

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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For the Quarter Ended November 30, 2014

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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.

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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 |
| Net income per share - Basic | \$ 0.76 | \$ 0.96 |
| Diluted Earnings per Share | | |
| Net income attributable to Chase Corporation | \$ 6,905 | \$ 8,775 |
| Less: Allocated to participating securities | 51 | 148 |
| Net income available to common shareholders | \$ 6,854 | \$ 8,627 |
| Basic weighted average shares outstanding | 9,050,048 | 8,938,149 |
| Additional dilutive common stock equivalents | 171,748 | 211,528 |
| Diluted weighted average shares outstanding | 9,221,796 | 9,149,677 |
| Net income per share - Diluted | \$ 0.74 | \$ 0.94 |

For the three months ended November 30, 2014, stock options to purchase 32,974 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. There were no anti-dilutive shares for the three months ended November 30, 2013. Included in the calculation of dilutive common stock equivalents are the unvested portion of restricted stock and stock options.

Note 5 Stock Based Compensation

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In September 2013, the Board of Directors of the Company approved the fiscal year 2014 Long Term Incentive Plan (2014 LTIP) for the executive officers and other members of management. The 2014 LTIP is an equity based plan with a grant date of September 1, 2013 and contains a performance and service based restricted stock grant of 7,529 shares in the aggregate, subject to adjustment, with a vesting date of August 31, 2016. Based on the fiscal year 2014 financial results, 5,485 additional shares of restricted stock (total of 13,014 shares) were earned and granted subsequent to the end of fiscal year 2014 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 2014, the Board of Directors of the Company approved the fiscal year 2015 Long Term Incentive Plan (2015 LTIP) for the executive officers and other members of management. The 2015 LTIP is an equity based plan with a grant date of September 1, 2014 and contains the following equity components:

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CHASE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

In thousands, except share and per share amounts

Restricted Shares (a) performance and service based restricted stock grant of 6,993 shares in the aggregate, subject to adjustment, with a vesting date of August 31, 2017. Compensation expense is recognized on a ratable basis over the vesting period based on quarterly probability assessments for those with a vesting date of August 31, 2017; (b) time-based restricted stock grant of 8,132 shares in the aggregate, with a vesting date of August 31, 2017. Compensation expense is recognized on a ratable basis over the vesting period.

Stock options options to purchase 22,750 shares of common stock in the aggregate with an exercise price of \$35.50 per share. The options will vest in three equal annual installments beginning on August 31, 2015 and ending on August 31, 2017. Of the options granted, 7,438 will expire on August 31, 2024 and 15,312 will expire on September 1, 2024. Compensation expense is recognized over the period of the award on an annual basis 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 reflects 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 and printing services, laminated durable papers, laminates for the packaging and industrial laminate markets, pulling and detection tapes used in the installation, measurement and location of fiber optic cables, water and natural gas lines, cover tapes essential to delivering semiconductor components via tape and reel packaging, and wind energy composite materials and elements. Additionally, the Industrial Materials segment includes glass-based strength elements products, designed to allow fiber optic cables to withstand mechanical and environmental strain and stress, which operated as a joint venture prior to the Company's purchase of its now-former joint venture partner's 50% non-controlling interest on October 31, 2014.

The Construction Materials segment comprises of typically 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 water proofing applications, high performance polymeric asphalt additives, and expansion and control joint systems for use in the transportation and architectural markets.

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CHASE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

In thousands, except share and per share amounts

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

| | Three Months Ended November 30, | |
|---|--|-------------------|
| | 2014 | 2013 |
| Revenues from external customers | | |
| Industrial Materials | \$ 42,395 | \$ 41,670 |
| Construction Materials | 13,538 | 12,513 |
| Total | \$ 55,933 | \$ 54,183 |
| Income before income taxes | | |
| Industrial Materials | \$ 12,615 | \$ 16,742(a), (b) |
| Construction Materials | 3,873 | 2,437(a) |
| Total for reportable segments | 16,488 | 19,179 |
| Corporate and Common Costs | (5,719) | (5,615)(a) |
| Total | \$ 10,769 | \$ 13,564 |
| Includes the following costs by segment: | | |
| Industrial Materials | | |
| Interest | \$ 230 | \$ 240 |
| Depreciation | 977 | 1,046 |
| Amortization | 770 | 761 |
| Construction Materials | | |
| Interest | \$ 44 | \$ 46 |
| Depreciation | 289 | 246 |
| Amortization | 413 | 432 |

(a) Includes the reclassification of \$3,135 and \$846 of Selling, general and administrative expense from Industrial Materials and Construction Materials segments, respectively, into Corporate and Common Costs for the first fiscal quarter of 2014. The reclassification reflects the methodology with which the Company internally reviews expenses in the current year

(b) Includes \$5,706 gain on sale of Insulfab product line, for the quarter ended November 30, 2013

The Company's products are sold world-wide. For the three months ended November 30, 2014 and 2013, sales from its operations located in the United Kingdom accounted for 11% and 8% of consolidated revenues, respectively. No other foreign geographic area accounted for more than 10% of consolidated revenues for the three months ended November 30, 2014 or 2013.

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| | November 30, 2014 | | August 31, 2014 | |
|-------------------------------|-------------------|---------|-----------------|---------|
| Total assets | | | | |
| Industrial Materials | \$ | 125,131 | \$ | 127,820 |
| Construction Materials | | 49,988 | | 50,972 |
| Total for reportable segments | | 175,119 | | 178,792 |
| Corporate and Common Assets | | 67,848 | | 66,753 |
| Total | \$ | 242,967 | \$ | 245,545 |

As of November 30, 2014 and August 31, 2014, 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) of \$4,074 and \$4,349, respectively, located

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CHASE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

In thousands, except share and per share amounts

in the United Kingdom. These balances exclude goodwill and intangibles associated with the United Kingdom operations of \$9,090 and \$9,924, as of November 30, 2014 and August 31, 2014, respectively.

Note 7 Goodwill and Other Intangibles

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

| | Construction Materials | | Industrial Materials | | Consolidated |
|---|-----------------------------------|----|---------------------------------|----|---------------------|
| Balance at August 31, 2014 | \$ 10,752 | \$ | 27,528 | \$ | 38,280 |
| Foreign currency translation adjustment | (15) | | (317) | | (332) |
| Balance at November 30, 2014 | \$ 10,737 | \$ | 27,211 | \$ | 37,948 |

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 identified several reporting units within each of its two operating segments that are used to evaluate the possible impairment of goodwill. Goodwill impairment exists when the carrying amount 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 public company analysis and discounted cash flows. The Company evaluates the possible impairment of goodwill annually each fourth quarter and whenever events or circumstances indicate the carrying value of goodwill may not be recoverable.

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CHASE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

In thousands, except share and per share amounts

Intangible assets subject to amortization consist of the following as of November 30, 2014 and August 31, 2014:

| | Weighted-Average Amortization Period | Gross Carrying Value | Accumulated Amortization | Net Carrying Value |
|----------------------------------|---|-------------------------|-----------------------------|-----------------------|
| November 30, 2014 | | | | |
| Patents and agreements | 12.0 years | \$ 3,095 | \$ 2,270 | \$ 825 |
| Formulas | 9.1 years | 5,779 | 2,934 | 2,845 |
| Trade names | 5.7 years | 6,350 | 3,348 | 3,002 |
| Customer lists and relationships | 10.2 years | 34,088 | 15,023 | 19,065 |
| | | \$ 49,312 | \$ 23,575 | \$ 25,737 |
| August 31, 2014 | | | | |
| Patents and agreements | 11.9 years | \$ 3,104 | \$ 2,281 | \$ 823 |
| Formulas | 9.1 years | 5,849 | 2,851 | 2,998 |
| Trade names | 5.7 years | 6,406 | 3,153 | 3,253 |
| Customer lists and relationships | 10.2 years | 34,797 | 14,656 | 20,141 |
| | | \$ 50,156 | \$ 22,941 | \$ 27,215 |

Aggregate amortization expense related to intangible assets for the three months ended November 30, 2014 and 2013 was \$1,183 and \$1,194, respectively. Estimated amortization expense for the remainder of fiscal year 2015 and for each of the five succeeding fiscal years is as follows:

| Years ending August 31, | |
|---------------------------|-----------|
| 2015 (remaining 9 months) | \$ 3,520 |
| 2016 | 4,675 |
| 2017 | 4,238 |
| 2018 | 4,007 |
| 2019 | 3,309 |
| 2020 | 2,440 |
| | \$ 22,189 |

Note 8 Sale of Insulfab Product Line

On October 7, 2013, the Company sold substantially all of its property and assets, including intellectual property, comprising the Insulfab® product line, to an unrelated third party (Buyer). The Insulfab product line is primarily focused on manufacturing high quality, engineered barrier laminates used in aerospace applications. The sale proceeds of \$7,394 were subject to certain post-closing adjustments based on the change in the final net book value compared to the bid date net book value. In the quarter ending November 30, 2013, management determined

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these post-closing adjustments resulted in an increase in the sale proceeds of \$2,516 based on the increase of inventory sold to the Buyer at closing. This adjustment was settled and paid by the Buyer to the Company in the quarter ending February 28, 2014, net of amounts held in escrow. The net proceeds from the sale are available for debt reduction, investment in the Company's core businesses and future acquisitions.

This transaction resulted in a pre-tax book gain of \$5,706 (\$3,709 after-tax gain) which was recorded in the quarter ending November 30, 2013. The portion of the sale price held in escrow of \$739 is recorded as a current asset (Due from sale of product line) as of both November 30, 2014 and August 31, 2014, and is available to resolve any submitted claims or adjustments up to 18 months from the closing date of the Insulfab sale.

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(UNAUDITED)

In thousands, except share and per share amounts

Note 9 Joint Venture

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. The purchase consideration is subject to certain contingent adjustments based on certain future events related to the JV. The purchase price, including these contingent adjustments are not, nor will be, material to the Company. 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 no longer record an offsetting amount for a non-controlling interest. 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.

The JV was originally formed in 2003 by NEPTCO and a joint venture partner, an otherwise unrelated party (collectively, the "members"), whereby each member's fiber optic strength elements businesses were combined. This venture, which was 50% owned by each member, was managed and operated on a day-to-day basis by NEPTCO. The JV operates out of the Company's Granite Falls, NC facility.

The Company accounted for the joint venture partner's non-controlling interest in the JV under ASC Topic 810 Consolidations (ASC 810). Based on the criteria in ASC 810, the Company had determined that the JV qualified as a variable interest entity (VIE). Because of the Company's controlling financial interest, the JV's assets and liabilities and results of operations have been consolidated within the Company's consolidated financial statements since June 27, 2012, the date the Company acquired NEPTCO. Prior to the Company's October 2014 acquisition of the 50% outstanding non-controlling membership interest in NEPTCO JV LLC, an offsetting amount equal to 50% of net assets and net income (loss) of the JV was recorded within the Company's consolidated financial statements to the non-controlling interest, representing the joint venture partner's 50% ownership interest and pro rata share in the JV.

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In thousands, except share and per share amounts

Under the JV agreement, which terminated with the Company's October 2014 acquisition of the 50% outstanding non-controlling membership interest in NEPTCO JV LLC, the JV had agreed to purchase a minimum of 80% of its total glass fiber requirements from the other joint venture partner. Additionally, the JV agreed to purchase private-label products exclusively from an affiliate of the other joint venture partner; however, the JV was not subject to a minimum purchase requirement on private-label products. Purchases from the joint venture partner totaled \$332 and \$467 for the period from September 1, 2014 through October 31, 2014 and the three months ended November 30, 2013, respectively. The JV had amounts due to the other joint venture partner of \$219 and \$394 at November 30, 2014 and August 31, 2014, respectively.

Note 10 Commitments and Contingencies

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

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CHASE CORPORATION
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(UNAUDITED)

In thousands, except share and per share amounts

Note 11 - Pensions and Other Post Retirement Benefits

The components of net periodic benefit cost for the three months ended November 30, 2014 and 2013 are as follows:

| | Three Months Ended November 30, | | | |
|------------------------------------|--|-------|-------------|-------|
| | 2014 | | 2013 | |
| Service cost | \$ | 91 | \$ | 81 |
| Interest cost | | 170 | | 161 |
| Expected return on plan assets | | (153) | | (178) |
| Amortization of prior service cost | | 1 | | 1 |
| Amortization of unrecognized loss | | 167 | | 73 |
| Curtailment loss | | | | |
| Settlement loss | | | | |
| Net periodic benefit cost | \$ | 276 | \$ | 138 |

When funding is required, the Company's policy is to contribute amounts that are deductible for federal income tax purposes. As of November 30, 2014, the Company has made contributions of \$16 in the current fiscal year to fund its obligations under its pension plan and will make the necessary contributions over the remainder of fiscal 2015 to ensure the qualified plan continues to be adequately funded given the current market conditions. The Company made contributions of \$200 in the first quarter 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 include: Level 1, defined as observable inputs such as quoted prices for identical instruments in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The Company 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, 2014 and August 31, 2014 represent investments that are restricted for use in a nonqualified retirement savings plan for certain key employees and directors.

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CHASE CORPORATION
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In thousands, except share and per share amounts

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, 2014 and August 31, 2014:

| | 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, 2014 | \$ 1,300 | \$ 1,270 | \$ 30 | \$ |
| Restricted investments | August 31, 2014 | \$ 1,256 | \$ 1,216 | \$ 40 | \$ |

The following table presents the fair value of the Company's long-term debt as of November 30, 2014 and August 31, 2014, 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, 2014 | \$ 57,050 | \$ | \$ 57,050 | \$ |
| Long-term debt | August 31, 2014 | \$ 58,800 | \$ | \$ 58,800 | \$ |

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

Note 13 Accumulated Other Comprehensive Income

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

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| | Restricted Investments | Change in Funded Status of Pension Plan | Foreign Currency Translation Adjustment | Total |
|---|---------------------------|---|---|------------|
| Balance at August 31, 2014 | \$ 209 | \$ (4,785) | \$ 326 | \$ (4,250) |
| Other comprehensive gains (losses) before reclassifications (1) | 14 | | (2,092) | (2,078) |
| Reclassifications to net income of previously deferred (gains) losses (2) | (1) | 110 | | 109 |
| Other comprehensive income (loss) | 13 | 110 | (2,092) | (1,969) |
| Balance at November 30, 2014 | \$ 221 | \$ (4,675) | \$ (1,766) | \$ (6,219) |

Note: Accumulated other comprehensive income amounts may not sum for the quarter end due to rounding.

-
- (1) Net of tax benefit of \$8, \$0, \$0, respectively.
 - (2) Net of tax expense of \$1, tax benefit of \$59, \$0, respectively.

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CHASE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

In thousands, except share and per share amounts

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 | | | Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income | |
|--|--|-------------|----|--|--|
| | Three Months Ended November 30, 2014 | 2013 | | | |
| Gains on Restricted Investments: | | | | | |
| Realized gain on sale of restricted investments | \$ | 1 | \$ | 5 | Selling, general and administrative expenses |
| Tax expense (benefit) | | 0 | | 2 | |
| Gain net of tax | \$ | 1 | \$ | 3 | |
| Loss on Funded Pension Plan adjustments: | | | | | |
| Realized loss on amortization of prior pension service costs and unrecognized losses | \$ | (5) | \$ | (20) | Cost of products and services sold |
| Realized loss on amortization of prior pension service costs and unrecognized losses | | (164) | | (54) | Selling, general and administrative expenses |
| Tax expense (benefit) | | 59 | | 26 | |
| (Loss) net of tax | \$ | (110) | \$ | (48) | |
| Total net (loss) reclassified for the period | \$ | (109) | \$ | (45) | |

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

The following discussion provides an analysis of our financial condition and results of operations and should be read in conjunction with the unaudited Consolidated Financial Statements and notes thereto included in Item 1 of Part I of this Quarterly Report on Form 10-Q and with our Annual Report on Form 10-K filed for the fiscal year ended August 31, 2014.

Overview

Increases in revenue and operating income during the first three months of fiscal 2015 over the prior year period reflect the on-going benefits from production facility consolidation, efficiency improvements, favorable sales mix and favorable demand. The reduction in Net income attributable to Chase Corporation from the prior year is primarily the result of the non-recurring \$5,706,000 pre-tax gain recognized in the prior year related to the sale of the Company's Insulfab product line, which was not repeated in the current quarter. Revenues from the Industrial Materials segment increased over the same period in the prior year primarily due to increased sales volume from our pulling and detection, electronic coatings, and fiber optic cable components products. These increases were partially offset by a reduction in our laminated durable paper product sales volume in the current quarter as compared to those realized in the first quarter of the prior year.

Our Construction Materials segment observed increased demand for our pipeline coating related construction products in the first quarter of fiscal 2015 that resulted in higher sales and profits in the current quarter compared to the prior year period. This increase was the result of the Middle East project work being produced out of the UK Rye facility and offset lower sales volume in bridge and highway related products in the US.

The upcoming second fiscal quarter has historically generated lower quarterly revenues for many of our product lines, especially within the Construction Materials segment. Our key objectives include our global ERP system implementation which concluded in December 2014, key strategies that focus on our marketing and product development efforts, and continued emphasis on identifying potential acquisition targets. Our balance sheet remains strong, with cash on hand of \$53,131,000 and a current ratio of 3.5. Our \$15,000,000 line of credit is fully available, while the balance of our term debt is \$57,050,000.

We have two reportable segments as summarized below:

| Segment | Product Lines | Manufacturing Focus and Products |
|----------------------|-------------------------|--|
| Industrial Materials | • Wire and Cable | Protective coatings and tape products including insulating and conducting materials for wire and cable manufacturers, |
| | • Electronic Coatings | moisture protective coatings for electronics and printing services, laminated durable papers, packaging and industrial laminate markets, pulling and detection tapes used in the |
| | • Specialty Products | installation, measurement and location of fiber optic cables, water and natural gas lines, cover tapes essential to |
| | • Pulling and Detection | delivering semiconductor components via tape and reel packaging, wind energy composite materials and elements; |

| | | |
|-------------------------------|---|--|
| | <ul style="list-style-type: none"> • Electronic Materials • Structural Composites • Fiber Optic Cable Components (JV) (1) | <p>and glass-based strength elements designed to allow fiber optic cables to withstand mechanical and environmental strain and stress.</p> |
| <p>Construction Materials</p> | <ul style="list-style-type: none"> • Pipeline • Bridge and Highway • Coating and Lining Systems • Building Envelope | <p>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 water proofing applications, high-performance polymeric asphalt additives, and expansion and control joint systems for use in the transportation and architectural markets.</p> |

(1) Through a 50% owned joint venture until October 31, 2014, when we purchased the non-controlling 50% interest.

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

| | Three Months Ended November 30, 2014 | % of Total Revenues | | Three Months Ended November 30, 2013 | % of Total Revenues |
|---|---|--------------------------|----|---|--------------------------|
| Revenues from external customers | | | | | |
| Industrial Materials | \$ 42,395 | 76% | \$ | 41,670 | 77% |
| Construction Materials | 13,538 | 24% | | 12,513 | 23% |
| Total | \$ 55,933 | | \$ | 54,183 | |
| | Three Months Ended November 30, 2014 | % of Segment Revenues | | Three Months Ended November 30, 2013 | % of Segment Revenues |
| Income before income taxes | | | | | |
| Industrial Materials | \$ 12,615 | 30% | \$ | 16,742(a), (b) | 40% |
| Construction Materials | 3,873 | 29% | | 2,437(a) | 19% |
| Total for reportable segments | 16,488 | 29% | | 19,179 | 35% |
| Corporate and Common Costs | (5,719) | | | (5,615)(a) | |
| Total | \$ 10,769 | 19% | \$ | 13,564 | 25% |

(a) Includes the reclassification of \$3,135 and \$846 of Selling, general and administrative expense from Industrial Materials and Construction Materials segments, respectively, into Corporate and Common Costs for the first fiscal quarter of 2014. The reclassification reflects the methodology with which the Company internally reviews expenses in the current year

(b) Includes \$5,706 gain on sale of Insulfab product line, for the quarter ended November 30, 2013

Total Revenues

Total revenues increased \$1,750,000 or 3% to \$55,933,000 for the quarter ended November 30, 2014 compared to \$54,183,000 in the same quarter of the prior year.

Revenues in our Industrial Materials segment increased \$725,000 or 2% to \$42,395,000 for the quarter ended November 30, 2014 compared to \$41,670,000 in the same quarter of the prior year. The increase in revenues from our Industrial Materials segment in the current quarter was primarily due to the following: (a) increased sales of \$798,000 from our pulling and detection products resulting from increased demand in product volume by the utility and telecom industries; (b) increased sales of \$446,000 from our electronic coatings products resulting from an increased volume demand from the automotive market; and (c) increased sales of \$209,000 into the fiber optic cable components market. These increases were partially offset by decreased sales of \$758,000 from our laminated durable paper products.

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Revenues from our Construction Materials segment increased \$1,025,000 or 8% to \$13,538,000 in the current quarter compared to \$12,513,000 in the same period last year. Increases in sales from this segment were primarily due to a net increase in sales of \$1,044,000 from our pipeline coatings products. This net increase was primarily the result of an increase in sales volume of pipeline products produced at our Rye, UK facility to meet higher project related demands in the Middle East for water infrastructure, offset by a period over period reduction in sales volume on domestically produced oil and gas pipeline products sold into the Americas.

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

Cost of products and services sold decreased \$998,000 or 3% to \$34,480,000 in the quarter ended November 30, 2014 compared to \$35,478,000 in the same period in fiscal 2014.

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

| Cost of products and services sold | Three Months Ended November 30, | |
|------------------------------------|---------------------------------|-------|
| | 2014 | 2013 |
| Industrial Materials | 61.6% | 64.9% |
| Construction Materials | 61.9% | 67.5% |
| Total | 61.6% | 65.5% |

Cost of products and services sold in our Industrial Materials segment was \$26,106,000 for the first three months of fiscal 2015 compared to \$27,033,000 for the same period in the prior year. Cost of products and services sold in our Construction Materials segment was \$8,374,000 in the current quarter compared to \$8,445,000 for the same period last year. As a percentage of revenues, cost of products and services sold in both segments decreased primarily due to product mix as we had decreased sales volume from our lower margin products within the segments. We continue to closely monitor raw material pricing across all product lines in both segments to preserve margins.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by \$356,000 or 3% to \$10,795,000 in the quarter ended November 30, 2014 compared to \$10,439,000 in the same period in fiscal 2014. As a percentage of revenues, selling, general and administrative expenses remained consistent at 19% in the first quarter of fiscal 2015 compared to the prior year period. The consistent percentage is primarily attributable to our continued emphasis on controlling costs and leveraging fixed overhead wherever possible, while increasing total sales.

Interest Expense

Interest expense decreased \$29,000 or 10% to \$274,000 in the quarter ended November 30, 2014, compared to \$303,000 in the same period in the prior year. The decrease in interest expense from the prior year period is a direct result of a reduction in the Company's overall debt balance through principal payments made from operating cash flow over the past year.

Gain on sale of product line

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In October 2013, the Company sold substantially all of its property and assets, including intellectual property, comprising the Insulfab product line, to an unrelated third party buyer. This transaction resulted in a non-recurring pre-tax book gain of \$5,706,000, which was recorded in the first fiscal quarter of the prior year.

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Other Income (Expense)

Other income (expense) increased \$490,000 to \$385,000 in the quarter ended November 30, 2014 compared to other expense of \$105,000 in the same period in the prior year. Other income (expense) primarily includes interest income and 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.

Income Taxes

The effective tax rate for the first quarters of both fiscal 2015 and fiscal 2014 was 35%.

Non-controlling Interest

The income (loss) from non-controlling interest relates to a joint venture we had through our NEPTCO subsidiary, prior to our October 2014 acquisition of the 50% outstanding non-controlling membership interest. The joint venture between the Company and its now-former joint venture partner (an otherwise unrelated party) was managed and operated on a day-to-day basis by the Company. The purpose of this joint venture was to combine the elements of each member's fiber optic strength elements businesses.

Net Income Attributable to Chase Corporation

Net income attributable to Chase Corporation decreased \$1,870,000 or 21% to \$6,905,000 in the quarter ended November 30, 2014 compared to \$8,775,000 in the same quarter of the prior year. The decrease in net income in the current quarter is primarily due to the previously mentioned \$5,706,000 non-recurring pre-tax gain that resulted from the sale of the Insulfab product line in October 2013.

Other Important Performance Measures

We believe that EBITDA and Adjusted EBITDA are useful performance measures. They are used by our executive management team and board of directors 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. EBITDA and Adjusted EBITDA are non-GAAP financial measures.

We define EBITDA as follows: Net income attributable to Chase Corporation 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

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costs and gains/losses related to our acquisitions and divestitures, and settlement (gains) or losses resulting from lump sum distributions to participants from our defined benefit plan.

The use of EBITDA and Adjusted EBITDA 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. Our measurement of Adjusted EBITDA may not be comparable to similarly titled measures used by other companies.

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

| | Three Months Ended November 30, | |
|--|--|---------------|
| | 2014 | 2013 |
| Net income attributable to Chase Corporation | \$ 6,905,000 | \$ 8,775,000 |
| Interest expense | 274,000 | 303,000 |
| Income taxes | 3,769,000 | 4,747,000 |
| Depreciation expense | 1,417,000 | 1,426,000 |
| Amortization expense | 1,183,000 | 1,194,000 |
| EBITDA | \$ 13,548,000 | \$ 16,445,000 |
| Gain on sale of Insulfab (a) | | (5,706,000) |
| Adjusted EBITDA | \$ 13,548,000 | \$ 10,739,000 |

(a) Represents gain on sale of Insulfab product line that was completed in October 2013

Liquidity and Sources of Capital

Our overall cash and cash equivalents balance decreased \$91,000 to \$53,131,000 at November 30, 2014, from \$53,222,000 at August 31, 2014. The decreased cash balance is primarily the result of payments made on outstanding debt, income taxes, annual incentive compensation and equipment purchases, partially offset by cash from operations. A portion of cash held as of November 30, 2014 was subsequently used in December 2014 to pay our annual dividend of \$5,477,000. Of the above noted amounts, \$16,960,000 and \$14,575,000 were held outside the U.S. by our foreign subsidiaries as of November 30, 2014 and August 31, 2014, respectively. Given our cash position in the U.S. 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 to be permanently reinvested. Accordingly, we recognize a deferred tax liability for the estimated future tax effects attributable to temporary differences due to these unremitted earnings. In the event that circumstances should change in the future and we decide to repatriate these foreign amounts to fund U.S. operations, the Company would pay the applicable U.S. taxes on these repatriated foreign amounts to satisfy all previously recorded tax liabilities.

Cash flow provided by operations was \$3,933,000 in the first quarter of fiscal 2015 compared to \$1,983,000 in the prior year's first quarter. Cash provided by operations during the first three months of fiscal 2015 was primarily due to operating income and a decreased accounts receivable balance, offset by increased accounts payable and inventory balances.

The ratio of current assets to current liabilities remained consistent at 3.5 at both August 31, 2014 and November 30, 2014. The consistency of our current ratio at both August 31, 2014 and November 30, 2014 was primarily attributable to the current quarter establishment of the accrual for our fiscal 2014 annual dividend, which was declared in the first fiscal quarter ending November 30, 2014 and paid in December 2014, offset by the decrease to our accrued payroll and other compensation due to the payment of our annual incentive program in the first quarter of fiscal 2015.

Cash flow used by investing activities of \$664,000 related primarily to purchases of machinery and equipment at our manufacturing locations during the first quarter of fiscal 2015.

Cash flow used in financing activities of \$2,522,000 was due primarily to payments made on the bank loans used to finance our acquisition of NEPTCO, described in more detail below and the primary

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payment owed for the purchase of the 50% non-controlling interest of the NEPTCO JV. A secondary payment, which the Company does not deem material, may be required and is contingent upon certain conditions over the 12 months following the purchase.

On October 23, 2014, we announced a cash dividend of \$0.60 per share (totaling \$5,477,000), composed of \$0.50 related to earnings from continuing operations and \$0.10 related to the sale of a product line, to shareholders of record on November 3, 2014 and payable on December 4, 2014.

In June 2012, as part of our acquisition of NEPTCO, we borrowed \$70,000,000 under a five year term debt financing arrangement led and arranged by Bank of America, with participation from RBS Citizens (the Credit Facility). The applicable interest rate is based on the effective LIBOR plus a range of 1.75% to 2.25%, depending on our consolidated leverage ratio. At November 30, 2014, the applicable interest rate was 1.91% per annum and the outstanding principal amount was \$57,050,000. We are required to repay the principal amount of the term loan in quarterly installments of \$1,400,000 beginning in September 2012 through June 2014, increasing to \$1,750,000 per quarter thereafter through June 2015, and to \$2,100,000 per quarter thereafter through March 2017. The Credit Facility matures in June 2017 and prepayment of the Credit Facility is allowed at any time.

We have a revolving line of credit with Bank of America (the Revolver) totaling \$15,000,000, which bears interest at LIBOR plus a range of 1.75% to 2.25%, depending on our consolidated leverage ratio, or, at our option, at the bank's base lending rate. As of November 30, 2014 and December 31, 2014, the entire amount of \$15,000,000 was available for use. The Revolver is scheduled to mature in June 2017. This Revolver allows for increased flexibility for working capital requirements going forward, and we plan to use this availability to help finance our cash needs, including potential acquisitions, in fiscal 2015 and future periods.

The Credit Facility with Bank of America contains customary affirmative and negative covenants that, among other things, restrict our ability to incur additional indebtedness. It also requires us to maintain a ratio of consolidated indebtedness to consolidated EBITDA (each as defined in the facility) of no more than 3.00 to 1.00, and to maintain a consolidated fixed charge coverage ratio (as calculated in the facility) of at least 1.25 to 1.00. We were in compliance with our debt covenants as of November 30, 2014.

We currently have several on-going capital projects that are important to our long term strategic goals. Machinery and equipment will also be added as needed to increase capacity or enhance operating efficiencies in our other manufacturing plants.

We may also consider the acquisition of companies or other assets this year or in future periods which are complementary to our business. We believe that our existing resources, including cash on hand and our Revolver, together with cash generated from operations and additional bank borrowings, will be sufficient to fund our cash flow requirements through at least the next twelve months. However, there can be no assurances that additional financing will be available on favorable terms, if at all.

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

We have no material off balance sheet arrangements.

Contractual Obligations

Please refer to Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations section in our Annual Report on Form 10-K for the fiscal year ended August 31, 2014 for a complete discussion of our contractual obligations.

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Recent Accounting Standards

In May 2014, the FASB issued 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 our fiscal year 2018, beginning September 1, 2017, including interim periods, and allows for both retrospective and prospective methods of adoption. We are in the process of determining the method of adoption and assessing the impact of this ASU on our consolidated financial position, results of operations or cash flows.

Critical Accounting Policies and Estimates

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States. To apply these principles, we must make estimates and judgments that affect our reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. In many instances, we reasonably could have used different accounting estimates and, in other instances, changes in the accounting estimates are reasonably likely to occur from period to period. Accordingly, actual results could differ significantly from our estimates. To the extent that there are material differences between these estimates and actual results, our financial condition or results of operations will be affected. We base our estimates and judgments on historical experience and other assumptions that we believe to be reasonable at the time and under the circumstances, and we evaluate these estimates and judgments on an ongoing basis. We refer to accounting estimates and judgments of this type as critical accounting policies, judgments, and estimates. Management believes there have been no material changes during the three months ended November 30, 2014 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, 2014.

Forward Looking Information

The part of this Quarterly Report on Form 10-Q captioned *Management's Discussion and Analysis of Financial Condition and Results of Operations* contains certain forward-looking statements, which involve risks and uncertainties. Forward-looking statements include, without limitation, statements as to our future operating results, plans for manufacturing facilities, future economic conditions and expectations or plans relating to the implementation or realization of our strategic goals and future growth. These statements are based on current expectations, estimates and projections about the industries in which we operate, and the beliefs and assumptions made by management. Readers should refer to the discussions under *Forward Looking Information* and *Risk Factors* contained in our Annual Report on Form 10-K for the fiscal year ended August 31, 2014 concerning certain factors that could cause our actual results to differ materially from the results anticipated in such forward-looking statements. These discussions and Risk Factors are hereby incorporated by reference into this Quarterly Report.

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, 2014, other than our restricted investments (which are restricted for use in a non-qualified retirement savings plan for certain key employees and members of the Board of Directors), all of our funds were either in demand deposit accounts or investment instruments that meet high credit quality standards such as money market funds, government securities, or commercial paper.

Our domestic operations have limited currency exposure since substantially all transactions are denominated in USD. However, our European operations are subject to currency exchange fluctuations. We continue to review our policies and procedures to reduce this exposure while maintaining the benefit from these operations and sales to other European customers. As of November 30, 2014, the Company had cash balances in the following foreign currencies (with USD equivalents):

| Currency Code | Currency Name | USD Equivalent at November 30, 2014 | |
|---------------|-----------------|-------------------------------------|-----------|
| GBP | British Pound | \$ | 9,935,246 |
| EUR | Euro | \$ | 3,710,872 |
| CNY | Chinese Yuan | \$ | 563,306 |
| CAD | Canadian Dollar | \$ | 88,009 |

We will continue to review our current cash balances denominated in foreign currency in light of current tax guidelines, working capital requirements, infrastructure improvements and potential acquisitions.

We recognized a foreign currency translation loss for the three months ended November 30, 2014 in the amount of \$2,092,000 related to our European operations, which is recorded in other comprehensive income (loss) within our Statement of Equity and Statement of Comprehensive Income. We do not have or utilize any derivative financial instruments.

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

Effective April 1, 2013, the Company began the process of implementing a single enterprise resource planning (ERP) computer system world-wide. During the past 20 months, the Company expanded its existing ERP modules to all of its domestic locations, and certain of its European locations, which resulted in changes to the Company s processes and procedures affecting its internal control over financial reporting. The Company completed the implementation of the ERP computer system onto its final existing European location in December 2014, substantively accomplishing this portion of its ongoing plan to deploy more effective and efficient processes to support the Company s financial reporting as the Company continues to grow in size and scale. Otherwise, there have not been any changes in the Company s internal control over financial reporting during its most recent fiscal year that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

Table of Contents**Part II OTHER INFORMATION****Item 1 Legal Proceedings**

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

Item 1A Risk Factors

Please refer to Item 1A in our Annual Report on Form 10-K for the fiscal year ended August 31, 2014 for a complete discussion of the risk factors which could materially affect our business, financial condition or future results.

Item 6 - Exhibits

| Exhibit Number | Description |
|----------------|--|
| 31.1 | Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of principal executive officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification of principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.INS | XBRL Instance Document** |
| 101.SCH | XBRL Taxonomy Extension Schema Document** |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document** |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document** |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document** |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document** |

* Identifies management plan or compensatory plan or arrangement.

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

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SIGNATURES

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

Chase Corporation

Dated: January 9, 2015

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

Dated: January 9, 2015

By: */s/ Kenneth J. Feroldi*
Kenneth J. Feroldi,
Treasurer and Chief Financial Officer