\$ 0.76
<b>Diluted Earnings per Share</b>				
Net income attributable to Chase Corporation	\$ 5,134	\$ 3,373	\$ 11,318	\$ 6,897
Less: Allocated to participating securities	118	106	256	218
Net income available to common shareholders	\$ 5,016	\$ 3,267	\$ 11,062	\$ 6,679
Basic weighted average shares outstanding	8,864,047	8,766,112	8,856,813	8,759,472
Additional dilutive common stock equivalents	102,709	32,157	93,150	23,092
Diluted weighted average shares outstanding	8,966,756	8,798,269	8,949,963	8,782,564
Net income per share - Diluted	\$ 0.56	\$ 0.37	\$ 1.24	\$ 0.76

For the three and nine months ended May 31, 2013 and 2012, stock options to purchase 0 and 265,081 shares of common stock, respectively, were outstanding, but were not included in the calculation of diluted net income per share because the options' exercise prices were greater than the average market price of the common stock and thus would be anti-dilutive. Included in the calculation of dilutive common stock equivalents are the unvested portions of restricted stock and stock options.

**Note 5 Stock Based Compensation**

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In August 2011, the Board of Directors of the Company approved the fiscal year 2012 Long Term Incentive Plan ( 2012 LTIP ) for the executive officers. The 2012 LTIP is an equity based plan with a grant date of September 1, 2011 and contains a performance and service based restricted stock grant of 33,798 shares in the aggregate, subject to adjustment, with a vesting date of August 31, 2014. Based on the fiscal year 2012 financial results, 33,798 additional shares of restricted stock (total of 67,596 shares) were earned and granted subsequent to the end of fiscal year 2012 in accordance with the performance measurement criteria. No further performance-based measurements apply to this award. Compensation expense is being recognized on a ratable basis over the vesting period.

In October 2012, the Board of Directors of the Company approved the fiscal year 2013 Long Term Incentive Plan ( 2013 LTIP ) for the executive officers and other members of management. The 2013 LTIP is an equity based plan with a grant date of October 22, 2012 and contains the following equity components:

*Restricted Shares* (a) performance and service based restricted stock grant of 11,861 shares in the aggregate, subject to adjustment, with a vesting date of August 31, 2015. Compensation expense is being recognized on a ratable basis over the vesting period based on quarterly probability assessments; (b) time-

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**CHASE CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

*In thousands, except share and per share amounts*

based restricted stock grant of 16,505 and 1,931 shares in the aggregate, with vesting dates of August 31, 2015 and August 31, 2013, respectively. Compensation expense is being recognized on a ratable basis over the vesting period.

*Stock options* options to purchase 43,964 shares of common stock in the aggregate with an exercise price of \$16.00 per share. The options will vest in three equal annual allotments beginning on August 31, 2013 and ending on August 31, 2015. The options will expire on October 22, 2022. Compensation expense is being recognized over the period of the award on an annual basis consistent with the vesting terms.

As part of their annual retainer, non-employee members of the Board of Directors receive a combined total of \$144 of Chase Corporation common stock, in the form of restricted stock valued in conjunction with the start of the new year of Board service which generally coincides with the Company's annual shareholder meeting. The stock award vests one year from the date of grant. In February 2013, non-employee members of the Board received a total grant of 7,706 shares of restricted stock for service for the period from January 31, 2013 through January 31, 2014. The shares of restricted stock will vest at the conclusion of this service period. Compensation is being recognized on a ratable basis over the twelve month vesting period.

**Note 6 Segment Data & Foreign Operations**

The Company is organized into two operating segments, an Industrial Materials segment and a Construction Materials segment. The basis for this segmentation is distinguished by the nature of the products and how they are delivered to their respective markets. The Industrial Materials segment reflects specified products that are used in or integrated into another company's product with demand dependent upon general economic conditions. Industrial Materials products include insulating and conducting materials for wire and cable manufacturers, moisture protective coatings for electronics and printing services, laminated durable papers, and flexible composites and laminates for the aerospace, packaging and industrial laminate markets. Effective with its acquisition in fiscal 2012, the full listing of NEPTCO products is included in the Industrial Materials segment. The Construction Materials segment reflects construction project oriented product offerings that are primarily sold and used as Chase-branded products. Construction Materials products include protective coatings for pipeline applications, coating and lining systems for use in liquid storage and containment applications, high performance polymeric asphalt additives, and expansion and control joint systems for use in the transportation and architectural markets.

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

*In thousands, except share and per share amounts*

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

	<b>Three Months Ended May 31,</b>		<b>Nine Months Ended May 31,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>Revenues from external customers</b>				
Industrial Materials	\$ 43,146	\$ 21,612	\$ 120,897	\$ 59,584
Construction Materials	12,586	13,527	36,608	37,105
Total	\$ 55,732	\$ 35,139	\$ 157,505	\$ 96,689
<b>Income before income taxes</b>				
Industrial Materials	\$ 8,504	\$ 5,368	\$ 18,972(b)	\$ 12,332
Construction Materials	1,544	1,913	3,616	2,036
Total for reportable segments	10,048	7,281	22,588	14,368
Corporate and Common Costs	(2,247)	(2,252)(a)	(5,602)(c)	(3,918)(d),(e)
Total	\$ 7,801	\$ 5,029	\$ 16,986	\$ 10,450

(a) Includes expenses of \$600 related to the acquisition of NEPTCO and \$413 of pension related settlement costs due to the timing of lump sum distributions.

(b) Includes \$564 of costs of products sold related to inventory step up in fair value as part of the NEPTCO acquisition, and \$521 of pension related settlement costs due to the timing of lump sum distributions.

(c) Includes \$595 of pension related settlement costs due to the timing of lump sum distributions.

(d) Includes expenses of \$700 related to the acquisition of NEPTCO and \$413 of pension related settlement costs due to the timing of lump sum distributions.

(e) Includes gain of \$425 related to Evanston, IL sale leaseback transaction

The Company's products are sold world-wide. For the quarters ended May 31, 2013 and 2012, sales from its operations located in the United Kingdom accounted for 6% and 13% of total Company revenues, respectively. In the fiscal year to date period, sales from its operations located in the United Kingdom accounted for 7% of total Company revenues compared to 15% in the same period in fiscal 2012. No other foreign geographic area accounted for more than 10% of consolidated revenues for the three and nine month periods ended May 31, 2013 and 2012.

Total assets for the Company's reportable segments as of May 31, 2013 and August 31, 2012:

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	May 31, 2013	August 31, 2012
<b>Total assets</b>		
Industrial Materials	\$ 136,355	\$ 135,322
Construction Materials	49,617	53,509
Total for reportable segments	185,972	188,831
Corporate and Common Assets	32,229	27,656
Total	\$ 218,201	\$ 216,487

As of May 31, 2013 and August 31, 2012, the Company had long-lived assets (that provide the future economic benefit beyond the current year or operating period, including buildings, equipment and leasehold improvements) of \$4,072 and \$4,488, respectively, located in the United Kingdom. These balances exclude goodwill and intangibles of \$10,376 and \$11,652, as of May 31, 2013 and August 31, 2012, respectively, associated with its operations in the United Kingdom.

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**CHASE CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

*In thousands, except share and per share amounts*

**Note 7 Goodwill and Other Intangibles**

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

	<b>Construction Materials</b>		<b>Industrial Materials</b>		<b>Consolidated</b>
Balance at August 31, 2012	\$ 10,740	\$	28,053	\$	38,793
Acquisition of NEPTCO, Inc. - working capital settlement			(84)		(84)
Acquisition of Paper Tyger - additional earnout			141		141
Foreign currency translation adjustment	(11)		(133)		(144)
Balance at May 31, 2013	\$ 10,729	\$	27,977	\$	38,706

The Company's goodwill is allocated by reporting unit driven by the respective business combinations that originally created the goodwill. The Company has identified separate reporting units within each of its two reportable segments based on components that have similar characteristics. These reporting units are used to evaluate the possible impairment of goodwill. Goodwill impairment exists when the carrying amount of goodwill exceeds its implied fair value. 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.

Intangible assets subject to amortization consist of the following as of May 31, 2013 and August 31, 2012:

	<b>Weighted-Average Amortization Period</b>	<b>Gross Carrying Value</b>		<b>Accumulated Amortization</b>		<b>Net Carrying Value</b>
<b>May 31, 2013</b>						
Patents and agreements	12.0 years	\$ 3,119	\$	2,183	\$	936
Formulas	9.1 years	5,746		2,080		3,666
Trade names	5.7 years	6,326		1,780		4,546
Customer lists and relationships	10.2 years	33,769		10,144		23,625
		\$ 48,960	\$	16,187	\$	32,773
<b>August 31, 2012</b>						
Patents and agreements	12.1 years	\$ 2,849	\$	2,177	\$	672
Formulas	9.1 years	5,791		1,683		4,108
Trade names	5.7 years	6,360		1,022		5,338
Customer lists and relationships	10.2 years	34,210		7,965		26,245
		\$ 49,210	\$	12,847	\$	36,363

The decrease in gross carrying value of intangible assets for the nine months ended May 31, 2013 is due to a foreign currency translation loss of \$531 related to the intangible assets associated with the Company's European operations. These decreases were partially offset by a \$281 increase in gross carrying value of intangible assets over the nine months ended May 31, 2013 resulting from the capitalization of prepaid patent costs.

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*In thousands, except share and per share amounts*

Aggregate amortization expense related to intangible assets for the nine months ended May 31, 2013 and 2012 was \$3,598 and \$1,703, respectively. Estimated amortization expense for the remainder of fiscal year 2013 and for future periods is as follows:

<b>Years ending August 31,</b>		
2013 (remaining 3 months)	\$	1,250
2014		4,933
2015		4,740
2016		4,678
2017		4,241
2018		4,010
	\$	23,852

**Note 8 Acquisition of NEPTCO Incorporated**

On June 27, 2012, Chase acquired 100% of the capital stock of NEPTCO Incorporated ( NEPTCO ), a private company based in Pawtucket, RI, whose core products are sold primarily into the broadband communications and electronics packaging industries. NEPTCO operates three manufacturing facilities in the United States and one in China, as well as utilizing distribution facilities in Rotterdam, Netherlands and Mississauga, Ontario to assist in supply chain management. As part of this transaction, the Company also acquired NEPTCO's 50% ownership stake in a joint venture.

*Supplemental Pro Forma Data (unaudited)*

The following table presents the pro forma results of the Company for the three and nine month periods ended May 31, 2012, as though the NEPTCO acquisition occurred on September 1, 2011. The actual revenues and expenses for this NEPTCO acquisition have been included in the consolidated statements of operations since June 27, 2012, the acquisition date, and have been included for the three and nine month periods ended May 31, 2013. The pro forma results include adjustments for the estimated amortization of intangibles, estimated interest expense in connection with debt financing of the acquisition, and the income tax impact of the pro forma adjustments at the statutory rate of 35%. The following pro forma information is not necessarily indicative of the results of operations that would have been achieved if the acquisition had been effective on September 1, 2011.

<b>Three Months Ended</b>	<b>Nine Months Ended</b>
<b>May 31, 2012</b>	<b>May 31, 2012</b>



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Revenues	\$	58,836	\$	167,355
Net income attributable to Chase Corporation	\$	4,032	\$	8,112
Net income available to common shareholders, per common and common equivalent share				
Basic earnings per share	\$	0.45	\$	0.90
Diluted earnings per share	\$	0.44	\$	0.90

**Note 9 Joint Venture**

As part of the Company's purchase of NEPTCO, it also acquired NEPTCO's 50% ownership interest in its financially-controlled joint venture, NEPTCO JV LLC ( "JV" ). The JV was originally formed in 2003 by NEPTCO and a joint venture partner, an otherwise unrelated party (collectively, the "Members" ),

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whereby each member's fiber optic strength elements businesses were combined. This venture, which is 50% owned by each member, is managed and operated on a day-to-day basis by NEPTCO. The joint venture operates out of the Company's Granite Falls, NC facility.

The Company accounts for the joint venture partner's non-controlling interest in the JV under ASC Topic 810 Consolidations (ASC 810). Based on the criteria in ASC 810, the Company determined that the JV qualifies as a Variable Interest Entity (VIE). Because of the Company's controlling financial interest, the JV's assets and liabilities and results of operations have been fully consolidated within the Company's consolidated balance sheets and consolidated statements of operations since June 27, 2012, the NEPTCO acquisition date. An offsetting amount equal to 50% of net assets and net loss of the JV has been recorded within the Company's consolidated financial statements to the non-controlling interest, representing the joint venture partner's 50% ownership interest and pro rata share in the net loss of the JV.

At May 31, 2013 and August 31, 2012, the following amounts were consolidated in the Company's balance sheets related to the JV:

	May 31, 2013	August 31, 2012
<b><u>Assets</u></b>		
Cash	\$ 383	\$ 1,008
Accounts receivable, net	1,252	1,540
Inventories	1,448	2,394
Prepaid expenses and other assets	566	219
Property, plant and equipment, net	531	630
Intangible assets, net	706	655
Total assets	\$ 4,886	\$ 6,446
<b><u>Liabilities and net assets</u></b>		
Accounts payable and accrued expenses	\$ 633	\$ 1,650
Due to Members	1,768	1,757
Total liabilities	\$ 2,401	\$ 3,407
<b>Net assets</b>	<b>\$ 2,485</b>	<b>\$ 3,039</b>
<b>Non-controlling interest</b>	<b>\$ 1,243</b>	<b>\$ 1,520</b>

Effective on the date of the JV's inception, and for four years following the date on which the Members no longer own any membership interest in the JV, non-compete agreements exist between the Members. Each Member retains the right to tender an offer to buy the other Member's share. Once an offer is tendered, the tendered Member has the option to either sell, or match the initial offer to purchase the tendering Member's share.

Per the JV agreement, the JV is barred from issuing third party debt, other than customary accounts payable, resulting from its normal trade operations. The liabilities of the JV are not guaranteed by any portion of NEPTCO or the Company.

The JV agrees to purchase a minimum of 80% of its total glass fiber requirements from the other joint venture partner. Additionally, the JV agrees to purchase private-label products exclusively from an affiliate of the other joint venture partner; however, the JV is not subject to a minimum purchase requirement on private-label products. Purchases from the joint venture partner totaled \$525 and \$1,417

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for the three and nine month periods ended May 31, 2013, respectively. The JV had amounts due to the other joint venture partner of \$403 and \$618 at May 31, 2013 and August 31, 2012, respectively.

**Note 10 Commitments and Contingencies**

The Company is involved from time to time in litigation incidental to the conduct of its business. Although the Company does not expect that the outcome in any of these matters, individually or collectively, will have a material adverse effect on its financial condition, results of operations or cash flows, litigation is inherently unpredictable. Therefore, judgments could be rendered or settlements entered, that could adversely affect the Company's operating results or cash flows in a particular period. The Company routinely assesses all of its litigation and threatened litigation as to the probability of ultimately incurring a liability, and records its best estimate of the ultimate loss in situations where the Company assesses the likelihood of loss as probable.

**Note 11 - Pensions and Other Post Retirement Benefits**

The components of net periodic benefit cost for the three and nine months ended May 31, 2013 and 2012 are as follows:

	<b>Three Months Ended May 31,</b>		<b>Nine Months Ended May 31,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Service cost	\$ 82	\$ 120	\$ 270	\$ 362
Interest cost	102	130	329	389
Expected return on plan assets	(131)	(131)	(431)	(393)
Amortization of prior service cost	1	19	12	56
Amortization of unrecognized loss	48	69	202	207
Curtailment loss			25	
Settlement loss		413	1,198	413
Net periodic benefit cost	\$ 102	\$ 620	\$ 1,605	\$ 1,034

When funding is required, the Company's policy is to contribute amounts that are deductible for federal income tax purposes. As of May 31, 2013, the Company has made contributions of \$1,400 in the current fiscal year to fund its obligations under its pension plan, and plans to make the necessary contributions over the remainder of fiscal 2013 to ensure the qualified plan continues to be adequately funded given the current market conditions.

The settlement loss in fiscal 2013 is a result of the timing of lump sum distributions to participants in the Company's defined benefit pension plan (Qualified Plan). When eligible participants elect a lump sum distribution, rather than an annuity, under the Qualified Plan, it may trigger an acceleration of pension expense to the extent a certain level of lump sum distributions are made within a given fiscal year. This typically occurs when lump sum distributions exceed the total of service and interest costs. The accounting for settlement losses had no impact on cash flows and will not affect the ability of other eligible participants to take a lump sum distribution in the future.

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**Note 12 Fair Value Measurements**

The Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The Company uses a three-tier fair value hierarchy, which classifies the inputs used in measuring fair values. These tiers include: Level 1, defined as observable inputs such as quoted prices for identical instruments in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The Company endeavors to utilize the best available information in measuring fair value. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The financial assets classified as Level 1 as of May 31, 2013 and August 31, 2012 represent investments that are restricted for use in a nonqualified retirement savings plan for certain key employees and directors. The Company reviews these investments for indicators of other-than-temporary impairment and did not record any material other-than-temporary impairments on financial assets required to be measured at fair value.

The following table sets forth the Company's financial assets that were accounted for at fair value on a recurring basis as of May 31, 2013 and August 31, 2012:

			Fair value measurement category		
	Fair value measurement date	Total	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Assets:</b>					
Restricted investments	May 31, 2013	\$ 1,058	\$ 1,058	\$	\$
Restricted investments	August 31, 2012	\$ 874	\$ 874	\$	\$

The following table presents the fair value of the Company's long-term debt as of May 31, 2013 and August 31, 2012, which is recorded at its carrying value:

	Fair value measurement date	Total	Quoted prices in active	Fair value measurement category	Significant unobservable
				Significant other observable inputs	

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				markets (Level 1)	(Level 2)	inputs (Level 3)
Liabilities:						
Long-term debt	May 31, 2013	\$	65,800	\$	\$	65,800
Long-term debt	August 31, 2012	\$	70,000	\$	\$	70,000

The carrying value of the long-term debt approximates its fair value, as the monthly interest rate is set based on the movement of the underlying market rates.

Table of Contents**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 with the Company's Annual Report on Form 10-K filed for the fiscal year ended August 31, 2012.

**Overview**

Revenues and net income in both the quarter and year to date periods continue to exceed prior year results as the current year has benefitted from sales generated from our June 2012 acquisition of NEPTCO. We are also continuing to see overall favorable product mix compared to fiscal 2012, and that coupled with our ongoing efforts to streamline overhead costs and consolidate production facilities have improved profitability in fiscal 2013. We will continue with our integration of NEPTCO, as well as our market and product development efforts for all of our product lines in order to generate new business opportunities.

Revenues from the Industrial Materials segment increased over the prior year primarily due to the inclusion of sales from NEPTCO as well as increased sales from our electronic coatings and laminated durable paper products. These favorable sales were partially offset by a reduction in our product sales into our aerospace and transportation markets compared to those realized in the prior year.

Revenues in our Construction Materials segment were down for both the quarter and year to date as compared to the prior year periods primarily due to decreased project demand for our pipeline coatings products produced at our UK facility. These decreases were partially offset in the current quarter by increased sales of our private label products and bridge & highway construction products, and in the year to date period by increased demand for our coating and lining system products.

We have two reportable segments as summarized below:

Segment	Product Lines	Manufacturing Focus and Products
Industrial Materials	<ul style="list-style-type: none"> <li>• Wire &amp; Cable Materials</li> <li>• Electronic Coatings</li> <li>• Custom Products</li> <li>• NEPTCO Products</li> </ul>	Protective coatings and tape products including insulating and conducting materials for wire and cable manufacturers, moisture protective coatings for electronics and printing services, laminated durable papers, flexible composites and laminates for the aerospace, packaging and industrial laminate markets, pulling and detection tapes used in the installation, measurement and location of fiber optic cables, water and natural gas lines, and cover tapes essential to delivering semiconductor components via tape and reel packaging; a joint venture also produces glass based strength elements designed to allow fiber optic cables to withstand mechanical and environmental strain and stress.



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Construction Materials	<ul style="list-style-type: none"><li>• Pipeline Coatings</li><li>• Construction Products</li><li>• Coating &amp; Lining Systems</li><li>• Private Label</li></ul>	Protective coatings and tape products including coating and lining systems for use in liquid storage and containment applications, protective coatings for pipeline and general construction applications, high performance polymeric asphalt additives, and expansion and control joint systems for use in the transportation and architectural markets.
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Our balance sheet remains strong, with cash on hand of \$19.0 million and a current ratio of 3.2. Our \$15 million line of credit is fully available, while the balance of our unsecured term debt is \$65.8 million.

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**Results of Operations**

*Revenues and Operating Profit by Segment are as follows (Dollars in Thousands):*

	Three Months Ended May 31, 2013	% of Total Revenues	Three Months Ended May 31, 2012	% of Total Revenues	Nine Months Ended May 31, 2013	% of Total Revenues	Nine Months Ended May 31, 2012	% of Total Revenues
<b>Revenues from external customers</b>								
Industrial Materials	\$ 43,146	77%	\$ 21,612	62%	\$ 120,897	77%	\$ 59,584	62%
Construction Materials	12,586	23%	13,527	38%	36,608	23%	37,105	38%
Total	\$ 55,732		\$ 35,139		\$ 157,505		\$ 96,689	
	Three Months Ended May 31, 2013	% of Segment Revenues	Three Months Ended May 31, 2012	% of Segment Revenues	Nine Months Ended May 31, 2013	% of Segment Revenues	Nine Months Ended May 31, 2012	% of Segment Revenues
<b>Income before income taxes</b>								
Industrial Materials	\$ 8,504	20%	\$ 5,368	25%	\$ 18,972(b)	16%	\$ 12,332	21%
Construction Materials	1,544	12%	1,913	14%	3,616	10%	2,036	5%
Total for reportable segments	10,048	18%	7,281	21%	22,588	14%	14,368	15%
Corporate and Common Costs	(2,247)		(2,252)(a)		(5,602)(c)		(3,918)(d),(e)	
Total	\$ 7,801	14%	\$ 5,029	14%	\$ 16,986	11%	\$ 10,450	11%

(a) Includes expenses of \$600 related to the acquisition of NEPTCO and \$413 of pension related settlement costs due to the timing of lump sum distributions.

(b) Includes \$564 of costs of products sold related to inventory step up in fair value as part of the NEPTCO acquisition, and \$521 of pension related settlement costs due to the timing of lump sum distributions.

(c) Includes \$595 of pension related settlement costs due to the timing of lump sum distributions.

(d) Includes expenses of \$700 related to the acquisition of NEPTCO and \$413 of pension related settlement costs due to the timing of lump sum distributions.

(e) Includes gain of \$425 related to Evanston, IL sale leaseback transaction.

**Total Revenues**

Total revenues increased \$20,593,000 or 59% to \$55,732,000 for the quarter ended May 31, 2013 compared to \$35,139,000 in the same quarter of the prior year. Total revenues increased \$60,816,000 or 63% to \$157,505,000 in the fiscal year to date period compared to \$96,689,000 in the same period in fiscal 2012.

Revenues in our Industrial Materials segment increased \$21,534,000 and \$61,313,000 in the current quarter and year to date periods, respectively, compared to the prior year periods. The increase in this segment 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 of \$20,737,000 and \$57,964,000 from NEPTCO products, which we acquired in June 2012; (b) increased revenue of \$427,000 and \$3,079,000 from our electronic coatings products; and (c) increased sales of \$239,000 and \$1,547,000 from laminated durable paper products. These increases were partially offset by decreased sales of our aerospace and transportation market products in the current quarter and year to date periods of \$48,000 and \$714,000, respectively.

Revenues from our Construction Materials segment decreased \$941,000 in the current quarter as compared to the prior year quarter. The decrease from our Construction Materials segment compared to the prior year period is primarily due to decreased sales of \$1,131,000 in pipeline products produced at our UK facility as a result of lower project demand primarily in the Middle East. This decrease was partially offset by increased sales of \$269,000 from our highway construction products. For the nine months of fiscal 2013, revenues from our Construction Materials segment decreased \$497,000 as compared to the prior year period primarily due to decreased sales of \$2,887,000 from pipeline products which was partially offset by increased sales of \$2,400,000 from our coating and lining systems.

Table of Contents***Cost of Products and Services Sold***

Cost of products and services sold increased \$14,623,000 or 66% to \$36,833,000 for the quarter ended May 31, 2013 compared to \$22,210,000 in the prior year quarter. Cost of products and services sold increased \$42,340,000 or 65% to \$107,571,000 in the fiscal year to date period compared to \$65,231,000 in the same period in fiscal 2012.

The following table summarizes our cost of products and services sold as a percentage of revenues for each of our reporting segments:

Cost of products and services sold	Three Months Ended May 31,		Nine Months Ended May 31,	
	2013	2012	2013	2012
Industrial Materials	65%	62%	68%	65%
Construction Materials	68%	65%	70%	71%
Total	66%	63%	68%	67%

Cost of products and services sold in our Industrial Materials segment was \$28,254,000 and \$82,038,000 in the current quarter and year to date periods compared to \$13,395,000 and \$38,789,000 in the comparable periods in the prior year. As a percentage of revenues, cost of products and services sold in the Industrial Materials segment increased in both the current quarter and year to date periods primarily due to the inclusion of the NEPTCO operations in this segment, including the costs of the NEPTCO JV, which has higher cost of products sold as a percentage of revenues. The prior year quarter also included capitalization of \$388,000 of internal labor costs associated with certain capital expenditure projects at our Oxford, MA and Blawnox, PA facilities as part of the relocation of our operations from Randolph, MA. Additionally, in the year to date period, this segment was impacted by incremental cost of products sold of \$564,000 due to the sale of inventory which had a stepped up valuation as part of the NEPTCO acquisition.

Cost of products and services sold in our Construction Materials segment was \$8,579,000 and \$25,533,000 in the current quarter and year to date periods compared to \$8,815,000 and \$26,442,000 in the comparable periods in the prior year. As a percentage of revenues, cost of products and services sold in the Construction Materials segment for the quarter increased primarily due to higher raw material costs, increased sales of lower margin products, and decreased sales of higher margin products. For the year to date period, cost of products and services sold in the Construction Materials segment decreased primarily due to positive sales mix earlier in the fiscal year as we had increased sales of higher margin products coupled with decreased sales of lower margin products. We will continue to closely monitor raw material pricing across all product lines in an effort to preserve margins.

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

Selling, general and administrative expenses increased \$3,181,000 or 42% to \$10,784,000 for the quarter ended May 31, 2013 compared to \$7,603,000 in the prior year quarter. As a percentage of revenues, selling, general and administrative expenses decreased to 19% in the current fiscal quarter compared to 22% in the prior year period. Selling, general and administrative expenses increased \$11,133,000 or 53% to \$32,241,000 in the fiscal year to date period compared to \$21,108,000 in the same period in fiscal 2012. For the current fiscal year to date period, selling, general and administrative expenses as a percentage of revenues decreased to 20% compared to 22% in the same period in fiscal 2012. The dollar increase in the current quarter and year to date periods over the prior year periods is primarily attributable to our acquisition of NEPTCO, including amortization of intangible assets of \$663,000 and \$1,988,000 for the current fiscal quarter and year to date periods,

respectively. Additionally, there is increased incentive compensation expense in the current quarter due to the fiscal 2013 financial results. The third quarter increases are

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partially offset by acquisition related expenses of \$600,000 and pension related settlement costs of \$413,000 in the prior year quarter.

***Interest Expense***

Interest expense increased \$281,000 to \$312,000 for the quarter ended May 31, 2013 compared to \$31,000 in the prior year quarter. Interest expense increased \$886,000 to \$989,000 for the fiscal year to date period compared to \$103,000 in the same period in fiscal 2012. The increase in interest expense for both the current quarter and year to date period is a direct result of the long-term debt related to our acquisition of NEPTCO.

***Other Income (Expense)***

Other expense decreased \$264,000 to \$2,000 for the quarter ended May 31, 2013 compared to \$266,000 in the same period in fiscal 2012. Other income increased \$79,000 or 39% to \$282,000 for the fiscal year to date period compared to \$203,000 in the same period in the prior year. Other income primarily includes interest income and foreign exchange gains and losses caused by changes in exchange rates on transactions or balances denominated in currencies other than the functional currency of our subsidiaries. In the fiscal 2012 year to date period, other income also included a gain of \$425,000 recognized on deposit payments previously received on the sale of our Evanston, IL property. We took back control and ownership of this leased asset which was previously sold by us under a seller financing arrangement.

***Non-controlling Interest***

The income (loss) from non-controlling interest relates to a joint venture in which we have, through our NEPTCO subsidiary, a 50% ownership interest. The joint venture between NEPTCO and its joint venture partner (an otherwise unrelated party) is managed and operated on a day-to-day basis by NEPTCO. The purpose of this joint venture was to combine the elements of each member's fiber optic strength businesses.

***Net Income***

Net income attributable to Chase Corporation increased \$1,761,000 or 52% to \$5,134,000 in the quarter ended May 31, 2013 compared to \$3,373,000 in the prior year quarter. Net income attributable to Chase Corporation increased \$4,421,000 or 64% to \$11,318,000 for the fiscal year to date period compared to \$6,897,000 in the same period in fiscal 2012. The increase in net income in both the current quarter and fiscal year to date period is primarily due to the inclusion of NEPTCO, and the favorable mix on product sales as discussed previously. These increases were partially offset in the year to date period by expenses related to the acceleration of defined benefit plan settlement costs of \$1,223,000 resulting from the timing of lump sum distributions to participants, as well as \$564,000 in inventory fair value step up costs related to the NEPTCO acquisition. Additionally, net income in the prior year period was negatively impacted by the following: (a) \$700,000 in acquisition related expenses; (b) increased plant transition and moving expenses of \$574,000; and (c) accelerated pension settlement charges of \$413,000 resulting from the timing of lump sum distributions.



Table of Contents**Other Important Performance Measures**

We believe that adjusted EBITDA is a useful performance measure. It is used by our executive management team and board of directors to measure operating performance, to allocate resources to enhance the financial performance of our business, to evaluate the effectiveness of our business strategies and to communicate with our board of directors and investors concerning our financial performance. Adjusted EBITDA is a non-GAAP financial measure.

We define adjusted EBITDA as follows: net income attributable to Chase Corporation before interest expense from borrowings, income tax expense, depreciation expense from fixed assets, amortization from intangible assets, costs related to our acquisitions, costs of products sold related to inventory step-up to fair value, and settlement (gains) or losses resulting from lump sum distributions to participants from our defined benefit plan.

The use of adjusted EBITDA has limitations and this performance measure should not be considered in isolation from, or as an alternative to, U.S. GAAP measures such as net income. Our measurement of adjusted EBITDA may not be comparable to similarly titled measures used by other companies.

The following unaudited table provides a reconciliation of net income attributable to Chase Corporation, the most directly comparable financial measure presented in accordance with U.S. GAAP, to adjusted EBITDA for the periods presented:

	<b>Three Months Ended May 31,</b>		<b>Nine Months Ended May 31,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Net income attributable to Chase Corporation	\$ 5,134,000	\$ 3,373,000	\$ 11,318,000	\$ 6,897,000
Interest expense	312,000	31,000	989,000	103,000
Income taxes	2,765,000	1,656,000	6,095,000	3,553,000
Depreciation expense	1,477,000	690,000	4,418,000	2,083,000
Amortization expense	1,188,000	566,000	3,598,000	1,703,000
EBITDA	\$ 10,876,000	\$ 6,316,000	\$ 26,418,000	\$ 14,339,000
Acquisition related costs (a)		600,000		700,000
Cost of sale of inventory step-up (b)			564,000	
Pension curtailment and settlement costs (c)		413,000	1,223,000	413,000
Adjusted EBITDA	\$ 10,876,000	\$ 7,329,000	\$ 28,205,000	\$ 15,452,000

(a) Represents costs related to our June 2012 acquisition of NEPTCO

(b) Represents costs of product related to the step-up in fair value of inventory through purchase accounting from the June 2012 acquisition of NEPTCO

(c) Represents pension related settlement costs due to the timing of lump sum distributions



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

Our overall cash and cash equivalents balance increased \$3,869,000 or 25% to \$19,049,000 at May 31, 2013, from \$15,180,000 at August 31, 2012. The increased cash balance is primarily attributable to cash flows generated from operations during the year partially offset by cash paid for principal payments on outstanding debt, equipment purchases and payment of our annual dividend. We will continue to review our current cash balances denominated in foreign currency in light of current tax guidelines, working capital requirements, infrastructure improvements and potential acquisitions.

Cash flow provided by operations was \$15,025,000 in the first nine months of fiscal year 2013 compared to \$8,959,000 in the prior year period. Cash provided by operations during the first nine months of fiscal 2013 was primarily related to operating income and increased collections of accounts receivable, offset by

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increased inventory balances resulting from strategic purchases of raw materials as well as higher sales volumes.

The ratio of current assets to current liabilities was 3.2 as of May 31, 2013, compared to 2.8 as of August 31, 2012. The increase in our current ratio at May 31, 2013 was primarily attributable to an increase in our overall cash balance due to cash flows generated during the year, as well as an increase in inventory resulting from strategic purchases of key raw materials in order to take advantage of favorable terms. Additionally, we had decreases in accrued income taxes due to the timing of tax payments and accrued payroll and other compensation due to the payment of our annual incentive program.

Cash flow used in investing activities of \$3,086,000 was primarily due to cash paid for purchases of machinery and equipment at our manufacturing locations during the first nine months of fiscal 2013 as well as \$281,000 of professional legal services that have been capitalized as prepaid patent costs.

Cash flow used in financing activities of \$7,819,000 was primarily due to our annual dividend payment and payments made on the bank loans used to finance our acquisition of NEPTCO, described in more detail below.

On October 23, 2012, we announced a cash dividend of \$0.40 per share (totaling \$3,626,000). The dividend was paid on December 5, 2012 to shareholders of record on November 2, 2012.

In June 2012, as part of our acquisition of NEPTCO, we borrowed \$70,000,000 under a five year term debt financing arrangement led and arranged by Bank of America, with participation from RBS Citizens (the "Credit Facility"). The applicable interest rate is based on the effective LIBOR plus a range of 1.75% to 2.25%, depending on our consolidated leverage ratio. At May 31, 2013, the applicable interest rate was 1.94% per annum and the outstanding principal amount was \$65,800,000. We are required to repay the principal amount of the term loan in quarterly installments of \$1,400,000 which began in September 2012 and continue through June 2014, increasing to \$1,750,000 per quarter thereafter through June 2015, and to \$2,100,000 per quarter thereafter through March 2017. The Credit Facility matures in June 2017. Prepayment of the Credit Facility is allowed at any time.

As part of the financing for this acquisition, we obtained a new revolving line of credit with Bank of America (the "Revolver") totaling \$15,000,000, which replaced our then existing \$10,000,000 line. The Revolver bears interest at LIBOR plus a range of 1.75% to 2.25%, depending on our consolidated leverage ratio, or, at our option, at the bank's base lending rate. As of May 31, 2013 and June 30, 2013, the entire amount of \$15,000,000 was available for use. The Revolver is scheduled to mature in June 2017. This Revolver allows for increased flexibility for working capital requirements going forward, and we plan to use this availability to help finance our cash needs, including potential acquisitions, in fiscal 2013 and future periods.

The Credit Facility with Bank of America contains customary affirmative and negative covenants that, among other things, restrict our ability to incur additional indebtedness. It also requires us to maintain a ratio of consolidated indebtedness to consolidated EBITDA (each as defined in the facility) of no more than 3.00 to 1.00, and to maintain a consolidated fixed charge coverage ratio (as calculated in the facility) of at least 1.25 to 1.00. We were in compliance with our debt covenants as of May 31, 2013.

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We currently have several on-going capital projects that are important to our long term strategic goals. Machinery and equipment will also be added as needed to increase capacity or enhance operating efficiencies in our other manufacturing plants. We also may consider the acquisition of companies or other assets in fiscal 2013 or in future periods that are complementary to our business. We believe that our existing resources, including cash on hand and our Revolver, together with cash generated from operations and additional bank borrowings, will be sufficient to fund our cash flow requirements through

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at least the next twelve months. However, there can be no assurances that additional financing will be available on favorable terms, if at all. To the extent that interest rates increase in future periods, we will assess the impact of these higher interest rates on the financial and cash flow projections of our potential acquisitions.

We have no significant off balance sheet arrangements.

**Contractual Obligations**

Please refer to Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations section in our Annual Report on Form 10-K for the fiscal year ended August 31, 2012 for a complete discussion of our contractual obligations.

**Recent Accounting Standards**

In July 2012, the Financial Accounting Standards Board ( FASB ) issued ASU 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment. This ASU amends ASC 350, Intangibles Goodwill and Other to allow entities an option to first assess qualitative factors to determine whether it is necessary to perform the quantitative impairment test. Under that option, an entity no longer would be required to calculate the fair value of the intangible asset unless the entity determines, based on that qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The amendments in this ASU are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The adoption of ASU 2012-02 will not have an impact on our consolidated financial position, results of operations or cash flows.

In February 2013, the FASB issued ASU 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. This ASU expands the presentation of changes in accumulated other comprehensive income. The new guidance requires an entity to disaggregate the total change of each component of other comprehensive income either on the face of the net income statement or as a separate disclosure in the notes. ASU 2013-02 is effective for fiscal years beginning after December 15, 2012. We believe that the adoption of this ASU will not have an impact on our consolidated financial position, results of operations or cash flows.

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**Critical Accounting Policies**

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States. To apply these principles, we must make estimates and judgments that affect our reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. In many instances, we reasonably could have used different accounting estimates and, in other instances, changes in the accounting estimates are reasonably likely to occur from period to period. Accordingly, actual results could differ significantly from our estimates. To the extent that there are material differences between these estimates and actual results, our financial condition or results of operations will be affected. We base our estimates and judgments on historical experience and other assumptions that we believe to be reasonable at the time and under the circumstances, and we evaluate these estimates and judgments on an ongoing basis. We refer to accounting estimates and judgments of this type as critical accounting policies, judgments, and estimates. Management believes there have been no material changes during the nine months ended May 31, 2013 to the critical accounting policies reported in Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended August 31, 2012.

**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. Forward-looking statements include, without limitation, statements as to our future operating results, plans for manufacturing facilities, future economic conditions and expectations or plans relating to the implementation or realization of our strategic goals and future growth. These statements are based on current expectations, estimates and projections about the industries in which we operate, and the beliefs and assumptions made by management. Readers should refer to the discussions under Forward Looking Information and Risk Factors contained in our Annual Report on Form 10-K for the fiscal year ended August 31, 2012 concerning certain factors that could cause our actual results to differ materially from the results anticipated in such forward-looking statements.

Table of Contents**Item 3 - Quantitative and Qualitative Disclosures about Market Risk**

We limit the amount of credit exposure to any one issuer. At May 31, 2013, other than our restricted investments (which are restricted for use in a non-qualified retirement savings plan for certain key employees and members of the Board of Directors), all of our funds were either in demand deposit accounts or investment instruments that meet high credit quality standards such as money market funds, government securities, or commercial paper.

Our domestic operations have limited currency exposure since substantially all transactions are denominated in USD. However, our European operations are subject to currency exchange fluctuations. We continue to review our policies and procedures to reduce this exposure while maintaining the benefit from these operations and sales to other European customers. As of May 31, 2013, the Company had cash balances in the following foreign currencies (with USD equivalents):

Currency Code	Currency Name	USD Equivalent at May 31, 2013	
GBP	British Pound	\$	7,363,000
EUR	Euro	\$	1,180,000
CNY	Chinese Yuan Renminbi	\$	376,000
CAD	Canadian Dollar	\$	132,000

We will continue to review our current cash balances denominated in foreign currency in light of current tax guidelines and potential acquisitions.

We recognized a foreign currency translation loss for the nine months ended May 31, 2013 in the amount of \$993,000 related to our European operations, which is recorded in other comprehensive income (loss) within our Statement of Equity and Statement of Comprehensive Income. We do not have or utilize any derivative financial instruments.

We pay interest on our outstanding long-term debt at interest rates that fluctuate based upon changes in various base interest rates. The carrying value of our long-term debt was \$65,800,000 at May 31, 2013. See Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Sources of Capital and Note 12—Fair Value Measurements to the Consolidated Financial Statements for additional information regarding our outstanding long-term debt. The effect of an immediate hypothetical 10% change in variable interest rates would not have a material effect on our Consolidated Financial Statements.

**Item 4 - Controls and Procedures***Evaluation of disclosure controls and procedures*

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We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our 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.

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We carry out a variety of ongoing procedures under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, to evaluate the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our 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*

Effective April 1, 2013, we began the process to implement a single enterprise resource planning ERP computer system world-wide. During the third quarter, we expanded existing ERP modules to four of our domestic locations which resulted in changes to our processes and procedures affecting our internal control over financial reporting. We expect this process to continue over the next eighteen months as we continue with our plan to deploy a more effective and efficient process to support our financial reporting as we continue to grow in size and scale. Otherwise, there have not been any changes in our internal control over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



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**Part II OTHER INFORMATION**

**Item 1 Legal Proceedings**

We are involved from time to time in litigation incidental to the conduct of our business. Although we do not expect that the outcome in any of these matters, individually or collectively, will have a material adverse effect on our financial condition, results of operations or cashflows, litigation is inherently unpredictable. Therefore, judgments could be rendered or settlements entered, that could adversely affect our operating results or cash flows in a particular period. We routinely assess all of our litigation and threatened litigation as to the probability of ultimately incurring a liability, and record our best estimate of the ultimate loss in situations where we assess the likelihood of loss as probable.

**Item 1A Risk Factors**

Please refer to Item 1A in our Form 10-K for the fiscal year ended August 31, 2012 for a complete discussion of the risk factors which could materially affect our business, financial condition or future results.

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**Item 6 - Exhibits**

<b>Exhibit Number</b>	<b>Description</b>
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*
101.INS	XBRL Instance Document**
101.SCH	XBRL Taxonomy Extension Schema Document**
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document**
101.LAB	XBRL Taxonomy Extension Label Linkbase Document**
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document**
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document**

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\*           Furnished, not filed

\*\*           Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under those sections.

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**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: July 10, 2013

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

Dated: July 10, 2013

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