

CHASE CORP
Form 10-Q
January 09, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended November 30, 2014

Commission File Number: 1-9852

CHASE CORPORATION

(Exact name of registrant as specified in its charter)

Massachusetts
(State or other jurisdiction of incorporation
of organization)

11-1797126
(I.R.S. Employer Identification No.)

26 Summer Street, Bridgewater, Massachusetts 02324

(Address of Principal Executive Offices, Including Zip Code)

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(508) 819-4200

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

YES NO

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

The number of shares of Common Stock outstanding as of December 31, 2014 was 9,129,427.

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CHASE CORPORATION

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CONSOLIDATED BALANCE SHEETS**

(UNAUDITED)

In thousands, except share and per share amounts

	November 30, 2014	August 31, 2014
ASSETS		
Current Assets		
Cash & cash equivalents	\$ 53,131	\$ 53,222
Accounts receivable, less allowance for doubtful accounts of \$721 and \$670	34,632	35,601
Inventories	32,632	31,539
Prepaid expenses and other current assets	2,698	2,437
Due from sale of product line	739	739
Deferred income taxes	2,315	2,315
Total current assets	126,147	125,853
Property, plant and equipment, net	43,018	44,085
Other Assets		
Goodwill	37,948	38,280
Intangible assets, less accumulated amortization of \$23,575 and \$22,941	25,737	27,215
Cash surrender value of life insurance	7,256	7,249
Restricted investments	1,300	1,256
Funded pension plan	953	962
Deferred income taxes	443	470
Other assets	165	175
	\$ 242,967	\$ 245,545
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable	\$ 13,850	\$ 15,121
Accrued payroll and other compensation	2,701	7,754
Accrued expenses	6,062	4,842
Accrued income taxes	1,016	1,377
Dividends payable	5,477	
Current portion of long-term debt	7,350	7,000
Total current liabilities	36,456	36,094
Long-term debt, less current portion	49,700	51,800
Deferred compensation	2,061	2,037

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Accumulated pension obligation	10,489	10,418
Other liabilities	115	126
Deferred income taxes	7,578	7,580
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; 9,129,427 shares at November 30, 2014 and 9,103,292 shares at August 31, 2014 issued and outstanding	913	910
Additional paid-in capital	14,174	13,620
Accumulated other comprehensive loss	(6,219)	(4,250)
Retained earnings	127,700	126,272
Chase Corporation stockholders' equity	136,568	136,552
Non-controlling interest		938
Total equity	136,568	137,490
Total liabilities and equity	\$ 242,967	\$ 245,545

See accompanying notes to the consolidated financial statements

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CHASE CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

In thousands, except share and per share amounts

	Three Months Ended November 30,	
	2014	2013
Revenues		
Sales	\$ 55,290	\$ 53,655
Royalties and commissions	643	528
	55,933	54,183
Costs and Expenses		
Cost of products and services sold	34,480	35,478
Selling, general and administrative expenses	10,795	10,439
Operating income	10,658	8,266
Interest expense	(274)	(303)
Gain on sale of product line (Note 8)		5,706
Other (expense) income	385	(105)
Income before income taxes	10,769	13,564
Income taxes	3,769	4,747
Net income	\$ 7,000	\$ 8,817
Net (gain) loss attributable to non-controlling interest	(95)	(42)
Net income attributable to Chase Corporation	\$ 6,905	\$ 8,775
Net income available to common shareholders, per common and common equivalent share		
Basic	\$ 0.76	\$ 0.96
Diluted	\$ 0.74	\$ 0.94
Weighted average shares outstanding		
Basic	9,050,048	8,938,149
Diluted	9,221,796	9,149,677
Annual cash dividends declared per share	\$ 0.60	\$ 0.45

See accompanying notes to the consolidated financial statements

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CHASE CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

Dollars in thousands

	Three Months Ended November 30,	
	2014	2013
Net income	\$ 7,000	\$ 8,817
Other comprehensive income:		
Net unrealized loss on restricted investments, net of tax	13	71
Change in funded status of pension plans, net of tax	110	48
Foreign currency translation adjustment	(2,092)	1,578
Total other comprehensive income	(1,969)	1,697
Comprehensive income	5,031	10,514
Comprehensive income attributable to non-controlling interest	(95)	(42)
Comprehensive income attributable to Chase Corporation	\$ 4,936	\$ 10,472

See accompanying notes to the consolidated financial statements

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CHASE CORPORATION
CONSOLIDATED STATEMENT OF EQUITY

(UNAUDITED)

Dollars in thousands

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Comprehensive Income (loss)	Other Retained Earnings	Chase Stockholders Equity	Non-controlling Interest	Total Equity
Balance at August 31, 2014	9,103,292	\$ 910	\$ 13,620	\$ (4,250)	\$ 126,272	\$ 136,552	\$ 938	\$ 137,490
Restricted stock grants, net of forfeitures	8,424	1	(1)					
Amortization of restricted stock grants		1	231			232		232
Amortization of stock option grants			64			64		64
Exercise of stock options	65,000	7	1,068			1,075		1,075
Common stock received for payment of stock option exercises	(30,795)	(4)	(1,071)			(1,075)		(1,075)
Excess tax benefit from stock based compensation			304			304		304
Common stock retained to pay statutory minimum withholding taxes on common stock	(16,494)	(2)	(574)			(576)		(576)
Cash dividend accrued, \$0.60 per share					(5,477)	(5,477)		(5,477)
Purchase of outstanding non-controlling interest			533			533	(1,033)	(500)
Change in funded status of pension plan, net of tax of \$59				110		110		110
Foreign currency translation adjustment				(2,092)		(2,092)		(2,092)
Net unrealized gain on restricted investments, net of tax of \$7				13		13		13
Net income					6,905	6,905	95	7,000
Balance at November 30, 2014	9,129,427	\$ 913	\$ 14,174	\$ (6,219)	\$ 127,700	\$ 136,568	\$ 95	\$ 136,568

See accompanying notes to the consolidated financial statements

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CHASE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

Dollars in thousands

	Three Months Ended November 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 7,000	\$ 8,817
Adjustments to reconcile net income to net cash provided by operating activities		
Gain on sale of assets		(6)
Gain on sale of product line		(5,706)
Depreciation	1,417	1,426
Amortization	1,183	1,194
Provision (recovery) for allowance for doubtful accounts	68	(38)
Stock based compensation	296	329
Realized gain on restricted investments	(1)	(5)
Decrease in cash surrender value life insurance	45	30
Excess tax expense from stock based compensation	(304)	
Increase (decrease) from changes in assets and liabilities		
Accounts receivable	507	1,619
Inventories	(1,366)	(4,032)
Prepaid expenses & other assets	(307)	(2,112)
Accounts payable	(1,074)	3,074
Accrued compensation and other expenses	(3,527)	(4,522)
Accrued income taxes	(28)	1,792
Deferred compensation	24	123
Net cash provided by operating activities	3,933	1,983
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(592)	(781)
Cost to acquire intangible assets	(3)	(22)
Proceeds from sale of fixed assets		11
Net proceeds from sale of product line		6,655
Contributions from restricted investments	(23)	(21)
Payments for cash surrender value life insurance	(46)	(46)
Net cash (used in) provided by investing activities	(664)	5,796
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of principal on debt	(1,750)	(1,400)
Payments of statutory minimum taxes on stock options and restricted stock	(576)	
Excess tax benefit from stock based compensation	304	
Payment for acquisition of non-controlling interest	(500)	
Net cash used in financing activities	(2,522)	(1,400)
INCREASE IN CASH & CASH EQUIVALENTS		
	747	6,379
Effect of foreign exchange rates on cash	(838)	552
CASH & CASH EQUIVALENTS, BEGINNING OF PERIOD	53,222	29,997

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CASH & CASH EQUIVALENTS, END OF PERIOD	\$	53,131	\$	36,928
Non-cash Investing and Financing Activities				
Property, plant & equipment additions included in accounts payable	\$	16	\$	90
Annual cash dividend declared	\$	5,477	\$	4,093

See accompanying notes to the consolidated financial statements

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CHASE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

In thousands, except share and per share amounts

Note 1 - Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial reporting and instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Therefore, they do not include all information and footnote disclosure necessary for a complete presentation of Chase Corporation's financial position, results of operations and cash flows, in conformity with generally accepted accounting principles. Chase Corporation (the Company, Chase, we, or us) filed audited consolidated financial statements, which included all information and notes necessary for such presentation for the three years ended August 31, 2014 in conjunction with its 2014 Annual Report on Form 10-K. Certain immaterial reclassifications have been made to the prior year amounts to conform to the current year's presentation.

The results of operations for the interim periods ended November 30, 2014 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, 2014, which are contained in the Company's 2014 Annual Report on Form 10-K.

The accompanying unaudited consolidated financial statements contain all adjustments (consisting of normal recurring items) which are, in the opinion of management, necessary for a fair statement of the Company's financial position as of November 30, 2014, the results of operations, comprehensive income and cash flows for the interim periods ended November 30, 2014 and 2013, and changes in equity for the interim period ended November 30, 2014.

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

On October 31, 2014, the Company purchased the 50% non-controlling membership interest of NEPTCO JV LLC (the JV) owned by its now-former joint venture partner, an otherwise unrelated party. Because of the Company's controlling financial interest, the JV's assets, liabilities and results of operations have been consolidated within the Company's consolidated financial statements since June 27, 2012, the date the Company acquired NEPTCO. The Company will continue to fully consolidate the assets, liabilities and results of operations of the JV, but will

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no longer record an offsetting amount for a non-controlling interest subsequent to October 31, 2014. The (\$95) recorded in the Consolidated Statement of Operations as Net (gain) loss attributable to non-controlling interest, represents the now-former joint venture partner's share of the results of operations of the JV for the period from September 1, 2014 through October 31, 2014.

Table of Contents**CHASE CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(UNAUDITED)***In thousands, except share and per share amounts*

The Company has evaluated events and transactions subsequent to the balance sheet date. Based on this evaluation, the Company is not aware of any events or transactions that occurred subsequent to the balance sheet date but prior to filing that would require recognition or disclosure in its consolidated financial statements.

Note 2 Recent Accounting Policies*Recently Adopted 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. Generally Accepted Accounting Principles. 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. The ASU will be effective for the Company beginning September 1, 2017 (fiscal 2018), including interim periods in its fiscal year 2018, and allows for both retrospective and prospective methods of adoption. The Company is in the process of determining the method of adoption and assessing the impact of this ASU on the Company s consolidated financial position, results of operations or cash flows.

Note 3 Inventories

Inventories consist of the following as of November 30, 2014 and August 31, 2014:

	November 30, 2014		August 31, 2014	
Raw materials	\$	12,889	\$	13,785
Work in process		7,904		7,359
Finished goods		11,839		10,395
Total Inventories	\$	32,632	\$	31,539

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CHASE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

In thousands, except share and per share amounts

Note 4 Net Income Per Share

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

	Three Months Ended November 30,	
	2014	2013
Basic Earnings per Share		
Net income attributable to Chase Corporation	\$ 6,905	\$ 8,775
Less: Allocated to participating securities	52	151
Net income available to common shareholders	\$ 6,853	\$ 8,624
Basic weighted average shares outstanding	9,050,048	8,938,149