

CHASE CORP  
Form 10-Q  
January 09, 2018  
Table of Contents

It

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period November 30, 2017

Commission File Number: 1-9852

CHASE CORPORATION

(Exact name of registrant as specified in its charter)

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

295 University Avenue, Westwood, Massachusetts 02090

(Address of Principal Executive Offices, Including Zip Code)

(781) 332-0700

(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company
Emerging growth company	

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

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

The number of shares of Common Stock outstanding as of December 31, 2017 was 9,374,840

Table of Contents

CHASE CORPORATION

INDEX TO FORM 10-Q

For the Quarter Ended November 30, 2017

Ca	
<u>Cautionary Note Concerning Forward-Looking Statements</u>	3
Part I - FINANCIAL INFORMATION	
<u>Item 1 – Unaudited Condensed Consolidated Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets as of November 30, 2017 and August 31, 2017</u>	4
<u>Condensed Consolidated Statements of Operations for the three months ended November 30, 2017 and 2016</u>	5
<u>Condensed Consolidated Statements of Comprehensive Income for the three months ended November 30, 2017 and 2016</u>	6
<u>Condensed Consolidated Statement of Equity for the three months ended November 30, 2017</u>	7
<u>Condensed Consolidated Statements of Cash Flows for the three months ended November 30, 2017 and 2016</u>	8
<u>Notes to Condensed Consolidated Financial Statements</u>	9
<u>Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	26
<u>Item 3 – Quantitative and Qualitative Disclosures About Market Risk</u>	36
<u>Item 4 – Controls and Procedures</u>	37
Part II – OTHER INFORMATION	
<u>Item 1 – Legal Proceedings</u>	37
<u>Item 1A – Risk Factors</u>	37
<u>Item 6 – Exhibits</u>	38
<u>SIGNATURES</u>	39



Table of Contents

Cautionary Note Concerning Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward -looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements, including without limitation forward-looking statements made under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations," involve risks and uncertainties. Any statements contained in this Quarterly Report that are not statements of historical fact may be deemed to be forward-looking statements. Forward-looking statements include, without limitation, statements as to our future operating results; seasonality expectations; plans for the development, utilization or disposal of manufacturing facilities; future economic conditions; our expectations as to legal proceedings; the effect of our market and product development efforts; and expectations or plans relating to the implementation or realization of our strategic goals and future growth, including through potential future acquisitions. Forward-looking statements may include, among other things, statements relating to future sales, earnings, cash flow, results of operations, use of cash and other measures of financial performance, as well as statements relating to future dividend payments. Other forward-looking statements may be identified through the use of words such as "believes," "anticipates," "may," "should," "will," "plans," "projects," "expects," "expectations," "estimates," "predicts," "targets," "forecasts" and other words of similar meaning in connection with the discussion of future operating or financial performance. These statements are based on current expectations, estimates and projections about the industries in which we operate, and the beliefs and assumptions made by management. Because forward-looking statements relate to the future, they are subject to inherent risks, uncertainties and changes in circumstances that are difficult to predict. Accordingly, the Company's actual results may differ materially from those contemplated by the forward-looking statements. Investors, therefore, are cautioned against relying on any of these forward-looking statements. They are neither statements of historical fact nor guarantees or assurances of future performance. Readers should refer to the discussions under "Risk Factors" contained in our Annual Report on Form 10-K for the fiscal year ended August 31, 2017 concerning certain factors that could cause our actual results to differ materially from the results anticipated in such forward-looking statements. These Risk Factors are hereby incorporated by reference into this Quarterly Report.

Table of Contents

## Item 1 — Unaudited Condensed Consolidated Financial Statements

## CHASE CORPORATION

## CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

In thousands, except share and per share amounts

	November 30, 2017	August 31, 2017
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 54,262	\$ 47,354
Accounts receivable, less allowance for doubtful accounts of \$333 and \$456	34,976	38,051
Inventory	27,331	25,618
Prepaid expenses and other current assets	3,847	3,098
Due from sale of business	400	—
Assets held for sale	14	14
Prepaid income taxes	641	—
Total current assets	121,471	114,135
Property, plant and equipment, less accumulated depreciation of \$45,614 and \$44,277	34,430	34,760
Other Assets		
Goodwill	50,911	50,784
Intangible assets, less accumulated amortization of \$44,817 and \$42,206	44,607	46,846
Cash surrender value of life insurance, less current portion	4,530	4,530
Restricted investments	1,057	964
Funded pension plan	549	566
Deferred income taxes	1,570	1,614
Other assets	129	539
Total assets	\$ 259,254	\$ 254,738
<b>LIABILITIES AND EQUITY</b>		
Current Liabilities		
Accounts payable	\$ 13,114	\$ 14,455
Accrued payroll and other compensation	4,404	6,500
Accrued expenses	3,826	4,052
Dividend payable	7,498	—

Edgar Filing: CHASE CORP - Form 10-Q

Accrued income taxes	—	2,333
Total current liabilities	28,842	27,340
Deferred compensation	1,071	979
Accumulated pension obligation	12,368	12,666
Other liabilities	1,612	1,567
Accrued income taxes	1,257	1,257
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; 9,374,840 shares at November 30, 2017 and 9,354,136 shares at August 31, 2017 issued and outstanding	937	935
Additional paid-in capital	14,734	14,060
Accumulated other comprehensive loss	(11,788)	(13,469)
Retained earnings	210,221	209,403
Total equity	214,104	210,929
Total liabilities and equity	\$ 259,254	\$ 254,738

See accompanying notes to the condensed consolidated financial statements

Table of Contents

## CHASE CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

In thousands, except share and per share amounts

	Three Months Ended November 30,	
	2017	2016
Revenue		
Sales	\$ 60,577	\$ 60,269
Royalties and commissions	1,340	1,088
	61,917	61,357
Costs and Expenses		
Cost of products and services sold	36,895	35,289
Selling, general and administrative expenses	12,059	11,752
Acquisition-related costs (Note 14)	—	584
Exit costs related to idle facility (Note 15)	—	27
Operating income	12,963	13,705
Interest expense	(45)	(246)
Gain on sale of real estate (Note 9)	—	792
Other income (expense)	(319)	399
Income before income taxes	12,599	14,650
Income taxes	4,284	4,287
Net income	\$ 8,315	\$ 10,363
Net income available to common shareholders, per common and common equivalent share (Note 4)		
Basic	\$ 0.89	\$ 1.11
Diluted	\$ 0.88	\$ 1.10
Weighted average shares outstanding		
Basic	9,281,877	9,228,338
Diluted	9,384,426	9,321,002



Edgar Filing: CHASE CORP - Form 10-Q

Annual cash dividends declared per share	\$ 0.80	\$ 0.70
--	---------	---------

See accompanying notes to the condensed consolidated financial statements

5

---

Table of Contents

CHASE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

In thousands, except share and per share amounts

	Three Months Ended November 30,	
	2017	2016
Net income	\$ 8,315	\$ 10,363
Other comprehensive income:		
Net unrealized gain (loss) on restricted investments, net of tax	31	13
Change in funded status of pension plans, net of tax	80	147
Foreign currency translation adjustment	1,570	(2,098)
Total other comprehensive income (loss)	1,681	(1,938)
Comprehensive income	\$ 9,996	\$ 8,425

See accompanying notes to the condensed consolidated financial statements

Table of Contents

## CHASE CORPORATION

## CONDENSED CONSOLIDATED STATEMENT OF EQUITY

THREE MONTHS ENDED NOVEMBER 30, 2017

(UNAUDITED)

In thousands, except share and per share amounts

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

See accompanying notes to the condensed consolidated financial statements



Table of Contents

## CHASE CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

In thousands, except share and per share amounts

	Three Months Ended November 30,	
	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 8,315	\$ 10,363
Adjustments to reconcile net income to net cash provided by operating activities		
Gain on sale of real estate	—	(792)
Depreciation	1,254	1,335
Amortization	2,314	2,176
Cost of sale of inventory step-up	—	190
Recovery of allowance for doubtful accounts	(126)	(5)
Stock-based compensation	533	528
Realized gain on restricted investments	(1)	(3)
Deferred taxes	—	10
Increase (decrease) from changes in assets and liabilities		
Accounts receivable	3,329	5
Inventory	(1,593)	(1,397)
Prepaid expenses and other assets	(725)	(535)
Accounts payable	(1,348)	(12)
Accrued compensation and other expenses	(2,397)	(2,755)
Accrued income taxes	(3,001)	(771)
Net cash provided by operating activities	6,554	8,337
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property, plant and equipment	(851)	(652)
Cost to acquire intangible assets	(1)	(14)
Payments for acquisitions	—	(30,435)
Proceeds from sale of real estate	—	1,382
Net proceeds from sale of businesses	—	229
Increase in restricted investments	(46)	(47)
Proceeds from settlement of life insurance policies	—	1,504
Net cash used in investing activities	(898)	(28,033)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments of principal on debt	—	(2,100)
Proceeds from exercise of common stock options	143	33

Edgar Filing: CHASE CORP - Form 10-Q

Payments of taxes on stock options and restricted stock	—	(993)
Net cash provided by (used in) financing activities	143	(3,060)
<b>INCREASE (DECREASE) IN CASH &amp; CASH EQUIVALENTS</b>	<b>5,799</b>	<b>(22,756)</b>
Effect of foreign exchange rates on cash	1,109	(1,331)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	47,354	73,411
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 54,262	\$ 49,324
<b>Non-cash Investing and Financing Activities</b>		
Common stock received for payment of stock option exercises	\$ 306	\$ 846
Property, plant and equipment additions included in accounts payable	\$ 176	\$ 47
Annual cash dividend declared	\$ 7,497	\$ 6,532

See accompanying notes to the condensed consolidated financial statements

Table of Contents

Note 1 — Basis of Financial Statement Presentation

Description of Business

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

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with United States of America generally accepted accounting principles (“US GAAP”) for interim financial reporting, and instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Therefore, they do not include all information and footnote disclosures necessary for a complete presentation of Chase Corporation’s financial position, results of operations and cash flows, in conformity with generally accepted accounting principles. Chase Corporation filed audited consolidated financial statements, which included all information and notes necessary for such a complete presentation, for the three years ended August 31, 2017, in conjunction with its 2017 Annual Report on Form 10-K. Certain immaterial reclassifications have been made to the prior year amounts to conform to the current year’s presentation.

The results of operations for the interim period ended November 30, 2017 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, 2017, which are contained in the Company’s 2017 Annual Report on Form 10-K.

The accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of normal recurring items) that are, in the opinion of management, necessary for a fair statement of the Company’s financial position as of November 30, 2017, the results of its operations, comprehensive income and cash flows for the interim periods ended November 30, 2017 and 2016, and changes in equity for the interim period ended November 30, 2017.

The financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation. The Company uses the U.S. dollar as the reporting currency for financial reporting. The financial position and results of operations of the Company’s U.K.-based operations are measured using the British Pound Sterling as the functional currency. The financial position and results

of operations of the Company's operations based in France are measured using the euro as the functional currency. The financial position and results of the Company's HumiSeal India Private Limited business are measured using the Indian rupee as the functional currency. The functional currency for all our other operations is the U.S. dollar. Foreign currency translation gains and losses are determined using current exchange rates for monetary items and historical exchange rates for other balance sheet items, and are recorded as a change in other comprehensive income. Transaction gains and losses generated from the remeasurement of assets and liabilities denominated in currencies other than the functional currency of each applicable operation are included in other income (expense) on the condensed consolidated statements of operations and were (\$353) and \$399 for the three-month periods ended November 30, 2017 and 2016, respectively.

#### Other Business Developments

On December 29, 2017, Chase entered an agreement to acquire Stewart Superabsorbents, LLC ("SSA, LLC"), an advanced superabsorbent polymer (SAP) formulator and solutions provider, with operations located in Hickory and McLeansville, NC. The transaction closed on December 31, 2017. In the most recently completed fiscal year, SSA, LLC, and its recently acquired ZappaTec business (collectively "Zappa Stewart"), had combined revenue in excess of \$24,000. Chase expects this acquisition to be immediately accretive to its earnings. The business was acquired for a purchase price of \$71,382, net of cash acquired, pending any working capital adjustments and excluding acquisition-related costs. As part of this transaction, Chase acquired all assets of the business, and entered multiyear leases at both locations. The purchase was funded from a combination of Chase's existing revolving credit facility and available cash on hand. Zappa Stewart's protective materials technology is complementary to Chase's current specialty chemical offerings. This acquisition is aligned with the Company's core strategies and extends its reach into growing medical, environmental and



Table of Contents

consumer applications. The Company is currently in the process of finalizing purchase accounting, and anticipates completion during fiscal 2018. Following the effective date of the acquisition (which occurred subsequent to November 30, 2017), the financial results of Zappa Stewart operations will be included in the Company's financial statements within the specialty chemical intermediates product line, contained within the Industrial Materials operating segment. See Note 19 to the Condensed Consolidated Financial Statements for additional information on the acquisition of Zappa Stewart.

On April 3, 2017, Chase executed an agreement with an unrelated third party to sell all inventory, machinery and equipment and intangible assets of the Company's fiber optic cable components product line for proceeds of \$3,858, net of transaction costs and following certain working capital adjustments. The resulting pre-tax gain on sale of \$2,013 was recognized in the third quarter of fiscal 2017 as gain on sale of businesses within the condensed consolidated statement of operations. Further, the purchaser entered a multiyear lease for a portion of the manufacturing space at the Company's Granite Falls, NC facility. Chase will provide ongoing manufacturing and administrative support to the purchaser for which the Company will receive additional consideration upon the performance of services. The Company's fiber optic cable components product line was formerly a part of the Company's Industrial Materials operating segment. See Note 8 to the condensed consolidated financial statements for additional information on the sale of the fiber optic cable components product line.

On September 30, 2016, the Company acquired certain assets of Resin Designs, LLC ("Resin Designs"), an advanced adhesives and sealants manufacturer, with locations in Woburn, MA and Newark, CA. The business was acquired for a purchase price of \$30,270, after final working capital adjustments and excluding acquisition-related costs. As part of this transaction, Chase acquired all working capital and fixed assets of the business, and entered multiyear leases at both locations. The Company expensed \$584 of acquisition-related costs associated with this acquisition during the first quarter of fiscal 2017. The purchase was funded entirely with available cash on hand. Resin Designs is a formulator of customized adhesive and sealant systems used in high-reliability electronic applications. The acquisition broadens the Company's adhesives and sealants product offering and manufacturing capabilities, and expands its market reach. Since the effective date of the acquisition, the financial results of Resin Designs' operations have been included in the Company's financial statements within the electronic and industrial coatings product line, contained within the Industrial Materials operating segment. See Note 14 to the condensed consolidated financial statements for additional information on the acquisition of the assets and operations of Resin Designs.

Table of Contents

Note 2 — Recent Accounting Standards

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers,” which will replace most of the existing revenue recognition guidance under U.S. GAAP. The core principle of the ASU is that an entity should recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services. The ASU requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. In March, April and May 2016, the FASB issued ASU 2016-08 “Principal versus Agent Considerations (Reporting Revenue Gross versus Net),” ASU 2016-10 “Identifying Performance Obligations and Licensing,” and ASU 2016-12, “Revenue from Contracts with Customers (Topic 606), Narrow-Scope Improvements and Practical Expedients” all of which provide further clarification to be considered when implementing ASU 2014-09. The ASU will be effective for the Company beginning September 1, 2018 (fiscal 2019), including interim periods in its fiscal year 2019, and allows for either retrospective or modified retrospective methods of adoption. The Company expects to utilize the modified retrospective method of adoption. From a timing of revenue recognition standpoint (point in time versus over time), it is anticipated that certain specialized products will be more affected than other products sold. The Company continues to assess the full impact the adoption will have on its consolidated financial statements and disclosures thereto.

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842).” Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (a) a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and (b) a right-of-use asset, which represents the lessee’s right to use, or control the use of, a specified asset for the lease term. Changes were made to align lessor accounting with the lessee accounting model and ASU No. 2014-09, “Revenue from Contracts with Customers.” The ASU will be effective for the Company beginning September 1, 2019 (fiscal 2020). Early application is permitted. Lessees must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company is currently evaluating the impact of the application of this ASU on our consolidated financial statements and disclosures thereto.

In August 2016, the FASB issued ASU No. 2016-15, “Statement of Cash Flows (Topic 230).” This ASU provides guidance on the presentation and classification of specific cash flow items to improve consistency within the statement of cash flows. The effective date for adoption of this guidance will be our fiscal year beginning September 1, 2018 (fiscal 2019), with early adoption permitted. The Company is currently evaluating the effect that ASU No. 2016-15 will have on its financial statements and related disclosures.

In January 2017, the FASB issued ASU No. 2017-01, “Business Combinations (Topic 805): Clarifying the Definition of a Business.” The new guidance dictates that when substantially all of the fair value of the gross assets acquired (or

disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, it should be treated as an acquisition or disposal of an asset. The guidance will be effective for the fiscal year beginning on September 1, 2018 (fiscal 2019), including interim periods within that year, with early adoption permitted.

In March 2017, the FASB issued ASU No. 2017-07, “Compensation — Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.” This ASU applies to all employers that offer to their employees defined benefit pension plans, other postretirement benefit plans, or other types of benefits accounted for under Topic 715, Compensation — Retirement Benefits. The ASU requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are used to present the other components of net benefit cost, that line item or items must be appropriately described. If a separate line item or items are not used, the line item or items used in the income statement to present the other components of net benefit cost must be disclosed. The ASU also allows only the service cost component to be eligible for capitalization when applicable (e.g., as a cost of internally

Table of Contents

manufactured inventory or a self-constructed asset). The required effective date for adoption of this guidance for the Company will be our fiscal year beginning September 1, 2018 (fiscal 2019), including interim periods within that annual period. Early adoption is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance. The Company is currently evaluating the effect that ASU No. 2017-07 will have on its financial statements and related disclosures.

In May 2017, the FASB issued ASU No. 2017-09, "Scope of Modification Accounting." This ASU provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. ASU 2017-09 is effective for fiscal years beginning after December 15, 2017 (our fiscal year 2019), including interim periods within that reporting period. The Company is currently in the process of evaluating the impact of ASU 2017-09 on our financial position and result of operations.

## Note 3 — Inventory

Inventory consisted of the following as of November 30, 2017 and August 31, 2017:

	November 30, 2017	August 31, 2017
Raw materials	\$ 12,874	\$ 11,636
Work in process	6,897	6,877
Finished goods	7,560	7,105
Total Inventory	\$ 27,331	\$ 25,618

Table of Contents

## Note 4 — Net Income Per Share

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

	Three Months Ended November 30,	
	2017	2016
<b>Basic Earnings per Share</b>		
Net income	\$ 8,315	\$ 10,363
Less: Allocated to participating securities	79	113
Net income available to common shareholders	\$ 8,236	\$ 10,250
Basic weighted average shares outstanding	9,281,877	9,228,338
Net income per share - Basic	\$ 0.89	\$ 1.11
<b>Diluted Earnings per Share</b>		
Net income	\$ 8,315	\$ 10,363
Less: Allocated to participating securities	79	113
Net income available to common shareholders	\$ 8,236	\$ 10,250
Basic weighted average shares outstanding	9,281,877	9,228,338
Additional dilutive common stock equivalents	102,549	92,664
Diluted weighted average shares outstanding	9,384,426	9,321,002
Net income per share - Diluted	\$ 0.88	\$ 1.10

For the three months ended November 30, 2017 and 2016, stock options to purchase 9,622 and 38,591 shares of common stock were outstanding, but were not included in the calculation of diluted income per share because their inclusion would be anti-dilutive. Included in the calculation of dilutive common stock equivalents are the unvested portion of restricted stock and stock options.

Table of Contents

Note 5 — Stock-Based Compensation

In August 2016, the Board of Directors of the Company approved the fiscal year 2017 Long Term Incentive Plan (“2017 LTIP”) for the executive officers and other members of management. The 2017 LTIP is an equity-based plan with a grant date of September 1, 2016 and contains a performance and service-based restricted stock grant of 5,399 shares in the aggregate, subject to adjustment, with a vesting date of August 31, 2019. Based on the fiscal year 2017 financial results, 5,399 additional shares of restricted stock (total of 10,798 shares) were earned and granted subsequent to the end of fiscal year 2017 in accordance with the performance measurement criteria. No further performance-based measurements apply to this award. Compensation expense is being recognized on a ratable basis over the vesting period.

In August 2017, the Board of Directors of the Company approved the fiscal year 2018 Long Term Incentive Plan (“2018 LTIP”) for the executive officers and other members of management. The 2018 LTIP is an equity-based plan with a grant date of September 1, 2017 and contains the following equity components:

Restricted Shares — (a) a performance and service-based restricted stock grant of 4,249 shares in the aggregate, subject to adjustment based on fiscal 2018 results, with a vesting date of August 31, 2020. Compensation expense is recognized on a ratable basis over the vesting period based on quarterly probability assessments; and (b) a time-based restricted stock grant of 3,473 shares in the aggregate, with a vesting date of August 31, 2020. Compensation expense is recognized on a ratable basis over the vesting period.

Stock options — options to purchase 9,622 shares of common stock in the aggregate with an exercise price of \$93.50 per share. The options will vest in three equal annual installments beginning on August 31, 2018 and ending on August 31, 2020. Of the options granted, 4,591 options will expire on August 31, 2027, and 5,031 options will expire on September 1, 2027. Compensation expense is recognized over the period of the award consistent with the vesting terms.

Note 6 — Segment Data and Foreign Operations

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

The Industrial Materials segment includes specified products that are used in, or integrated into, another company’s product, with demand typically dependent upon general economic conditions. Industrial Materials products include

insulating and conducting materials for wire and cable manufacturers, moisture protective coatings for electronics, laminated durable papers, laminates for the packaging and industrial laminate markets, custom manufacturing services, pulling and detection tapes used in the installation, measurement and location of fiber optic cables and water and natural gas lines, cover tapes essential to delivering semiconductor components via tape and reel packaging, composite materials and elements, polymeric microspheres and polyurethane dispersions. Beginning September 30, 2016, the Industrial Materials segment includes the acquired operations of Resin Designs, LLC, which was obtained through acquisition and is included in the Company's electronic and industrial coatings product line. Prior to the April 3, 2017 sale of the business, the segment's products also included glass-based strength elements, designed to allow fiber optic cables to withstand mechanical and environmental strain and stress.

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

Table of Contents

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

	Three Months Ended November 30,	
	2017	2016
Revenue		
Industrial Materials	\$ 49,985	\$ 49,024
Construction Materials	11,932	12,333
Total	\$ 61,917	\$ 61,357
Income before taxes		
Industrial Materials	\$ 15,365	\$ 16,415 (a)
Construction Materials	4,246	5,150
Total for reportable segments	19,611	21,565
Corporate and common costs	(7,012)	(6,915) (b)
Total	\$ 12,599	\$ 14,650
Includes the following costs by segment:		
Industrial Materials		
Interest	\$ 36	\$ 184
Depreciation	800	1,062
Amortization	1,987	1,862
Construction Materials		
Interest	\$ 9	\$ 62
Depreciation	190	158
Amortization	327	314

- 
- (a) Includes \$190 of expenses related to inventory step-up in fair value attributable to the September 2016 acquisition of certain assets of Resin Designs, LLC
- (b) Includes \$584 in acquisition-related expenses attributable to the September 2016 acquisition of certain assets of Resin Designs, LLC, facility exit and demolition costs of \$27 related to the Company's Randolph, MA location, and a \$792 gain related to the November 2016 sale of the Company's Paterson, NJ location



Table of Contents

Total assets for the Company's reportable segments as of November 30, 2017 and August 31, 2017 were:

	November 30, 2017	August 31, 2017
Total Assets		
Industrial Materials	\$ 156,903	\$ 156,263
Construction Materials	34,274	38,162
Total for reportable segments	191,177	194,425
Corporate and common assets	68,077	60,313
Total	\$ 259,254	\$ 254,738

The Company's products are sold worldwide. Revenue for the three-month periods ended November 30, 2017 and 2016 are attributed to operations located in the following countries:

	Three Months Ended November 30,	
	2017	2016
Revenue		
United States	\$ 52,477	\$ 51,808
United Kingdom	4,397	4,759
All other foreign (1)	5,043	4,790
Total	\$ 61,917	\$ 61,357

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

As of November 30, 2017 and August 31, 2017, the Company had long-lived assets (defined as tangible assets providing the Company with a future economic benefit beyond the current year or operating period, including buildings, equipment and leasehold improvements) and goodwill and intangible assets, less accumulated amortization, in the following countries:

	November 30, 2017	August 31, 2017
Long-lived Assets		
United States		
Property, plant and equipment, net	\$ 29,855	\$ 30,253

Edgar Filing: CHASE CORP - Form 10-Q

Goodwill and Intangible assets, less accumulated amortization	88,484	90,673
United Kingdom		
Property, plant and equipment, net	3,253	3,184
Goodwill and Intangible assets, less accumulated amortization	5,770	5,685
All other foreign		
Property, plant and equipment, net	1,322	1,323
Goodwill and Intangible assets, less accumulated amortization	1,264	1,272
Total		
Property, plant and equipment, net	\$ 34,430	\$ 34,760
Goodwill and Intangible assets, less accumulated amortization	\$ 95,518	\$ 97,630

Table of Contents

## Note 7 — Goodwill and Other Intangibles

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

	Industrial Materials	Construction Materials	Consolidated
Balance at August 31, 2017	\$ 40,091	\$ 10,693	\$ 50,784
Foreign currency translation adjustment	119	8	127
Balance at November 30, 2017	\$ 40,210	\$ 10,701	\$ 50,911

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

Intangible assets subject to amortization consist of the following as of November 30, 2017 and August 31, 2017:

	Weighted Average Amortization Period		Gross Carrying Value	Accumulated Amortization	Net Carrying Value
November 30, 2017					
Patents and agreements	14.4	years	\$ 1,851	\$ 1,673	\$ 178
Formulas and technology	7.8	years	9,353	5,721	3,632
Trade names	6.0	years	7,738	6,103	1,635
Customer lists and relationships	9.6	years	70,482	31,320	39,162
			\$ 89,424	\$ 44,817	\$ 44,607

August 31, 2017

Edgar Filing: CHASE CORP - Form 10-Q

Patents and agreements	14.4	years	\$ 1,845	\$ 1,671	\$ 174
Formulas and technology	7.8	years	9,318	5,387	3,931
Trade names	6.0	years	7,709	5,813	1,896
Customer lists and relationships	9.6	years	70,180	29,335	40,845
			\$ 89,052	\$ 42,206	\$ 46,846

Aggregate amortization expense related to intangible assets for the three months ended November 30, 2017 and 2016 was \$2,314 and \$2,176, respectively. Estimated amortization expense for the remainder of fiscal year 2018 and for the next five years is as follows:

Years ending August 31,	
2018 (remaining 9 months)	\$ 6,818
2019	8,462
2020	7,594
2021	7,064
2022	6,171
2023	2,971

Table of Contents

Note 8 — Sale of Business

Sale of Fiber Optic Cable Components Product Line

On April 3, 2017, Chase executed an agreement with an unrelated party to sell all inventory, machinery and equipment and intangible assets of the Company's fiber optic cable components product line for proceeds of \$3,858, net of transaction costs and following certain working capital adjustments. Given its low-growth and low-margin prospects, and a customer, supplier and equipment base separate from our other businesses, the fiber optic cable components product line, which was formerly part of the Company's Industrial Materials segment, was determined to not be part of Chase's long-term strategy. The divestiture was accounted for under ASC Topic 360, "Disclosure - Impairment or Disposal of Long-Lived Assets." In accordance with this accounting standard, the resulting pre-tax gain on sale of \$2,013 was recognized in the third quarter of fiscal 2017 as gain on sale of businesses within the condensed consolidated statement of operations. Chase received \$3,458, net of transaction costs, in the third quarter of fiscal 2017, with the remaining \$400 placed in escrow; the portion of the sale price held in escrow was recorded as a non-current asset within other assets as of August 31, 2017 and as a current asset (Due from sale of business) as of November 30, 2017, and is available to resolve any submitted claims or adjustments up to 18 months from the closing date of the sale.

Subsequent to the sale, Chase will provide ongoing manufacturing and administrative support to the purchaser for which the Company will receive additional consideration upon the performance of services; this arrangement is anticipated to last for multiple years. In the quarter ended November 30, 2017, Chase charged the purchaser \$470 for manufacturing services, which the Company recognized as revenue within the Industrial Materials segment, and \$60 for selling and administrative expenses, which the Company recognized as an offset to selling, general and administrative expenses. Further, the purchaser entered a multiyear lease for a portion of the manufacturing space at the Company's Granite Falls, NC facility. Chase received \$33 in rental income during the first quarter of fiscal 2018 related to this lease, which the Company recognized within other income (expense) on the condensed consolidated statement of operations

Note 9 — Sale of Real Estate

Sale of Paterson, NJ Location

In November 2016, the Company finalized the sale of its Paterson, NJ property for cash proceeds in the amount of \$1,382. This transaction resulted in a gain of \$792, which was recorded in the Company's condensed consolidated statement of operations as a gain on sale of real estate during the fiscal quarter ended November 30, 2016. The Company had previously reclassified the related long-lived assets to assets held for sale after committing to a plan in the second quarter of fiscal 2016 to actively market the property.

#### Sale of Former Corporate Headquarters in Bridgewater, MA

In October 2016, Chase entered into an agreement to sell its former corporate headquarters and executive offices in Bridgewater, MA. In December 2016, during the second quarter of fiscal 2017, the sale was finalized for gross cash proceeds in the amount of \$740, resulting in a gain on sale of \$68. See Note 17 to the condensed consolidated financial statements for additional information on the sale of the Bridgewater, MA location.

#### 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 agreed to that could adversely affect the Company's operating results or cash flows in a particular period. The Company routinely assesses all 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 we assess the likelihood of loss as probable.

Table of Contents

## Note 11 — Pensions and Other Postretirement Benefits

The components of net periodic benefit cost for the three months ended November 30, 2017 and 2016 are as follows:

	Three Months Ended November 30,	
	2017	2016
Components of net periodic benefit cost		
Service cost	\$ 71	\$ 72
Interest cost	157	170
Expected return on plan assets	(116)	(132)
Amortization of prior service cost	1	1
Amortization of accumulated loss	121	224
Net periodic benefit cost	\$ 234	\$ 335

When funding is required, the Company's policy is to contribute amounts that are deductible for federal income tax purposes. As of November 30, 2017, the Company has made contributions of \$389 in the current fiscal year to fund its obligations under its pension plans, and plans to make the necessary contributions over the remainder of fiscal 2018 to ensure the qualified plans continue to be adequately funded given the current market conditions. The Company made contributions of \$21 in the first three months of the prior year.

## 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 (exit price) in an orderly transaction between market participants at the measurement date. The Company uses a three-tier fair value hierarchy, which classifies the inputs used in measuring fair values. These tiers are: 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 utilizes the best available information in measuring fair value. Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. The financial assets classified as Level 1 and Level 2 as of November 30, 2017 and August 31, 2017 represent investments that are restricted for use in a nonqualified retirement savings plan for certain key employees and directors.

The following table sets forth the Company's financial assets that were accounted for at fair value on a recurring basis as of November 30, 2017 and August 31, 2017:

	Fair value measurement date	Total	Fair value measurement category		
			Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:					
Restricted investments	November 30, 2017	\$ 1,057	\$ 1,006	51	—
Restricted investments	August 31, 2017	\$ 964	\$ 926	38	—



Table of Contents

The following table presents the fair value of the Company's long-term debt (including the current portion of long-term debt) as of November 30, 2017 and August 31, 2017, which is recorded at its carrying value:

	Fair value measurement date	Total	Fair value measurement category		
			Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Liabilities:					
Long-term debt	November 30, 2017	\$ —	\$ —	—	—
Long-term debt	August 31, 2017	\$ —	\$ —	—	—

The long-term debt had no outstanding balance at either November 30, 2017 or August 31, 2017. Generally, the carrying value of the long-term debt approximates its fair value, as the interest rate is set based on the movement of the underlying market rates. In December 2016, Chase refinanced its term debt with a new revolving credit agreement. See Note 18 to the condensed consolidated financial statements for additional information on the refinancing.

## Note 13 — Accumulated Other Comprehensive Income

The changes in accumulated other comprehensive income (loss), net of tax, were as follows:

	Restricted Investments	Change in Funded Status of Pension Plan	Foreign Currency Translation Adjustment	Total
Balance at August 31, 2016	\$ 54	\$ (7,336)	\$ (8,197)	\$ (15,479)
Other comprehensive gains (losses) before reclassifications (1)	14	—	(2,098)	(2,084)
Reclassifications to net income of previously deferred (gains) losses (2)	(1)	147	—	146
Other comprehensive income (loss)	13	147	(2,098)	(1,938)

Edgar Filing: CHASE CORP - Form 10-Q

Balance at November 30, 2016	\$ 67	\$ (7,189)	\$ (10,295)	\$ (17,417)
Balance at August 31, 2017	\$ 121	\$ (6,181)	\$ (7,409)	\$ (13,469)
Other comprehensive gains (losses) before reclassifications (3)	31	—	1,570	1,601
Reclassifications to net income of previously deferred (gains) losses (4)	—	80	—	80
Other comprehensive income (loss)	31	80	1,570	1,681
Balance at November 30, 2017	\$ 152	\$ (6,101)	\$ (5,839)	\$ (11,788)

- 
- (1) Net of tax expense of \$8, \$0 and \$0, respectively.  
(2) Net of tax expense of \$1, tax benefit of \$78 and \$0, respectively.  
(3) Net of tax benefit of \$16, \$0 and \$0, respectively.  
(4) Net of tax expense of \$1, tax benefit of \$41 and \$0, respectively.

Table of Contents

The following table summarizes the reclassifications from accumulated other comprehensive income (loss) to the unaudited condensed consolidated statements of income:

	Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income Three Months Ended		Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income
	November 30, 2017	2016	
Gains on Restricted Investments:			
Realized gain on sale of restricted investments	\$ (1)	\$ (2)	Selling, general and administrative expenses
Tax expense (benefit)	1	1	
Gain net of tax	\$ —	\$ (1)	
Loss on Funded Pension Plan adjustments:			
Amortization of prior pension service costs and unrecognized losses	\$ 28	\$ 26	Cost of products and services sold
Amortization of prior pension service costs and unrecognized losses	\$ 94	\$ 199	Selling, general and administrative expenses
Tax expense (benefit)	(42)	(78)	
Loss net of tax	\$ 80	\$ 147	
Total net loss reclassified for the period	\$ 80	\$ 146	

Note 14 — Acquisitions

Acquisition of Resin Designs, LLC

On September 30, 2016, the Company acquired certain assets of Resin Designs, LLC (“Resin Designs”), an advanced adhesives and sealants manufacturer, with locations in Woburn, MA and Newark, CA. This business was acquired for a purchase price of \$30,270, after final working capital adjustments and excluding acquisition-related costs. As part of this transaction, Chase acquired all working capital and fixed assets of the business, and entered into multiyear leases at both locations. Resin Designs is a formulator of customized adhesive and sealant systems used in high-reliability electronic applications. The acquisition broadens the Company’s adhesives and sealants product offering and manufacturing capabilities, and expands its market reach. The purchase was funded entirely with available cash on hand.

Since the effective date for this acquisition, September 30, 2016, the financial results of the acquired business have been included in the Company’s financial statements within the Industrial Materials operating segment, within the electronic and industrial coatings product line. The acquisition was accounted for as a business combination under ASC Topic 805, “Business Combinations.” In accordance with this accounting standard, the Company expensed \$584 of acquisition-related costs during the first fiscal quarter of 2017 to acquisition-related costs.

Table of Contents

The purchase price has been allocated to the acquired tangible and identifiable intangible assets assumed, based on their fair values as of the date of the acquisition:

Assets & Liabilities	Amount
Accounts receivable	\$ 1,877
Inventory	1,300
Prepaid expenses and other current assets	63
Property, plant & equipment	623
Goodwill	7,592
Intangible assets	19,450
Accounts payable and accrued liabilities	(635)
Total purchase price	\$ 30,270

The excess of the purchase price over the net tangible and intangible assets acquired resulted in goodwill of \$7,592 that is largely attributable to the synergies and economies of scale from combining the operations, technologies and research and development capabilities of Resin Designs and Chase, particularly as it pertains to the expansion of the Company's product and service offerings, the established workforce and marketing efforts. This goodwill is deductible for income tax purposes.

All assets, including goodwill, acquired as part of the Resin Designs acquisition are included in the Industrial Materials operating segment. Identifiable intangible assets purchased with this transaction are as follows:

Intangible Asset	Amount	Useful life
Customer relationships	\$ 17,500	10 years
Technology	1,200	4 years
Trade names	750	7 years
Total intangible assets	\$ 19,450	

## Supplemental Pro Forma Data

The following table presents the pro forma results of the Company for the three-month period ended November 30, 2016 as though the Resin Designs acquisition described above occurred on September 1, 2015 (the first day of fiscal 2016). The actual revenue and expenses for the acquired business are included in the Company's consolidated results beginning on September 30, 2016. For the three months ended November 30, 2017, revenue and net income for the Resin Designs operations included in the condensed consolidated statement of operations were \$3,738 and \$348, respectively. The pro forma results include adjustments for the estimated amortization of intangibles,

Edgar Filing: CHASE CORP - Form 10-Q

acquisition-related costs, sale of inventory step-up cost 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 that would have been achieved if the acquisition had been effective on September 1, 2015.

	Three Months Ended November 30, 2016
Revenue	\$ 62,942
Net income	11,034
Net income available to common shareholders, per common and common equivalent share	
Basic earnings per share	\$ 1.18
Diluted earnings per share	\$ 1.17



Table of Contents

## Note 15 — Exit Costs Related to Idle Facility

In the three-month period ended November 30, 2016, the Company recognized \$27 in expenses to raze and exit its Randolph, MA facility, which had been idle regarding production for several years; no expense was recognized in the quarter ended November 30, 2017. The Company began marketing the site for sale and reclassified the net book value of the facility to assets held for sale in the second quarter of fiscal 2016, and recognized a total of \$70 and \$935 in expenses associated with the project during fiscal 2017 and 2016, respectively. These actions were taken as part of the Company's on-going facility consolidation and rationalization initiative. The Company substantially completed the demolition of the structure in the fourth fiscal quarter of 2016, and completed other environmental aspects of the project during fiscal 2017. The sale of the property is anticipated to follow in a subsequent period, and any future expenses related to the project are anticipated to not be material. See Note 16 to the condensed consolidated financial statements for additional information on assets held for sale.

## Note 16 — Assets Held for Sale

The Company periodically reviews long-lived assets against its plans to retain or ultimately dispose of these assets. If the Company decides to dispose of an asset and commits to a plan to actively market and sell the asset, it will be moved to assets held for sale. The Company analyzes market conditions each reporting period, and, if applicable, records additional impairments due to declines in market values of like assets. The fair value of the asset is determined by observable inputs such as appraisals and prices of comparable assets in active markets for assets like the Company's. Gains are not recognized until the assets are sold.

Assets held for sale as of November 30, 2017 and August 31, 2017 were:

	November 30, 2017	August 31, 2017
Randolph, MA - Property (1)	\$ 14	\$ 14
Total	\$ 14	\$ 14

(1) See Note 15 to the condensed consolidated financial statements for additional information on Randolph, MA location assets held for sale as of November 30, 2017 and August 31, 2017.



Note 17 — Related Party Agreements

Reimbursements Related to Life Insurance Policies

During the fourth quarter of fiscal 2016 and the first quarter of fiscal 2017, the Edward L. Chase Trust (the “Trust”), owners of two insurance policies on the life of Claire E. Chase, reimbursed the Company for premiums paid on the policies in exchange for the Company’s release of any claims on the policies. In August 2016 (the fourth quarter of fiscal 2016), the Company received \$1,238 related to the John Hancock (formerly Manufacturers’ Life Insurance Company) policy, the full value of premiums paid to date by the Company. In September 2016 (the first quarter of fiscal 2017), the Company received \$1,504 related to the Metropolitan Life Insurance policy, its then cash surrender value, plus an additional prepaid premium related to the policy. Claire E. Chase is the spouse of a former executive of the Company, Edward L. Chase (deceased), and who in each case are the parents of Peter R. Chase (the Executive Chairman of the Company) and Mary Claire Chase (Director) and the grandparents of Adam P. Chase (the President and CEO of the Company). The Trust is the beneficial owner of more than 5% of the Company’s common stock. Terms and conditions of these transactions were reviewed and approved by the independent members of the Company's Board of Directors in advance.

Sale of Former Corporate Headquarters in Bridgewater, MA

In October 2016, Chase entered an agreement to sell its former corporate headquarters and executive offices in Bridgewater, MA. In December 2016, the sale was finalized for gross proceeds of \$740, resulting in a gain on sale of \$68, which was recognized in the second quarter of fiscal 2017. The buyer, Bridgewater State University Foundation, Inc., was deemed a related party because of previously existing professional connections between it and two members of

Table of Contents

the Company's Board of Directors, including Peter R. Chase (the Executive Chairman of the Company) and Dana Mohler-Faria (Director). The terms and conditions of the proposed transaction were reviewed and approved by all members of the Company's Board of Directors who were not parties related to the potential buyer, prior to entering the October 2016 agreement. They concluded that the sale price was appropriate, after considering a recent market appraisal of the land and building performed by an independent third-party valuation firm.

Note 18 — Long-Term Debt

On December 15, 2016, the Company entered an Amended and Restated Credit Agreement (the "New Credit Agreement") with Bank of America, acting as administrative agent, and with participation from Citizens Bank and JPMorgan Chase Bank (collectively with Bank of America, the "Lenders"). The New Credit Agreement is initially an all-revolving credit facility with a borrowing capacity of \$150,000, which can be increased by an additional \$50,000 at the request of the Company and the individual or collective option of any of the Lenders. The New Credit Agreement contains customary affirmative and negative covenants that, among other things, restrict our ability to incur additional indebtedness and require certain lender approval for acquisitions by the Company and its subsidiaries over a certain size. It also requires us to maintain certain financial ratios on a consolidated basis, including a consolidated net leverage ratio (as defined in the facility) of no more than 3.25 to 1.00, and a consolidated fixed charge coverage ratio (as defined in the facility) of at least 1.25 to 1.00. We were in compliance with our debt covenants as of November 30, 2017. The New Credit Agreement is guaranteed by all of Chase's direct and indirect domestic subsidiaries, including NEPTCO, which had a carrying value of \$162,794 at November 30, 2017. The New Credit Agreement was entered both to refinance our previously existing term loan and revolving line of credit, and to provide for additional liquidity to finance potential acquisitions, working capital, capital expenditures, and for other general corporate purposes.

The applicable interest rate for the revolver portion of the New Credit Agreement (the "New Revolving Facility") and any New Term Loan (defined below) is based on the effective London Interbank Offered Rate (LIBOR) plus an additional amount in the range of 1.00% to 1.75%, depending on the consolidated net leverage ratio of Chase and its subsidiaries. At November 30, 2017, there was no outstanding principal balance, and as such no applicable interest rate. The New Credit Agreement has a five-year term with interest payments due at the end of the applicable LIBOR period (but in no event less frequently than the three-month anniversary of the commencement of such LIBOR period) and principal payment due at the expiration of the agreement, December 15, 2021. In addition, the Company may elect a base rate option for all or a portion of the New Revolving Facility, in which case, interest payments shall be due with respect to such portion of the New Revolving Facility on the last business day of each quarter.

Subject to certain conditions set forth in the New Credit Agreement, the Company may elect to convert all or a portion of the outstanding New Revolving Facility into a term loan (each, a "New Term Loan"), which shall be payable quarterly in equal installments sufficient to amortize the original principal amount of such New Term Loan on a seven year amortization schedule; provided, however, that the final principal repayment installment shall be repaid on December 15, 2021 and in any event shall be in an amount equal to the aggregate principal amount of all Term Loans

outstanding on such date. Prepayment is allowed by the New Credit Agreement at any time during the term of the agreement, subject to customary notice requirements.

In connection with entry into the New Credit Agreement, Chase applied proceeds to refinance in full the outstanding principal balance of its preexisting term debt, simultaneously terminating both our previously existing term loan agreement and the previously existing revolving line of credit, which was fully available as of December 15, 2016.

In December 2017, the Company utilized \$65,000 of the New Credit Agreement to finance a portion of the acquisition cost of Stewart Superabsorbents, LLC. See Note 19 to the condensed consolidated financial statements for additional information on this acquisition completed during the second fiscal quarter.

Table of Contents

Note 19 — Subsequent Events

Acquisition of Zappa Stewart

On December 29, 2017, Chase entered an agreement to acquire Stewart Superabsorbents, LLC (“SSA, LLC”), an advanced superabsorbent polymer (SAP) formulator and solutions provider, with operations located in Hickory and McLeansville, NC. The transaction closed on December 31, 2017. In the most recently completed fiscal year, SSA, LLC, and its recently acquired ZappaTec business (collectively “Zappa Stewart”), had combined revenue in excess of \$24,000. Chase expects this acquisition to be immediately accretive to its earnings. The business was acquired for a purchase price of \$71,382, net of cash acquired, pending any working capital adjustments and excluding acquisition-related costs. Chase acquired all equity of the business, and entered multiyear leases at both locations. The purchase was funded from a combination of Chase’s existing revolving credit facility and available cash on hand. Zappa Stewart’s protective materials technology is complementary to Chase’s current specialty chemical offerings. This acquisition is in line with our core strategies and extends our reach into growing medical and consumer applications.

Tax Cuts and Jobs Act of 2017

On December 22, 2017, President Trump signed into law the Tax Cuts and Jobs Act (H.R. 1) (the "Act"). The Act includes a number of changes in existing U.S. tax law impacting the Company's income taxes including, among other things, permanent reduction in the U.S. corporate income tax rate from 35% to 21%, repeal of Section 199 domestic manufacturing deduction, and deemed repatriation on U.S. shareholders’ pro rata share of certain non-U.S. subsidiaries’ earnings not previously taxed by the United States of America.

The Company is currently reviewing the components of the Act and evaluating its impact, which could be material on the Company’s fiscal year 2018 consolidated financial statements and related disclosures, including a one-time, non-cash expense related to a decrease in the value of the Company’s net deferred tax assets. At this time, the Company’s revaluation of its deferred tax assets has not been estimated, and the Company is unable to make a final determination of the effect on quarterly and annual earnings for the period ending August 31, 2018. The Company does not assert permanent reinvestment of its undistributed non-U.S. subsidiaries' earnings and has previously recognized a deferred tax liability for the estimated future tax effects attributable to temporary differences due to these undistributed earnings.

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 Condensed 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, 2017.

Overview

In the three-month period ended November 30, 2017, the Company had favorable comparative results to the prior year in revenue, however a less favorable sales mix and certain other unfavorable items (explained below) resulted in lower operating income and net income. Our Industrial Materials segment obtained higher sales volume for the quarter, while our Construction Materials segment’s sales decreased from the comparable period. The current quarter saw reduced margins and earnings, driven by sales mix and increasing raw material prices and a comparatively higher income tax rate. Additionally, we experienced a swing in the effects of foreign currency transactions, moving from a gain in the prior year, to a loss in the first quarter of fiscal 2018.

First quarter revenue from our Industrial Materials segment surpassed the prior year with high demand for our electronic and industrial coatings, pulling and detection, structural composites, specialty products and specialty chemical intermediates product lines. Offsetting these increases in revenue were quarter-over-quarter reductions in sales volume from our fiber optic cable components and cable materials product lines. Our fiber optic cable components product line, which was divested in the third quarter of the prior year, did not record any revenue in the current year.

Revenue for our Construction Materials segment decreased for the first quarter as compared to the same period in the prior year. Our pipeline coatings products experienced the largest net sales volume decrease. Middle East water infrastructure projects continued, but at significantly reduced comparative levels, resulting in reduced demand for our Rye, U.K. facility-produced pipeline coatings products. Our domestically-produced pipeline coatings products, which sell into North American oil and gas markets, and are primarily for repairs and maintenance, fared better, seeing a quarter-over-quarter increase from the prior year. Our building envelope and coating and lining systems product lines both saw quarter-over-quarter decreases in sales volume. Partially offsetting these losses, bridge and highway products finished ahead of the prior year for the first quarter.

During the remainder of the fiscal year, the Company plans to successfully address both foreseen and unforeseen challenges through disciplined operational and financial management. The upcoming second fiscal quarter has

historically generated lower quarterly revenue for many of our product lines, especially within the Construction Materials segment due to the effects of winter weather across much of North America. We plan to integrate the operations of Zappa Stewart, which was acquired in the second fiscal quarter of 2018, onto our worldwide ERP computer system. Through employing both market and product development efforts and pursuing opportunities realizable through mergers, acquisitions and divestitures, we will continue the strategic management of our portfolio of product offerings.

Our balance sheet remains strong, with cash on hand of \$54,262,000 and a current ratio of 4.2 at November 30, 2017. At the end of our first fiscal quarter, there was no outstanding principal balance under our credit facility. Subsequent to the first quarter, the Company utilized \$65,000,000 of the credit facility to finance a portion of the acquisition of Zappa Stewart.

Table of Contents

We have two reportable segments as summarized below:

Segment	Product Lines	Manufacturing Focus and Products
Industrial Materials	Cable Materials	Protective coatings and tape products, including insulating and conducting materials for wire and cable manufacturers; moisture protective coatings and customized sealant and adhesive systems for electronics; laminated durable papers, packaging and industrial laminate products and custom manufacturing services; pulling and detection tapes used in the installation, measurement and location of fiber optic cables and water and natural gas lines; cover tapes essential to delivering semiconductor components via tape and reel packaging; composite materials elements; glass-based strength elements designed to allow fiber optic cables to withstand mechanical and environmental strain and stress; polyurethane dispersions and polymeric microspheres.
	Electronic and Industrial Coatings	
	Specialty Products	
	Pulling and Detection	
	Electronic Materials	
	Structural Composites	
	Fiber Optic Cable Components (1)	
Construction Materials	Specialty Chemical Intermediates	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; adhesives and sealants used in architectural and building envelope waterproofing applications; high-performance polymeric asphalt additives and expansion and control joint systems for use in the transportation and architectural markets.
	Coating and Lining Systems	
	Pipeline Coatings	
	Building Envelope	
	Bridge and Highway	

(1) Results of product line included for period prior to its April 3, 2017 sale by the Company.

Table of Contents

## Results of Operations

Revenue and Operating Profit by Segment are as follows (dollars in thousands):

	Three Months Ended November 30, 2017	% of Total Revenue		Three Months Ended November 30, 2016	% of Total Revenue	
Revenue						
Industrial Materials	\$ 49,985	81 %	\$	49,024	80 %	
Construction Materials	11,932	19 %		12,333	20 %	
Total	\$ 61,917		\$	61,357		
	Three Months Ended November 30, 2017	% of Segment Revenue		Three Months Ended November 30, 2016	% of Segment Revenue	
Income before income taxes						
Industrial Materials	\$ 15,365	31 %	\$	16,415	(a) 33 %	
Construction Materials	4,246	36 %		5,150	42 %	
Total for reportable segments	19,611	32 %		21,565	35 %	
Corporate and Common Costs	(7,012)			(6,915)	(b)	
Total	\$ 12,599	20 %	\$	14,650	24 %	

(a) Includes \$190 of expenses related to inventory step-up in fair value attributable to the September 2016 acquisition of certain assets of Resin Designs, LLC

(b) Includes \$584 in acquisition-related expenses attributable to the September 2016 acquisition of certain assets of Resin Designs, LLC, facility exit and demolition costs of \$27 related to the Company's Randolph, MA location, and a \$792 gain related to the November 2016 sale of the Company's Paterson, NJ location

## Total Revenue

Total revenue increased \$560,000 or 1% to \$61,917,000 for the quarter ended November 30, 2017, compared to \$61,357,000 in the same quarter of the prior year.

Revenue in our Industrial Materials segment increased \$961,000 or 2% in the current quarter. The increase in this segment as compared to the prior year period was primarily due to: (a) our electronic and industrial coatings product



line, which included three full months of the acquired Resin Designs operations, and had a total increase of \$2,458,000, reflecting increased sales volume from the automotive and appliance manufacturing industries, along with an increased royalty revenue received from our licensed manufacturer in Asia; (b) sales volume increase of \$1,294,000 from our pulling and detection products, on increased demand from customers in the utility and telecommunication industries following a severe hurricane season which affected Texas and the U.S. southeast; (c) increased sales into the wind energy market of \$791,000 from our structural composite products; (d) revenue increase of \$604,000 for our specialty products, which, subsequent to the sale of our fiber optic cable components business on April 3, 2017, includes revenue from the manufacturing services provided by the Company to the purchaser of the fiber optic cable components product line; and (e) our specialty chemicals intermediates product line, which had a sales volume increase of \$20,000. These net increases were partially offset in the current quarter by: (a) a \$2,291,000 reduction in sales volume for our cable materials products, with the largest decreases in communication cable components as the industry experiences consolidation and product design changes; and (b) a sales volume decrease of \$1,915,000 from the prior year in our fiber optic cable components product line, which was divested in fiscal 2017, and had no revenue recorded in the current year. Our electronic materials products sales stayed constant with the prior year.

Compared to the prior year first quarter, revenue from our Construction Materials segment decreased \$401,000 or 3%. The largest decrease in our Construction Materials segment compared to the prior year period was due to a net decrease in sales of our pipeline coatings products of \$645,000. While project work in the Middle East has continued, delays and sluggishness in the region have continued to reduce demand for water and wastewater pipeline coatings products produced at our Rye, U.K. facility. Conversely, sales for our domestically produced pipeline products increased compared to the first quarter of the prior year, but not enough to offset the international decline. Further decreases in this segment as compared to the prior year period were primarily due to the following for the current quarter: (a) our building

Table of Contents

envelope product line had sales volume decrease by \$565,000, as it experienced commercial roofing project delays and consolidation within the industry; and (b) sales volume from our coating and lining systems decreased \$86,000. Positively impacting the change in segment revenue for the quarter were sales of our bridge and highway products, which increased by \$895,000 and are being utilized in multiple projects domestically, especially in the New York metropolitan area, as well as expanding internationally.

## Cost of Products and Services Sold

Cost of products and services sold increased \$1,606,000 or 5% to \$36,895,000 for the quarter ended November 30, 2017, compared to \$35,289,000 in the prior year quarter.

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

	Three Months Ended			
	November 30,			
Cost of products and services sold	2017		2016	
Industrial Materials	61	%	58	%
Construction Materials	54	%	55	%
Total	60	%	58	%

Cost of products and services sold in our Industrial Materials segment was \$30,465,000 in the current quarter compared to \$28,492,000 in the comparable period in the prior year. Cost of products and services sold in our Construction Materials segment was \$6,430,000 for the quarter ended November 30, 2017, compared to \$6,797,000 in the same period of the prior year. As a percentage of revenue, cost of products and services sold increased for our Industrial Materials segment and decreased for our Construction Materials segment. The increase for our Industrial Materials segment was primarily due to product mix, as our lower margin products within our product lines constituted a comparatively higher portion of total sales, as well as raw material costs on increasing commodity prices. For the Construction Materials segment in the first quarter of 2018, the decrease was primarily due to product mix, as our lower margin products constituted a comparatively lower portion of total sales. Chase's products are manufactured largely with commodity items (including petroleum-based solvents, films, yarns, and nonwovens, aluminum and copper foils, specialty papers, and various resins, adhesives and inks). Price changes in these commodities can both directly and indirectly affect the purchase price of our raw materials and market demand for our product offerings. The Company diligently monitors raw material and commodities pricing across all its product lines in effort to preserve margins.

## Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$307,000 or 3% to \$12,059,000 for the quarter ended November 30, 2017 compared to \$11,752,000 in the prior year quarter. As a percentage of revenue, selling, general and administrative expenses stayed consistent at 19% in both periods. The nominal increase for the current fiscal quarter compared to the prior year period, was largely attributable to: (a) increased selling and sales commission expense of \$209,000 because of Resin Designs operating for an additional month in the current year and targeted spending increases in certain other product lines; and (b) increased amortization expense of \$138,000 primarily related to intangible assets acquired in our September 30, 2016 acquisition of certain assets of Resin Designs.

#### Exit Costs Related to Idle Facility

In the three-month period ended November 30, 2016, the Company recognized \$27,000 in expenses to raze and exit its Randolph, MA facility, which had been idle regarding production for several years; no expense was recognized in the quarter ended November 30, 2017. The Company began marketing the site for sale and reclassified the net book value of the facility to assets held for sale in the second quarter of fiscal 2016, and recognized a total of \$70,000 and \$935,000 in expenses associated with the project during fiscal 2017 and 2016, respectively. The decision to raze the site and market the property comes as part of the Company's facility consolidation and rationalization initiative, and was done in part to make the property more attractive to a potential buyer. Production previously housed in Randolph, MA had been relocated to the Company's Oxford, MA and Blawnox, PA locations prior to the commencement of demolition work.

## Table of Contents

The Company has updated its initial estimate and currently anticipates any future expenses associated with completing the project will not be material, with the sale of the property to follow.

### Acquisition-Related Costs

In the first quarter of fiscal 2017, the Company incurred \$584,000 of costs related to our acquisition of certain assets of Resin Designs, LLC. This acquisition was accounted for as a business combination in accordance with applicable accounting standards, and all related professional service fees (including banking, legal, accounting and actuarial fees) were expensed as incurred within the first fiscal quarter of 2017.

### Interest Expense

Interest expense decreased \$201,000 or 82% to \$45,000 for the quarter ended November 30, 2017 compared to \$246,000 in the prior year first quarter. The decrease in interest expense from the prior period is a result of a reduction in our overall average debt balance through principal payments prior to the Company's refinancing in December 2016, and following the refinancing, elective payments made with cash generated from operations. Interest expense in the first fiscal quarter of 2018 related primarily to commitment fees.

### Gain on Sale of Real Estate

In November 2016, the Company finalized the sale of its Paterson, NJ property for proceeds of \$1,382,000. This transaction resulted in a gain of \$792,000 which was recorded in the Company's condensed consolidated statement of operations as a gain on sale of real estate during the first fiscal quarter of 2017. The Company had previously reclassified the related long-lived assets to assets held for sale after committing to a plan in February 2016 to actively market the property.

### Other Income (Expense)

Other income (expense) was an expense of \$319,000 in the quarter ended November 30, 2017 compared to an income of \$399,000 in the same period in the prior year, a difference of \$718,000. Other income (expense) primarily includes interest income, rental income, foreign exchange gains (losses) caused by changes in exchange rates on transactions or balances denominated in currencies other than the functional currency of our subsidiaries and other non-trade/non-royalty- and non-commission receipts. Other income (expense) in the current quarter was largely net

foreign exchange losses resulting from sales made from our U.K.-based operations and denominated in U.S. dollars.

## Income Taxes

Our effective tax rates were 34.0% for the first quarter of fiscal 2018 and 29.3% for the prior year's first quarter. Both the current year and prior year effective tax rates were calculated following the Company's adoption of ASU No. 2016-09, "Compensation – Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting", during the first quarter of fiscal 2017. During the quarter ended November 30, 2016, the Company recognized an excess tax benefit from stock-based compensation of \$794,000, within income tax expense on the condensed consolidated statements of operations (adopted prospectively); but given the nature of equity activity in the current quarter, no benefit was recognized in the quarter ended November 30, 2017. The Company anticipates the potential for increased periodic volatility in future effective tax rates based on the continued application of ASU No. 2016-09.

The passage of the Tax Cuts and Jobs Act of 2017 during our second fiscal quarter is expected to affect the Company's future results and financial position in multiple ways. For fiscal 2018, the Company anticipates incorporating a blended U.S. effective tax rate, which will likely cause our overall effective tax rate to be lower than the 34.0% recognized in the first quarter. The new corporate tax rate in the Internal Revenue Code (the "Code") will also require us to revalue our U.S. net deferred tax asset positions also at a presumably lower rate, which will result in a charge taken to earnings in the period in which this impact occurs. We will continue to evaluate and quantify further the effects that the revised Code will have on our operations, including the phasing out of the domestic production deduction and the new rules and rates related to the repatriation of foreign cash.

Table of Contents

Net Income

Net income decreased \$2,048,000 or 20% to \$8,315,000 in the quarter ended November 30, 2017 compared to \$10,363,000 in the prior year first quarter. The decrease in net income in the first fiscal quarter was primarily due to decreased gross margins, the foreign transaction losses and no recognition of excess tax benefit from stock-based compensation.

Table of Contents

## Other Important Performance Measures

We believe that EBITDA, Adjusted EBITDA and Free Cash Flow are useful performance measures. They are used by our executive management team to measure operating performance, to allocate resources, to evaluate the effectiveness of our business strategies and to communicate with our Board of Directors and investors concerning our financial performance. The Company believes EBITDA, Adjusted EBITDA and Free Cash Flow are commonly used by financial analysts and others in the industries in which the Company operates and thus provide useful information to investors. EBITDA, Adjusted EBITDA and Free Cash Flow are non-GAAP financial measures.

We define EBITDA as net income before interest expense from borrowings, income tax expense, depreciation expense from fixed assets, and amortization expense from intangible assets. We define Adjusted EBITDA as EBITDA excluding costs and (gains) losses related to our acquisitions and divestitures, costs of products sold related to inventory step-up to fair value, settlement (gains) losses resulting from lump sum distributions to participants from our defined benefit plans, and other significant items. We define Free Cash Flow as net cash provided by operating activities less purchases of property, plant and equipment.

The use of EBITDA, Adjusted EBITDA and Free Cash Flow has limitations and these performance measures should not be considered in isolation from, or as an alternative to, U.S. GAAP measures such as net income and net cash provided by operating activities. None of these measures should be interpreted as representing the residual cash flow of the Company available for discretionary expenditures or to invest in the growth of our business, since we have certain non-discretionary expenditures that are not deducted from these measures, including scheduled principal and (in the case of Free Cash Flow) interest payments on outstanding debt. Our measurement of EBITDA, Adjusted EBITDA and Free Cash Flow may not be comparable to similarly-titled measures used by other companies.

The following table provides a reconciliation of net income, the most directly comparable financial measure presented in accordance with U.S. GAAP, to EBITDA and Adjusted EBITDA for the periods presented (dollars in thousands):

	Three Months Ended	
	November 30,	
	2017	2016
Net income	\$ 8,315	\$ 10,363
Interest expense	45	246
Income taxes	4,284	4,287
Depreciation expense	1,254	1,335
Amortization expense	2,314	2,176
EBITDA	\$ 16,212	\$ 18,407
Exit costs related to idle facility (a)	—	27
Gain on sale of real estate (b)	—	(792)

Edgar Filing: CHASE CORP - Form 10-Q

Cost of sale of inventory step-up (c)	—	190
Acquisition-related costs (d)	—	584
Adjusted EBITDA	\$ 16,212	\$ 18,416

- (a) Represents Randolph, MA facility exit and demolition costs incurred
- (b) Represents gain on November 2016 sale of the Company's Paterson, NJ location
- (c) Represents expenses related to inventory step-up in fair value related to the September 2016 acquisition of certain assets of Resin Designs, LLC
- (d) Represents costs related to the September 2016 acquisition of certain assets of Resin Designs, LLC



Table of Contents

The following table provides a reconciliation of net cash provided by operating activities, the most directly comparable financial measure presented in accordance with U.S. GAAP, to Free Cash Flow for the periods presented (dollars in thousands):

	Three Months Ended November 30,	
	2017	2016
Net cash provided by operating activities	\$ 6,554	\$ 8,337
Purchases of property, plant and equipment	(851)	(652)
Free Cash Flow	\$ 5,703	\$ 7,685

## Liquidity and Sources of Capital

Our overall cash and cash equivalents balance increased \$6,908,000 to \$54,262,000 at November 30, 2017, from \$47,354,000 at August 31, 2017. The increased cash balance is primarily attributable to the \$6,554,000 in cash from operations, partially offset by cash paid for the purchases of machinery and equipment. Of the above-noted amounts, \$34,220,000 and \$31,756,000 were held outside the United States by Chase Corporation and our foreign subsidiaries as of November 30, 2017 and August 31, 2017 respectively. Given our cash position and borrowing capability in the United States and the potential for increased investment and acquisitions in foreign jurisdictions, we do not have a history of repatriating a significant portion of our foreign cash. However, we do not currently take the position that undistributed foreign subsidiaries' earnings are considered permanently reinvested. Accordingly, we recognize a deferred tax liability for the estimated future tax effects attributable to temporary differences due to these unremitted earnings. Should circumstances change in the future and we decide to repatriate these foreign amounts to fund U.S. operations, we would pay the applicable U.S. taxes on these repatriated foreign amounts, less any tax credit offsets, to satisfy all previously recorded tax liabilities.

Cash flow provided by operations was \$6,554,000 in the first three months of fiscal year 2018 compared to \$8,337,000 in the same period in the prior year. Cash provided by operations during the current period was primarily related to operating income and a decrease in accounts receivable that was driven primarily by lower sales in the first quarter of fiscal 2018 as compared to the fourth quarter of fiscal 2017. Negatively impacting our cash flow from operations were both a reversal from accrued to prepaid income taxes based on timing of payments, and a decrease in accrued compensation and other expenses related primarily to the payment of the annual employee incentive plan in November 2017.

The ratio of current assets to current liabilities was consistent at 4.2 at both November 30, 2017 and August 31, 2017. The ratio stayed consistent based primarily on the offsetting effects of (a) cash and cash equivalents and

dividends payable increasing, (b) accounts receivable and accrued payroll and other compensation decreasing, and (c) accrued taxes payable reversing to a prepaid position.

Cash flow used in investing activities of \$898,000 was primarily due to our purchases of machinery and equipment at our manufacturing locations during fiscal 2018.

Cash flow provided by financing activities of \$143,000 was due to proceeds from exercise of common stock options.

On October 30, 2017, we announced a cash dividend of \$0.80 per share (totaling \$7,497,000). The dividend was paid on December 6, 2017 (subsequent to the first quarter of 2018) to shareholders of record on November 9, 2017.

In June 2012, in connection with 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 “2012 Credit Facility”). The applicable interest rate was based on the effective LIBOR plus an additional amount in the range of 1.75% to 2.25%, depending on our consolidated leverage ratio. The 2012 Credit Facility required repayment of the principal amount of the term loan in quarterly installments. Installment payments of \$1,400,000 began in September 2012 and continued through June 2014, increased to \$1,750,000 per quarter thereafter through June 2015, and increased

Table of Contents

to \$2,100,000 per quarter thereafter, and were scheduled to continue at this amount through March 2017. The 2012 Credit Facility had a scheduled maturity date of June 27, 2017, prior to the refinancing described below.

Under the 2012 Credit Facility, Chase also had a revolving line of credit with Bank of America (the “2012 Revolver”) totaling \$15,000,000, which bore interest at LIBOR plus an additional amount in the 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 December 15, 2016 (the date on which the New Credit Agreement described below was entered into), the entire amount of \$15,000,000 was available for use. The 2012 Revolver had a scheduled maturity date of June 27, 2017, prior to its refinancing.

The 2012 Credit Facility with Bank of America contained customary affirmative and negative covenants that, among other things, restricted our ability to incur additional indebtedness. It also required 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 of the 2012 Credit Facility as of November 30, 2016 (the last measurement date for the 2012 Credit Facility).

On December 15, 2016, we entered an Amended and Restated Credit Agreement (the “New Credit Agreement”) with Bank of America, acting as administrative agent, and with participation from Citizens Bank and JPMorgan Chase Bank (collectively with Bank of America, the “Lenders”). The New Credit Agreement is initially an all-revolving credit facility with a borrowing capacity of \$150,000,000, which can be increased by an additional \$50,000,000 at the request of the Company and the individual or collective option of any of the Lenders. The New Credit Agreement contains customary affirmative and negative covenants that, among other things, restrict our ability to incur additional indebtedness and require certain lender approval for acquisitions by us and our subsidiaries over a certain size. It also requires us to maintain certain financial ratios on a consolidated basis, including a consolidated net leverage ratio (as defined in the facility) of no more than 3.25 to 1.00, and a consolidated fixed charge coverage ratio (as defined in the facility) of at least 1.25 to 1.00. We were in compliance with our debt covenants as of November 30, 2017. The applicable interest rate for the New Credit Agreement is based on the effective LIBOR plus an additional amount in the range of 1.00% to 1.75%, depending on our consolidated net leverage ratio or, at our option, at the bank’s base lending rate. At November 30, 2017, there was no outstanding principal balance, and as such no applicable interest rate. The New Credit Agreement was used to refinance our previously existing term loan and revolving line of credit. It also provides for additional liquidity to finance potential acquisitions, working capital, capital expenditures, and other general corporate purposes.

We have several on-going capital projects, as well as our facility rationalization and consolidation initiative, which are important to our long-term strategic goals. Machinery and equipment may be added as needed to increase capacity or enhance operating efficiencies in our production facilities.

We may acquire companies or other assets in future periods which are complementary to our business. We believe that our existing resources, including cash on hand and the New Credit Agreement, together with cash generated from operations and additional bank borrowings, will be sufficient to fund our cash flow requirements through at least the next twelve months. However, there can be no assurance that additional financing, if needed, 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” in our Annual Report on Form 10-K for the fiscal year ended August 31, 2017 for a complete discussion of our contractual obligations.

Table of Contents

Recent Accounting Standards

Please see Note 2 — “Recent Accounting Standards” to the Condensed Consolidated Financial Statements for a discussion of the effects of recently issued accounting pronouncements.

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, revenue 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 three months ended November 30, 2017 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, 2017.

Table of Contents

## Item 3 — Quantitative and Qualitative Disclosures about Market Risk

We limit the amount of credit exposure to any one issuer. At November 30, 2017, other than our restricted investments (which are restricted for use in non-qualified retirement savings plans 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 U.S. dollars. However, our European and Asian operations are subject to currency exchange fluctuations. We continue to review our policies and procedures to control this exposure while maintaining the benefit from these operations and sales not denominated in U.S. dollars. The effect of an immediate hypothetical 10% change in the exchange rate between the British Pound and the U.S. dollar would not have a material effect on the Company's overall liquidity. As of November 30, 2017, the Company had cash balances in the following foreign currencies (with USD equivalents):

Currency Code	Currency Name	USD Equivalent at November 30, 2017
GBP	British Pound	\$ 22,884,000
EUR	Euro	\$ 3,733,000
CNY	Chinese Yuan	\$ 334,000
INR	Indian Rupee	\$ 124,000
CAD	Canadian Dollar	\$ 99,000

We will continue to review our current cash balances denominated in foreign currency considering current tax guidelines, (including the impact of the recently enacted revisions to the Code), working capital requirements, infrastructure improvements and potential acquisitions.

We recognized a foreign currency translation gain for the three months ended November 30, 2017 in the amount of \$1,570,000 related to our European and Indian 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 \$0 at November 30, 2017. See "Management's Discussion

and Analysis of Financial Condition and Results of Operations — Liquidity and Sources of Capital,” together with Note 12 — “Fair Value Measurements” and Note 18 — “Long-Term Debt” to the Condensed Consolidated Financial Statements for additional information regarding our outstanding long-term debt. An immediate hypothetical 10% change in variable interest rates would not have a material effect on our Condensed Consolidated Financial Statements.

Table of Contents

Item 4 — Controls and Procedures

Evaluation of disclosure controls and procedures

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.

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

There have not been any changes in the Company's internal control over financial reporting during the first quarter of fiscal 2018 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

Part II — OTHER INFORMATION

Item 1 — Legal Proceedings



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 agreed to, that could adversely affect the Company's operating results or cash flows in a particular period. The Company routinely assesses all 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 we assess the likelihood of loss as probable.

#### Item 1A — Risk Factors

Please refer to Item 1A in our Annual Report on Form 10-K for the fiscal year ended August 31, 2017 for a complete discussion of the risk factors which could materially affect our business, financial condition or future results.

Table of Contents

Item 6 — Exhibits

Exhibit Number	Description
31.1	<u>Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
31.2	<u>Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
32.1	<u>Certification of principal executive officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*</u>
32.2	<u>Certification of principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*</u>
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

---

\*Furnished, not filed

Table of Contents

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: January 9, 2018 By: /s/ Adam P. Chase  
Adam P. Chase  
President and Chief Executive Officer

Dated: January 9, 2018 By: /s/ Kenneth J. Feroldi  
Kenneth J. Feroldi  
Treasurer and Chief Financial Officer