

CHASE CORP  
Form 10-Q  
April 09, 2019  
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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 February 28, 2019

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 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	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 March 31, 2019 was 9,412,323

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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 also 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," "target," "strategy," 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, 2018 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.

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## Item 1 — Unaudited Condensed Consolidated Financial Statements

## CHASE CORPORATION

## CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

In thousands, except share and per share amounts

	February 28, 2019	August 31, 2018
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 25,088	\$ 34,828
Accounts receivable, less allowance for doubtful accounts of \$550 and \$559	41,699	44,610
Inventory	45,418	39,699
Prepaid expenses and other current assets	4,488	2,595
Due from sale of businesses	—	400
Prepaid income taxes	2,556	4,100
Total current assets	119,249	126,232
Property, plant and equipment, less accumulated depreciation of \$51,525 and \$49,212	31,686	32,845
Other Assets		
Goodwill	82,334	84,696
Intangible assets, less accumulated amortization of \$60,439 and \$54,039	59,152	65,330
Cash surrender value of life insurance	4,530	4,530
Restricted investments	1,118	1,090
Funded pension plan	241	301
Deferred income taxes	1,736	1,347
Other assets	77	98
Total assets	\$ 300,123	\$ 316,469
<b>LIABILITIES AND EQUITY</b>		
Current Liabilities		
Accounts payable	\$ 14,991	\$ 17,810
Accrued payroll and other compensation	4,239	6,639
Accrued expenses	4,238	4,486
Total current liabilities	23,468	28,935

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Long-term debt	6,000	25,000
Deferred compensation	1,132	1,105
Accumulated pension obligation	10,173	10,736
Other liabilities	333	283
Accrued income taxes	3,382	3,654
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; 9,412,323 shares at February 28, 2019 and 9,396,947 shares at August 31, 2018 issued and outstanding	941	939
Additional paid-in capital	14,328	13,104
Accumulated other comprehensive loss	(11,279)	(12,336)
Retained earnings	251,645	245,049
Total equity	255,635	246,756
Total liabilities and equity	\$ 300,123	\$ 316,469

See accompanying notes to the condensed consolidated financial statements

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## CHASE CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

In thousands, except share and per share amounts

	Three Months Ended February 28,		Six Months Ended February 28,	
	2019	2018	2019	2018
Revenue				
Sales	\$ 65,442	\$ 64,735	\$ 136,806	\$ 125,312
Royalties and commissions	1,189	1,140	2,328	2,480
	66,631	65,875	139,134	127,792
Costs and Expenses				
Cost of products and services sold	43,213	41,991	89,788	78,886
Selling, general and administrative expenses	13,086	11,975	26,448	23,871
Loss on impairment of goodwill (Note 7)	2,410	—	2,410	—
Exit costs related to idle facility (Note 15)	—	—	260	—
Acquisition-related costs (Note 14)	—	393	—	393
Operating income	7,922	11,516	20,228	24,642
Interest expense	(162)	(440)	(366)	(485)
Gain on sale of license (Note 17)	—	1,085	—	1,085
Other income (expense)	(828)	(421)	(1,122)	(903)
Income before income taxes	6,932	11,740	18,740	24,339
Income taxes (Note 18)	1,659	1,618	4,644	5,902
Net income	\$ 5,273	\$ 10,122	\$ 14,096	\$ 18,437
Net income available to common shareholders, per common and common equivalent share (Note 4)				
Basic	\$ 0.56	\$ 1.08	\$ 1.50	\$ 1.97
Diluted	\$ 0.56	\$ 1.07	\$ 1.49	\$ 1.95



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Weighted average shares outstanding				
Basic	9,332,288	9,289,372	9,330,929	9,285,604
Diluted	9,373,030	9,329,308	9,377,167	9,356,847

See accompanying notes to the condensed consolidated financial statements

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## CHASE CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

In thousands, except share and per share amounts

	Three Months Ended February 28,		Six Months Ended February 28,	
	2019	2018	2019	2018
Net income	\$ 5,273	\$ 10,122	\$ 14,096	\$ 18,437
Other comprehensive income (loss):				
Net unrealized (loss) gain on restricted investments, net of tax	13	(49)	(8)	(18)
Change in funded status of pension plans, net of tax	291	105	527	185
Foreign currency translation adjustment	1,144	2,100	538	3,670
Total other comprehensive income (loss)	1,448	2,156	1,057	3,837
Comprehensive income	\$ 6,721	\$ 12,278	\$ 15,153	\$ 22,274

See accompanying notes to the condensed consolidated financial statements

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## CHASE CORPORATION

## CONDENSED CONSOLIDATED STATEMENT OF EQUITY

THREE MONTHS ENDED FEBRUARY 28, 2019 AND 2018

(UNAUDITED)

In thousands, except share and per share amounts

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
Balance at November 30, 2017	9,374,840	\$ 937	\$ 14,734	\$ (11,788)	\$ 210,221	\$ 214,104
Restricted stock grants, net of forfeitures	2,779	1	(1)			—
Amortization of restricted stock grants			385			385
Amortization of stock option grants			111			111
Exercise of stock options	34,021	3	438			441
Common stock received for payment of stock option exercises	(4,091)	(1)	(441)			(442)
Common stock retained to pay statutory minimum withholding taxes on common stock	(12,961)	(1)	(1,390)			(1,391)
Change in funded status of pension plans, net of tax \$17				105		105
Foreign currency translation adjustment				2,100		2,100
Net unrealized gain (loss) on restricted investments, net of tax (\$22)				(49)		(49)
Net income					10,122	10,122
Balance at February 28, 2018	9,394,588	\$ 939	\$ 13,836	\$ (9,632)	\$ 220,343	\$ 225,486
Balance at November 30, 2018	9,402,706	\$ 940	\$ 13,608	\$ (12,727)	\$ 246,372	\$ 248,193
Restricted stock grants, net of forfeitures	4,599	—	—			—

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Amortization of restricted stock grants			415			415
Amortization of stock option grants			124			124
Exercise of stock options	5,018	1	181			182
Change in funded status of pension plans, net of tax \$101				291		291
Foreign currency translation adjustment				1,144		1,144
Net unrealized gain (loss) on restricted investments, net of tax \$3				13		13
Net income					5,273	5,273
Balance at February 28, 2019	9,412,323	\$ 941	\$ 14,328	\$ (11,279)	\$ 251,645	\$ 255,635

See accompanying notes to the condensed consolidated financial statements

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## CHASE CORPORATION

## CONDENSED CONSOLIDATED STATEMENT OF EQUITY

SIX MONTHS ENDED FEBRUARY 28, 2019 AND 2018

(UNAUDITED)

In thousands, except share and per share amounts

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
Balance at August 31, 2017	9,354,136	\$ 935	\$ 14,060	\$ (13,469)	\$ 209,403	\$ 210,929
Restricted stock grants, net of forfeitures	15,900	2	(2)			—
Amortization of restricted stock grants			806			806
Amortization of stock option grants			223			223
Exercise of stock options	44,880	4	886			890
Common stock received for payment of stock option exercises	(7,367)	(1)	(747)			(748)
Common stock retained to pay statutory minimum withholding taxes on common stock	(12,961)	(1)	(1,390)			(1,391)
Cash dividend on common stock, \$0.80 per share					(7,497)	(7,497)
Change in funded status of pension plans, net of tax \$59				185		185
Foreign currency translation adjustment				3,670		3,670
Net unrealized gain (loss) on restricted investments, net of tax (\$7)				(18)		(18)
Net income	9,394,588	\$ 939	\$ 13,836	\$ (9,632)	18,437	18,437
					\$ 220,343	\$ 225,486

Balance at  
February 28, 2018

Balance at August 31, 2018	9,396,947	\$ 939	\$ 13,104	\$ (12,336)	\$ 245,049	\$ 246,756
Restricted stock grants, net of forfeitures	9,308	1	(1)			—
Amortization of restricted stock grants			795			795
Amortization of stock option grants			249			249
Exercise of stock options	7,022	1	301			302
Common stock received for payment of stock option exercises	(954)	—	(120)			(120)
Cash dividend on common stock, \$0.80 per share					(7,522)	(7,522)
Change in funded status of pension plans, net of tax \$184				527		527
Foreign currency translation adjustment				538		538
Net unrealized gain (loss) on restricted investments, net of tax (\$4)				(8)		(8)
Adoption of ASC 606 (Note 9)					22	22
Net income					14,096	14,096
Balance at February 28, 2019	9,412,323	\$ 941	\$ 14,328	\$ (11,279)	\$ 251,645	\$ 255,635

See accompanying notes to the condensed consolidated financial statements

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## CHASE CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

In thousands

	Six Months Ended February 28,	
	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 14,096	\$ 18,437
Adjustments to reconcile net income to net cash provided by operating activities		
Gain on sale of license	—	(1,085)
Loss on impairment of goodwill	2,410	—
Depreciation	2,491	2,618
Amortization	6,225	5,233
Cost of sale of inventory step-up	—	1,530
(Recovery) provision of allowance for doubtful accounts	(11)	137
Stock-based compensation	1,044	1,029
Realized loss (gain) on restricted investments	4	(91)
Pension curtailment and settlement loss	473	—
Deferred taxes	(581)	1,069
Increase (decrease) from changes in assets and liabilities		
Accounts receivable	3,003	179
Inventory	(5,651)	(3,222)
Prepaid expenses and other assets	(1,864)	(601)
Accounts payable	(2,764)	2,247
Accrued compensation and other expenses	(2,847)	(2,778)
Accrued income taxes	1,275	(4,718)
Net cash provided by operating activities	17,303	19,984
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property, plant and equipment	(1,304)	(1,586)
Cost to acquire intangible assets	(30)	(33)
Payments for acquisitions	—	(71,434)
Proceeds from sale of license	—	1,000
Proceeds from sale of businesses	400	—
Changes in restricted investments	(41)	61
Net cash used in investing activities	(975)	(71,992)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Borrowings on debt	—	65,000

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Payments of principal on debt	(19,000)	(10,000)
Dividend paid	(7,522)	(7,497)
Proceeds from exercise of common stock options	182	142
Payments of taxes on stock options and restricted stock	—	(1,391)
Net cash (used in) provided by financing activities	(26,340)	46,254
INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	(10,012)	(5,754)
Effect of foreign exchange rates on cash	272	2,537
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	34,828	47,354
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 25,088	\$ 44,137
Non-cash Investing and Financing Activities		
Common stock received for payment of stock option exercises	\$ 120	\$ 748
Property, plant and equipment additions included in accounts payable	\$ 113	\$ 222

See accompanying notes to the condensed consolidated financial statements



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Note 1 — Basis of Financial Statement Presentation

Description of Business

Chase Corporation (the “Company,” “Chase,” “we,” or “us”), a global specialty chemicals company founded in 1946, is a leading manufacturer of protective materials for high-reliability applications across diverse market sectors. 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 (“U.S. 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. The year-end condensed balance sheet data was derived from audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America. 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, 2018, in conjunction with its 2018 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 February 28, 2019 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, 2018, which are contained in the Company’s 2018 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 February 28, 2019, the results of its operations, comprehensive income, changes in equity and cash flows for the interim periods ended February 28, 2019 and 2018.

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 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 (\$468) and (\$416) for the three- and six-month periods ended February 28, 2019, respectively, and (\$324) and (\$677) for the three- and six-month periods ended February 28, 2018, respectively.

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## Other Business Developments

On June 25, 2018, the Company announced to its employees the planned closing of its Pawtucket, RI manufacturing facility effective August 31, 2018. This is in line with the Company's ongoing efforts to consolidate its manufacturing plants and streamline its existing processes. The manufacture of products previously produced in the Pawtucket, RI facility was moved to Company facilities in Oxford, MA and Lenoir, NC during a two-month transition period. The Company expensed \$1,272 in the fourth quarter of fiscal 2018 related to the closure, including: (a) cash-related employee-related, logistics and uncapitalized facility improvement costs of \$590; and (b) non-cash-related accelerated depreciation expense of \$682. The Company recognized \$260 in expenses related to this move in the three-month period ended November 30, 2018, with no additional expense recognized in the quarter ended February 28, 2019. Future costs related to this move are not anticipated to be significant to the condensed consolidated financial statements.

On April 20, 2018, Chase finalized an agreement with an unrelated party to sell all inventory, operational machinery and equipment and intangible assets of the Company's structural composites rod business, as well as a license related to the production and sale of rod, for proceeds of \$2,232, net of transaction costs and following certain working capital adjustments. This business, which was part of the structural composites product line within the Industrial Materials segment, had limited growth and profitability prospects as part of the Company, and was outside the areas Chase has identified for strategic emphasis. The resulting pre-tax gain on sale of \$1,480 was recognized in the third quarter of fiscal 2018 as a gain on sale of businesses within the condensed consolidated statement of operations. Chase received \$2,075, net of transaction costs, in the third quarter of fiscal 2018, with the remaining \$157 received in the fourth quarter of fiscal 2018 as a result of a working capital true-up. Chase will provide certain transitional manufacturing and administrative support to the purchaser for which the Company will receive additional consideration upon the performance of services. The purchaser also entered into a royalty agreement with the Company. The purchaser will make royalty payments to Chase based on future sales of certain structural composite material manufactured by the purchaser.

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 prior to the acquisition, SSA, LLC, and its recently-acquired Zappa-Tec business (collectively "Zappa Stewart") had combined revenue in excess of \$24,000. This acquisition proved to be immediately accretive to the Company's earnings, after adjusting for nonrecurring costs associated with the transaction and financing cost. The business was acquired for a purchase price of \$73,469, after final 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 Company expensed \$393 of acquisition-related costs associated with this acquisition during the second quarter of fiscal 2018. 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 complements Chase's current specialty chemicals offerings. This acquisition is aligned with the Company's core strategies and extends its reach into growing medical, environmental and consumer applications. The Company finalized purchase accounting in the first quarter of fiscal 2019, without any adjustment to amounts recorded at August 31, 2018. Following the effective date of the acquisition

the financial results of Zappa Stewart's operations have been included in the Company's financial statements in the specialty chemical intermediates 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 Zappa Stewart.

### Significant Accounting Policies

The Company's significant accounting policies are detailed in Note 1 — "Summary of Significant Accounting Policies" within Item 8 of the Company's Annual Report on Form 10-K for the year ended August 31, 2018. Significant changes to these accounting policies as a result of adopting ASC 606 "Revenue from Contracts with Customers" during the first quarter of fiscal 2019 are discussed within Note 2 — "Recent Accounting Standards" and Note 9 — "Revenue from Contracts with Customers" within this Current Quarterly Report on Form 10-Q.

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Note 2 — Recent Accounting Standards

Recently Issued Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("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. 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 February 2018, the FASB issued ASU No. 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." Under previously existing U.S. GAAP, the effects of changes in tax rates and laws on deferred tax balances are recorded as a component of income tax expense in the period in which the law was enacted. When deferred tax balances related to items originally recorded in accumulated other comprehensive income are adjusted, certain tax effects become stranded in accumulated other comprehensive income. The amendments in ASU 2018-02 allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017 (the "Tax Act"). The amendments in this ASU also require certain disclosures about stranded tax effects. The guidance is required for fiscal years beginning after December 15, 2018 (our fiscal year 2020), and interim periods within those fiscal years. Early adoption in any period is permitted. The Company is currently evaluating the effect that ASU No. 2018-02 will have on its financial statements and related disclosures. See Note 18 to the condensed consolidated financial statements for additional information on the effects of the Tax Act on our financial position and result of operations, including provisional transitional adjustments that were recorded during fiscal 2018 related to the Tax Act, and complete and final adjustments during the quarter ended February 28, 2019.

Recently Adopted Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." The amended guidance establishes a single comprehensive model for companies to use in accounting for revenue arising from contracts with customers and supersedes most of the existing revenue recognition guidance, including industry-specific guidance.

The amended guidance clarifies that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying the amended guidance, an entity will (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the contract's performance obligations; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. ASC 606 was effective for the Company's interim and annual reporting periods beginning September 1, 2018 (fiscal 2019), and could have been adopted using either a full retrospective or modified retrospective transition method.

The Company adopted the amended guidance and all related amendments using the modified retrospective approach on September 1, 2018, at which time it became effective for the Company. The Company recognized the cumulative effect of initially applying the new revenue standard to all open contracts requiring recognition over time that were not completed on the date of adoption as an adjustment to the opening balance of retained earnings.

At the adoption date, the cumulative impact of revenue that would have been recognized over time was \$80. The related adoption impact to retained earnings was \$22, net of tax. The impact to net sales and net income as a result of applying ASC 606 was a (decrease) increase of (\$10) and (\$14), respectively, for the quarter ended February 28, 2019 and \$95 and \$31, respectively, for the six months ended February 28, 2019. See Note 9 — "Revenue from Contracts with Customers" for further discussion of the effects of adoption.

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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 Company adopted ASU No. 2016-15 on September 1, 2018, and the adoption did not have a material effect 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 Company adopted the ASU on September 1, 2018. The adoption had no material effect on the financial statements and related disclosures in the first and second quarter of fiscal 2019. The effect ASU No. 2017-01 will have on the financial statements and related disclosures of the Company in future periods will be dependent on the nature of potential future acquisitions and divestitures.

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 manufactured inventory or a self-constructed asset). The Company adopted ASU No. 2017-07 on September 1, 2018, which resulted in the reclassification of \$163 and \$326, previously reported in selling, general and administrative expense, to other income (expense) for the three- and six-month periods ended February 28, 2018 (prior year), respectively. Further reclassifications will be required on the condensed consolidated statement of operations for periods of fiscal 2018 subsequent to February 28, 2018. The adoption of ASU 2017-07 did not have any effect on the historically stated condensed consolidated balance sheets or condensed consolidated statement of cash flows.

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. The Company adopted the ASU 2017-09 on September 1, 2018. The adoption had no material effect on the financial statements and related disclosures in the first and second quarter of fiscal 2019. The effect ASU No. 2017-09 will have on the financial statements and related disclosures of the Company in future periods will be dependent on the nature of potential future changes the Company may make to the terms or conditions of any share-based payment awards.

## Note 3 — Inventory

Inventory consisted of the following as of February 28, 2019 and August 31, 2018:

	February 28, 2019	August 31, 2018
Raw materials	\$ 22,706	\$ 21,998
Work in process	8,463	7,653
Finished goods	14,249	10,048
Total Inventory	\$ 45,418	\$ 39,699



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## 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 February 28,		Six Months Ended February 28,	
	2019	2018	2019	2018
<b>Basic Earnings per Share</b>				
Net income	\$ 5,273	\$ 10,122	\$ 14,096	\$ 18,437
Less: Allocated to participating securities	41	96	110	176
Net income available to common shareholders	\$ 5,232	\$ 10,026	\$ 13,986	\$ 18,261
Basic weighted average shares outstanding	9,332,288	9,289,372	9,330,929	9,285,604
Net income per share - Basic	\$ 0.56	\$ 1.08	\$ 1.50	\$ 1.97
<b>Diluted Earnings per Share</b>				
Net income	\$ 5,273	\$ 10,122	\$ 14,096	\$ 18,437
Less: Allocated to participating securities	41	96	110	176
Net income available to common shareholders	\$ 5,232	\$ 10,026	\$ 13,986	\$ 18,261
Basic weighted average shares outstanding	9,332,288	9,289,372	9,330,929	9,285,604
Additional dilutive common stock equivalents	40,742	39,936	46,238	71,243
Diluted weighted average shares outstanding	9,373,030	9,329,308	9,377,167	9,356,847
Net income per share - Diluted	\$ 0.56	\$ 1.07	\$ 1.49	\$ 1.95

For the three- and six-month periods ended February 28, 2019, stock options to purchase 15,625 and 14,022 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. For the three- and six-month periods ended February 28, 2018, stock options to purchase 6,416 and 9,622 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.



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Note 5 — Stock-Based Compensation

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 a performance and service-based restricted stock grant of 4,249 shares in the aggregate, subject to adjustment, with a vesting date of August 31, 2020. Based on the fiscal year 2018 financial results, 572 additional shares of restricted stock (total of 4,821 shares) were earned and granted subsequent to the end of fiscal year 2018 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 2018, the Board of Directors of the Company approved the fiscal year 2019 Long Term Incentive Plan (“2019 LTIP”) for the executive officers and other members of management. The 2019 LTIP is an equity-based plan with a grant date of September 1, 2018 and contains the following equity components:

Restricted Shares — (a) a performance and service-based restricted stock grant of 3,541 shares in the aggregate, subject to adjustment based on fiscal 2019 results, with a vesting date of August 31, 2021. 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 3,068 shares in the aggregate, with a vesting date of August 31, 2021. Compensation expense is recognized on a ratable basis over the vesting period.

Stock options — options to purchase 8,603 shares of common stock in the aggregate with an exercise price of \$123.95 per share. The options will vest in three equal annual installments beginning on August 31, 2019 and ending on August 31, 2021. Of the options granted, 3,927 options will expire on August 31, 2028, and 4,676 options will expire on September 1, 2028. Compensation expense is recognized over the period of the award consistent with the vesting terms.

In September 2018, restricted stock in the amount of 2,472 shares related to a first quarter of fiscal 2017 grant was forfeited in conjunction with the termination of employment of a non-executive member of management of the Company.

In February 2019, as part of their standard compensation for board service, non-employee members of the Board of Directors received a total grant of 4,599 shares of restricted stock (\$469 grant date value) for service for the period from January 31, 2019 through January 31, 2020. The shares of restricted stock will vest at the conclusion of this service period. Compensation is recognized on a ratable basis over the twelve-month vesting period.



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Note 6 — Segment Data and Foreign Operations

The Company is organized into two reportable 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 and customized sealant and adhesive systems for electronics, laminated durable papers, laminates for the packaging and industrial laminate markets, custom manufacturing-related 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, polyurethane dispersions and superabsorbent polymers. Beginning December 31, 2017, the Industrial Materials segment includes the acquired operations of Zappa Stewart, included in the Company's specialty chemical intermediates product line. Following the April 20, 2018 sale of the structural composites rod business, future product sales of composite materials and elements are not anticipated to be significant to the condensed consolidated financial statements.

The Construction Materials segment is principally composed of project-oriented and infrastructure-related 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.

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

	Three Months Ended		Six Months Ended	
	February 28,		February 28,	
	2019	2018	2019	2018
Revenue				
Industrial Materials	\$ 57,265	\$ 55,267	\$ 117,425	\$ 105,252
Construction Materials	9,366	10,608	21,709	22,540
Total	\$ 66,631	\$ 65,875	\$ 139,134	\$ 127,792
Income before income taxes				
Industrial Materials	\$ 12,269 (a)	\$ 16,161 (c)	\$ 27,072 (e)	\$ 31,526 (c)
Construction Materials	2,384	2,372	6,850	6,618
Total for reportable segments	14,653	18,533	33,922	38,144
Corporate and common costs	(7,721) (b)	(6,793) (d)	(15,182) (f)	(13,805) (d)
Total	\$ 6,932	\$ 11,740	\$ 18,740	\$ 24,339

Includes the following costs by segment:

Industrial Materials				
Interest	\$ 130	\$ 352	\$ 293	\$ 388
Depreciation	820	905	1,659	1,705
Amortization	2,789	2,591	5,579	4,578
Construction Materials				
Interest	\$ 32	\$ 88	\$ 73	\$ 97
Depreciation	164	187	339	377
Amortization	323	328	646	655

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- (a) Includes \$2,410 of loss on impairment of goodwill related to the Company's polyurethane dispersions business  
(b) Includes \$273 of pension-related settlement costs due to the timing of lump-sum distributions  
(c) Includes \$1,530 of expenses related to inventory step-up in fair value attributable to the December 2017 acquisition of Zappa Stewart and a \$1,085 gain on sale of license related to the structural composites product line recorded in the second quarter of fiscal 2018  
(d) Includes \$393 in acquisition-related expenses attributable to the December 2017 acquisition of Zappa Stewart  
(e) Includes \$260 of expense related to the closure and exit of our Pawtucket, RI location recognized in the first quarter of fiscal 2019 and \$2,410 of loss on impairment of goodwill related to the Company's polyurethane dispersions business  
(f) Includes \$473 of pension-related settlement costs due to the timing of lump-sum distributions

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Total assets for the Company's reportable segments as of February 28, 2019 and August 31, 2018 were:

	February 28, 2019	August 31, 2018
Total Assets		
Industrial Materials	\$ 226,433	\$ 229,559
Construction Materials	32,827	36,757
Total for reportable segments	259,260	266,316
Corporate and common assets	40,863	50,153
Total	\$ 300,123	\$ 316,469

The Company's products are sold worldwide. Revenue for the three- and six-month periods ended February 28, 2019 and 2018 were attributed to operations located in the following countries:

	Three Months Ended February 28,		Six Months Ended February 28,	
	2019	2018	2019	2018
Revenue				
United States	\$ 57,942	\$ 55,978	\$ 122,293	\$ 108,455
United Kingdom	4,428	5,392	8,444	9,789
All other foreign (1)	4,261	4,505	8,397	9,548
Total	\$ 66,631	\$ 65,875	\$ 139,134	\$ 127,792

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(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 February 28, 2019 and August 31, 2018, 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:

	February 28, 2019	August 31, 2018
Long-Lived Assets		
United States		
Property, plant and equipment, net	\$ 27,119	\$ 28,770
Goodwill and Intangible assets, less accumulated amortization	135,166	143,539

United Kingdom

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Property, plant and equipment, net	2,871	2,911
Goodwill and Intangible assets, less accumulated amortization	5,100	5,239
All other foreign		
Property, plant and equipment, net	1,696	1,164
Goodwill and Intangible assets, less accumulated amortization	1,220	1,248
Total		
Property, plant and equipment, net	\$ 31,686	\$ 32,845
Goodwill and Intangible assets, less accumulated amortization	\$ 141,486	\$ 150,026



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## Note 7 — Goodwill and Other Intangibles

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

	Industrial Materials	Construction Materials	Consolidated
Balance at August 31, 2018	\$ 74,002	\$ 10,694	\$ 84,696
Loss on impairment of polyurethane dispersions business	(2,410)	—	(2,410)
Foreign currency translation adjustment	44	4	48
Balance at February 28, 2019	\$ 71,636	\$ 10,698	\$ 82,334

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 a total of twelve 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.

In fiscal 2017, the Company early adopted ASU No. 2017-04 "Intangibles - Goodwill and Other Topics (Topic 350): Simplifying the Test for Goodwill Impairment." We assess goodwill for impairment by comparing the fair value of the reporting unit to its carrying amount. If the fair value of a reporting unit is less than its carrying value, an impairment loss, limited to the amount of goodwill allocated to that reporting unit, is recorded.

The ordering patterns of our polyurethane dispersions reporting unit's customers during the three-month period ended February 28, 2019, especially those in the automotive industry, combined with a decrease in the reporting unit's backlog of customer orders believed to be firm as of February 28, 2019, indicated an impairment in the carrying value of the reporting unit might have occurred. As such, we performed an impairment test on our long-lived assets related to our polyurethane dispersions reporting unit, part of the Industrial Materials operating segment, in accordance with ASC Topic 350, "Intangibles — Goodwill and Other" and ASC Topic 360, "Disclosure — Impairment or Disposal of Long-Lived Assets." As a result of impairment testing, which included first testing long-lived assets other than goodwill for impairment under applicable guidance, the Company recorded a charge of \$2,410 to loss on impairment

of goodwill within the condensed consolidated statement of operations during the quarter ended February 28, 2019. Our polyurethane dispersions reporting unit's fair value was determined based on the income approach (discounted cash flow method).

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Intangible assets subject to amortization consisted of the following as of February 28, 2019 and August 31, 2018:

	Weighted Average Amortization Period		Gross Carrying Value	Accumulated Amortization	Net Carrying Value
February 28, 2019					
Patents and agreements	14.3	years	\$ 1,885	\$ 1,687	\$ 198
Formulas and technology	7.8	years	10,245	7,377	2,868
Trade names	5.8	years	8,571	7,106	1,465
Customer lists and relationships	9.1	years	98,890	44,269	54,621
			\$ 119,591	\$ 60,439	\$ 59,152
August 31, 2018					
Patents and agreements	14.4	years	\$ 1,863	\$ 1,681	\$ 182
Formulas and technology	7.8	years	10,225	6,690	3,535
Trade names	5.8	years	8,554	6,866	1,688
Customer lists and relationships	9.1	years	98,727	38,802	59,925
			\$ 119,369	\$ 54,039	\$ 65,330

Aggregate amortization expense related to intangible assets for the six months ended February 28, 2019 and 2018 was \$6,225 and \$5,233 respectively. Estimated amortization expense for the remainder of fiscal year 2019 and for the next five years is as follows:

Years ending August 31,	
2019 (remaining 6 months)	\$ 6,237
2020	11,594
2021	11,064
2022	10,035
2023	6,768
2024	5,659

## Note 8 — Sale of Business

## Sale of Structural Composites Rod Business

On April 20, 2018, Chase finalized an agreement with an unrelated party to sell all inventory, operational machinery and equipment and intangible assets of the Company's structural composites rod business, as well as a license related to the production and sale of rod, for proceeds of \$2,232, net of transaction costs and following certain working capital adjustments. This business, which was part of the structural composites product line within the Industrial Materials segment, had limited growth and profitability prospects as part of the Company, and was outside the areas Chase has identified for strategic emphasis. 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 \$1,480 was recognized in the third quarter of fiscal 2018 as a gain on sale of businesses within the condensed consolidated statement of operations. Chase received \$2,075, net of transaction costs, in the third quarter of fiscal 2018, with the remaining \$157 received in the fourth quarter of fiscal 2018 as a result of a working capital true-up.

Related to this transaction, the purchaser entered into a royalty agreement with the Company. The purchaser will make royalty payments to Chase based on future sales of certain structural composite material manufactured by the purchaser. Royalty revenue recognized in the six-month period ended February 28, 2019 related to this agreement was not material.

The sale of the structural components rod business follows the Company's sale of the RodPack® wind blade components business in November 2015, and the licensing of certain composite technologies during the second quarter of fiscal 2018 (see Note 17). Subsequent to the third quarter of fiscal 2018, Chase has included the results of its remaining structural

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composites wind energy business (inclusive of the royalties and the custom manufacturing-related services noted below) within the specialty products product line.

### Post-Sale Services Provided to the Buyer of the Structural Composites Rod Business and the Fiber Optic Cable Components Product Line

The structural composites rod business and the fiber optic cable components product line (sold in fiscal 2017), which both operated out of the Company's Granite Falls, NC facility, were both sold to the same otherwise unrelated purchaser. Subsequent to the sales, Chase will provide certain transitional manufacturing and administrative support to the purchaser for which the Company will receive additional consideration upon the performance of services. In the three- and six-month periods ended February 28, 2019, Chase charged the purchaser \$420 and \$1,383, respectively, for manufacturing services, which the Company recognized as revenue within the Industrial Materials segment, and \$57 and \$114, respectively, for selling and administrative services, which the Company recognized as an offset to selling, general and administrative expenses. In the three- and six-month periods ended February 28, 2018, Chase charged the purchaser \$451 and \$921, respectively, for manufacturing services, and \$60 and \$120, respectively, for selling and administrative services. Further, the purchaser entered a multiyear lease for a portion of the manufacturing space at the Company's Granite Falls, NC facility. Chase received \$32, \$65, \$32 and \$65 in rental income related to this lease during the three- and six-month periods ended February 28, 2019 and 2018, respectively, which the Company recognized within other income (expense) on the condensed consolidated statements of operations.

### Note 9 — Revenue from Contracts with Customers

The Company accounts for revenue in accordance with ASC 606, Revenue from Contracts with Customers. This revenue is generated from the manufacture of specialty chemical products including coatings, linings, adhesives, sealants, specialty tapes, polymers and laminates. Certain of these manufactured products can comprise fully or partially of customer-owned materials. The Company also recognizes, to a lesser extent, revenue through royalties and commissions from licensed manufacturers and from providing custom manufacturing-related services. The Company's revenue recognition policies require the Company to make significant judgments and estimates. In applying the Company's revenue recognition policy, determinations must be made as to when control of products passes to the Company's customers, which can be either at a point in time or over time based on terms and conditions of contractual terms with customers. As described in more detail below, revenue is generally recognized at a point in time when control passes, either upon shipment to or upon receipt by the customer of the Company's products, while revenue is generally recognized over time when control of the Company's products transfers to customers during the manufacturing process.

The Company accounts for revenue from contracts with customers when there is approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and

collectability of consideration is probable. Revenue is primarily derived from customer purchase orders, master sales agreements, and negotiated contracts, all of which represent contracts with customers.

The Company next identifies the performance obligations in the contract. A performance obligation is a promise to provide distinct goods or services. Performance obligations are the unit of account for purposes of applying the revenue standard and therefore determine when and how revenue is recognized. The Company determines the performance obligations at contract inception based on the goods or services that are promised in a contract with a customer. Typical performance obligations include our promise to manufacture and the fulfillment of orders of specialty chemical products including coatings, linings, adhesives, sealants, specialty tapes, polymers and laminates, as well as custom manufacturing-related services.

The transaction price in the contract is determined based on the consideration to which the Company will be entitled in exchange for transferring products and services to the customer, excluding amounts collected on behalf of third parties (for example, sales taxes). The transaction price is typically stated on the purchase order or in a negotiated agreement. Certain contracts may include variable consideration in the transaction price, such as rebates, pricing discounts, sales incentives, or other provisions that can decrease the transaction price. Estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based on reasonably available

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information (customer historical, current and forecasted data). In certain circumstances where a particular outcome is probable, the Company utilizes the most likely amount to which the Company expects to be entitled. The Company accounts for consideration payable to a customer as a reduction of the transaction price which reduces the amount of revenue recognized. Consideration payable to a customer includes cash amounts that the Company pays, or expects to pay, to a customer based on certain contract requirements.

The Company recognizes revenue as performance obligations are satisfied, which can be either over time or at a point in time, depending on when control of the Company's products transfers to its customers.

For certain products, where the Company's product consists partially or fully of customer-owned materials, revenue is recognized over time, and the Company makes significant judgments which include, but are not limited to, estimated costs to completion and costs incurred to date, and assesses risks related to changes in estimates of revenue and costs. In doing so, management must make assumptions regarding the work required to fulfill the performance obligations.

The selection of the method to measure progress towards completion requires judgment and is based on the nature of the products to be provided. The Company generally uses the cost-to-cost measure of progress for contracts because it best depicts the transfer of control to the customer which occurs as costs are incurred on contracts. Under the cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Revenues are recorded proportionally as costs are incurred.

## Performance Obligation

Manufactured goods and, to a lesser extent, right of use of our intellectual property and custom manufacturing-related services are our performance obligations. Revenue related to our performance obligations is predominantly recognized at a point in time consistent with our shipping terms (upon shipment to or receipt by our customer). For certain products we manufacture, which comprise partially or fully of customer-owned material and which meet the criteria of having no alternative use whereby the Company has the right to payment, we recognize revenue over time.

The selection of a method to measure progress toward completion of a contract requires judgment and is based on the nature of the products or services to be provided. We use the cost-to-cost method to measure the progress of our contracts with no-alternative-use products (given they comprise partially or fully of customer-owned material) whereby the Company has the right to payment as we believe it is the best depiction of the transferring of value to the customer. Under the cost-to-cost method, the extent of progress toward completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the contract. Contract costs include labor, materials and subcontractors costs, as well as an allocation of indirect costs. Revenue, including estimated fees or profits, is recorded as costs are incurred. Specialty manufacturing runs for customers of products which are comprised partially or fully of customer-owned material predominantly occur over relatively short periods of time (less than one month) and are comprised of a one-step process (such as coating or laminating), promptly followed by shipment to the end customer. On-going custom manufacturing-related services performed for customers are recognized in the period the services are rendered, and as such do not carry over from period to period. Royalty revenue, derived from right of use

of our intellectual property, is recognized when the subsequent sale of the licensed intellectual property occurs.

Because performance obligations are typically satisfied within one month of receipt of a customer order, a change in cost estimates will not have a material impact on the percentage of completion noted at the prior quarter end. Our typical payment terms with customers are net 30 days, with consideration given to geographic and industry norms.

#### Contract Balances

The Company's contract assets primarily relate to unbilled revenue for products currently in production, at the Company's facilities and which comprise partially or fully of customer-owned material. Revenue is recognized in advance of billing to the customer in these specific circumstances, whereas billing is typically performed at the time of shipment to or receipt by the customer.



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Contract assets are included in prepaids and other current assets on the Company's condensed consolidated balance sheets. The following table presents contract assets by reportable operating segment as of February 28, 2019:

	February 28, 2019	September 1, 2018
Contract Assets		
Industrial Materials	\$ 77	\$ 16
Construction Materials	98	64
Total	\$ 175	\$ 80

The Company did not have any contract liabilities as of February 28, 2019.

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## Impacts on Financial Statements

The cumulative effect of the changes made to the Company's condensed consolidated September 1, 2018 balance sheet for the adoption of ASC 606 was as follows:

	August 31, 2018	Adjustments for Adoption of ASC 606	September 1, 2018
Assets:			
Contract assets	\$ —	\$ 80	\$ 80
Inventory	\$ 39,699	\$ (50)	\$ 39,649
Prepaid income taxes	\$ 4,100	\$ (8)	\$ 4,092
Stockholders' equity:			
Retained earnings	\$ 245,049	\$ 22	\$ 245,071

The cumulative effect of the changes made to the Company's condensed consolidated February 28, 2019 balance sheet for the adoption of ASC 606 was as follows:

	February 28, 2019 Balances		
	Without Adoption of ASC 606	ASC 606 Adjustments	As Reported
Assets:			
Contract assets	\$ —	\$ 175	\$ 175
Inventory	\$ 45,522	\$ (104)	\$ 45,418
Prepaid income taxes	\$ 2,574	\$ (18)	\$ 2,556
Stockholders' equity:			
Retained earnings	\$ 251,592	\$ 53	\$ 251,645



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The cumulative effect of the changes made to the Company's condensed consolidated statement of operations for the adoption of ASC 606 for the three and six months ended February 28, 2019 was as follows:

	Three Months Ended February 28, 2019			Six Months Ended February 28, 2019		
	Results Without Adoption of ASC 606	Effect of Change Higher (Lower)	As Reported	Results Without Adoption of ASC 606	Effect of Change Higher (Lower)	As Reported
Revenue						
Sales	\$ 65,452	\$ (10)	\$ 65,442	\$ 136,711	\$ 95	\$ 136,806
Royalties and commissions	1,189	—	1,189	2,328	—	2,328
	66,641	(10)	66,631	139,039	95	139,134
Costs and Expenses						
Cost of products and services sold	43,204	9	43,213	89,734	54	89,788
Selling, general and administrative expenses	13,086	—	13,086	26,448	—	26,448
Loss on impairment of goodwill	2,410	—	2,410	2,410	—	2,410
Exit costs related to idle facility	—	—	—	260	—	260
Operating income	7,941	(19)	7,922	20,187	41	20,228
Interest expense	(162)	—	(162)	(366)	—	(366)
Other income (expense)	(828)	—	(828)	(1,122)	—	(1,122)
Income before income taxes	6,951	(19)	6,932	18,699	41	18,740
Income taxes	1,664	(5)	1,659	4,634	10	4,644
Net income	\$ 5,287	\$ (14)	\$ 5,273	\$ 14,065	\$ 31	\$ 14,096
Net income available to common shareholders, per common and common equivalent share						
Basic	\$ 0.57	\$ (0.01)	\$ 0.56	\$ 1.50	\$ —	\$ 1.50
Diluted	\$ 0.56	\$ —	\$ 0.56	\$ 1.49	\$ —	\$ 1.49

Weighted average shares  
outstanding

Basic	9,332,288	—	9,332,288	9,330,929	—	9,330,929
Diluted	9,373,030	—	9,373,030	9,377,167	—	9,377,167

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## Disaggregated Revenue

The Company disaggregates revenue from customers by geographic region, as it believes this disclosure best depicts how the nature, amount, timing and uncertainty of the Company's revenue and cash flows are affected by economic factors. Disaggregated revenue by geographical region for the three and six months ended February 28, 2019 was as follows:

	Three Months Ended February 28, 2019			Six Months Ended February 28, 2019		
	Industrial Materials	Construction Materials	Consolidated Revenue	Industrial Materials	Construction Materials	Consolidated Revenue
Revenue						
North America	\$ 45,453	\$ 7,519	\$ 52,972	\$ 94,092	\$ 17,204	\$ 111,296
Asia	6,576	1,376	7,952	13,825	3,272	17,097
Europe	4,515	437	4,952	8,096	1,150	9,246
All other foreign	721	34	755	1,412	83	1,495
Total Revenue	\$ 57,265	\$ 9,366	\$ 66,631	\$ 117,425	\$ 21,709	\$ 139,134

## Practical Expedients and Policy Elections

**Shipping and Handling Policy Election** — the Company has made an accounting policy election to record shipping and handling activities occurring after control has passed to the customer to be treated as a fulfillment cost rather than as a distinct performance obligation. Shipping and handling expenses consist primarily of costs incurred to deliver products to customers and internal costs related to preparing products for shipment and are recorded within cost of products and services sold. Amounts billed to customers as shipping and handling are classified as revenue when services are performed.

**Considering Existence of a Significant Financing Component** — as a practical expedient, an entity need not adjust the promised amount of consideration for the effects of a significant financing component if the entity expects, at contract inception, that the period between when the entity transfers a promised good or service to the customer and when the customer pays for that good or service will be one year or less. Given the time between the Company transferring a promised good or service to the customer and the customer paying for that good or service is less than one year based on the terms of arrangements with customers, the Company does not adjust the promised amount of consideration for effects of a significant financing component.

## 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.

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## Note 11 — Pensions and Other Postretirement Benefits

The components of net periodic benefit cost for the three and six months ended February 28, 2019 and 2018 were as follows:

	Three Months Ended February 28,		Six Months Ended February 28,	
	2019	2018	2019	2018
Components of net periodic benefit cost				
Service cost	\$ 73	\$ 71	\$ 146	\$ 142
Interest cost	178	157	356	314
Expected return on plan assets	(109)	(116)	(221)	(232)
Amortization of prior service cost	1	1	2	2
Amortization of accumulated loss	119	121	237	242
Settlement and curtailment loss	273	—	473	—
Net periodic benefit cost	\$ 535	\$ 234	\$ 993	\$ 468

When funding is required, the Company's policy is to contribute amounts that are deductible for federal income tax purposes. As of February 28, 2019, the Company has made contributions of \$784 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 2019 to ensure the qualified plans continue to be adequately funded given the current market conditions. The Company made contributions of \$810 in the first six months of the prior year.

In fiscal 2019, the Company adopted ASU No. 2017-07, "Compensation — Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." This resulted in the reclassification of \$326, previously reported in selling, general and administrative expense to other income (expense) for the six-month period ended February 28, 2018 (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 February 28, 2019 and August 31, 2018 represent investments that are restricted for use in nonqualified retirement savings plans 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 February 28, 2019 and August 31, 2018:

	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	February 28, 2019	\$ 1,118	\$ 968	150	—
Restricted investments	August 31, 2018	\$ 1,090	\$ 961	129	—

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The following table presents the fair value of the Company's long-term debt (including any current portion of long-term debt) as of February 28, 2019 and August 31, 2018, 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	February 28, 2019	\$ 6,000	\$ —	6,000	—
Long-term debt	August 31, 2018	\$ 25,000	\$ —	25,000	—

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. See Note 16 to the condensed consolidated financial statements for additional information on long-term debt.

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## 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 Plans	Foreign Currency Translation Adjustment	Total
Balance at August 31, 2017	\$ 121	\$ (6,181)	\$ (7,409)	\$ (13,469)
Other comprehensive gains (losses) before reclassifications (1)	49	—	3,670	3,719
Reclassifications to net income of previously deferred (gains) losses (2)	(67)	185	—	118
Other comprehensive income (loss)	(18)	185	3,670	3,837
Balance at February 28, 2018	\$ 103	\$ (5,996)	\$ (3,739)	\$ (9,632)
Balance at August 31, 2018	\$ 126	\$ (5,796)	\$ (6,666)	\$ (12,336)
Other comprehensive gains (losses) before reclassifications (3)	(11)	—	538	527
Reclassifications to net income of previously deferred (gains) losses (4)	3	527	—	530
Other comprehensive income (loss)	(8)	527	538	1,057
Balance at February 28, 2019	\$ 118	\$ (5,269)	\$ (6,128)	\$ (11,279)

- (1) Net of tax benefit of \$17, \$0 and \$0, respectively.  
(2) Net of tax expense of \$24, tax benefit of \$59 and \$0, respectively.  
(3) Net of tax expense of \$5, \$0 and \$0, respectively.  
(4) Net of tax benefit of \$1, \$184 and \$0, respectively.

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

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	Three Months Ended		Six Months Ended		Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income
	February 28, 2019	2018	February 28, 2019	2018	
Gains on Restricted Investments: Realized loss (gain) on sale of restricted investments	\$ (13)	\$ (90)	\$ 4	\$ (91)	Selling, general and administrative expenses
Tax expense (benefit)	3	23	(1)	24	
Gain net of tax	\$ (10)	\$ (67)	\$ 3	\$ (67)	
Loss on Funded Pension Plan adjustments: Amortization of prior pension service costs and unrecognized losses	\$ 119	\$ 122	\$ 238	\$ 244	Other income (expense)
Settlement and curtailment loss	273	—	473	—	Other income (expense)
Tax expense (benefit)	(101)	(17)	(184)	(59)	
Loss net of tax	\$ 291	\$ 105	\$ 527	\$ 185	
Total net loss reclassified for the period	\$ 281	\$ 38	\$ 530	\$ 118	

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## Note 14 — Acquisitions

## Acquisition of Zappa Stewart

On December 31, 2017, the Company acquired Zappa Stewart, an advanced superabsorbent polymer (SAP) formulator and solutions provider, with operations located in Hickory and McLeansville, NC. The business was acquired for a purchase price of \$73,469, after final 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 by a combination of a \$65,000 draw on Chase's existing revolving credit facility and available cash on hand. Zappa Stewart's protective materials technology is complementary to Chase's current specialty chemicals offerings. This acquisition is in line with Chase's core strategies and extends its reach into growing medical and consumer applications.

Since the effective date for this acquisition, December 31, 2017, the financial results of the acquired business have been included in the Company's financial statements within the Industrial Materials operating segment, in the specialty chemical intermediates 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 \$393 of acquisition-related costs during the second quarter of 2018 to acquisition-related costs.

The Company finalized purchase accounting in the three-month period ended November 30, 2018, with no adjustments made to the preliminary amounts recorded at August 31, 2018. 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	\$ 3,670
Inventory	6,796
Prepaid expenses and other current assets	12
Property, plant & equipment	1,872
Goodwill	34,138
Intangible assets	30,240
Deferred tax liability	(2,626)

Accounts payable and accrued liabilities	(633)
Total purchase price	\$ 73,469

The excess of the purchase price over the net tangible and intangible assets acquired resulted in goodwill of \$34,138 that is largely attributable to the synergies and economies of scale from combining the operations, technologies and research and development capabilities of Zappa Stewart and Chase, particularly as it pertains to the expansion of the Company's product and service offerings, the established workforce and marketing efforts. A portion of this goodwill, \$23,990, is deductible for income tax purposes.

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

Intangible Asset	Amount	Weighted Average Useful life
Customer relationships	\$ 28,500	7.9 years
Technology	900	7 years
Trade names	840	4 years
Total intangible assets	\$ 30,240	

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## Supplemental Pro Forma Data

The following table presents the pro forma results of the Company for the three-month and six-month periods ended February 28, 2018 (prior year) as though the Zappa Stewart acquisition described above occurred on September 1, 2016 (the first day of fiscal 2017). The actual revenue and expenses for the acquired business are included in the Company's consolidated results beginning on December 31, 2017. For the six months ended February 28, 2019, revenue and net income for the Zappa Stewart operations included in the condensed consolidated statement of operations were \$13,075 and \$667, respectively, with results inclusive of amortization expense, but not inclusive of any interest or financing costs. The pro forma results include adjustments for the estimated amortization of intangibles, acquisition-related costs, sale of inventory step-up cost, interest expense assuming the entire \$65,000 draw remained outstanding through December 31, 2017 (at the interest rate effective at the date of borrowing) and the income tax impact of the pro forma adjustments at the statutory rate of 26% for fiscal 2018. 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, 2016.

	Three Months Ended February 28, 2018	Six Months Ended February 28, 2018
Revenue	\$ 67,980	\$ 136,213
Net income	11,671	20,365
Net income available to common shareholders, per common and common equivalent share		
Basic earnings per share	\$ 1.24	\$ 2.17
Diluted earnings per share	\$ 1.24	\$ 2.16

Note 15 — Exit Costs Related to Idle Facility

On June 25, 2018, the Company announced to its employees the planned closing of its Pawtucket, RI manufacturing facility effective August 31, 2018. This is in line with the Company's ongoing efforts to consolidate its manufacturing plants and streamline its existing processes. The manufacture of products previously produced in the Pawtucket, RI facility was substantially moved to Company facilities in Oxford, MA and Lenoir, NC during a two-month transition period. In the fourth quarter of fiscal 2018, the Company expensed \$1,272 related to the closure, including: (a) cash-related employee-related, logistics and uncapitalized facilities improvement costs of \$590; and (b) non-cash-related accelerated depreciation expense of \$682. The Company also recognized \$260 in expense related to the move in the three-month period ended November 30, 2018, with no additional expense recognized in the quarter ended February 28, 2019. Future costs related to this move are not anticipated to be significant to the condensed consolidated financial statements.

Note 16 — Long-Term Debt

On December 15, 2016, the Company entered an Amended and Restated Credit Agreement (the "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 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 Credit Agreement contains customary affirmative and negative covenants that, among other things, restrict our ability to incur additional indebtedness and require 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 February 28, 2019. The Credit Agreement is guaranteed by all of Chase's direct and indirect domestic subsidiaries, including NEPTCO, which collectively had a carrying value of \$219,488 at February 28, 2019. The Credit Agreement was entered both to refinance our previously





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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 Credit Agreement (the “Revolving Facility”) and any 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 February 28, 2019, the applicable interest rate was 3.6% per annum and the outstanding principal amount was \$6,000. The 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 Revolving Facility, in which case, interest payments shall be due with respect to such portion of the Revolving Facility on the last business day of each quarter.

Subject to certain conditions set forth in the Credit Agreement, the Company may elect to convert all or a portion of the outstanding Revolving Facility into a term loan (each, a “Term Loan”), which shall be payable quarterly in equal installments sufficient to amortize the original principal amount of such 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 Credit Agreement at any time during the term of the agreement, subject to customary notice requirements.

In December 2017 (the prior fiscal year), the Company utilized \$65,000 of the Credit Agreement to finance the majority of the acquisition cost of Zappa Stewart. See Note 14 to the condensed consolidated financial statements for additional information on this acquisition. The Company paid down \$40,000 of the outstanding balance in fiscal 2018, and made additional principal payments of \$10,000 and \$9,000 in the first and second quarters of fiscal 2019, respectively, resulting in an outstanding balance of \$6,000 at February 28, 2019. In March 2019, subsequent to the second fiscal quarter 2019, the Company made an additional principal payment of \$1,000.

Note 17 — Sale of License

In November 2017, the Company entered a license agreement with an unrelated party to sell a license, including intellectual property, and certain construction in process assets, with a net book value of \$26 and all related to the manufacturing of certain structural composite materials. In the second fiscal quarter of 2018, the transaction was finalized for gross consideration of \$1,111 comprising cash proceeds of \$1,000 and \$111 in foreign tax consideration paid by the buyer on Chase's behalf. This transaction resulted in a gain of \$1,085, which was recorded in the Company's condensed consolidated statement of operations as a gain on sale of license during the fiscal quarter ended February 28, 2018.

In relation to this license agreement, the purchaser also entered into a royalty agreement with the Company. The purchaser will make royalty payments to Chase under certain conditions based on the volume of future sales of certain structural composite materials manufactured by the purchaser. Revenue recognized related to this royalty agreement in fiscal 2019 and 2018 was not material.

#### Note 18 — Income Taxes

For the three months ended February 28, 2019 and 2018, the Company recorded income taxes of \$1,659 and \$1,618 on income before income taxes of \$6,932 and \$11,740, respectively. For the six months ended February 28, 2019 and 2018, the Company recorded income taxes of \$4,644 and \$5,902 on income before income taxes of \$18,740 and \$24,339, respectively. The effective tax rate for the three months ended February 28, 2019 and 2018 was 23.9% and 13.8%, respectively. The effective tax rate for the six months ended February 28, 2019 and 2018 was 24.8% and 24.2%, respectively. The lower effective rate in the second quarter of the prior year was due to the following: (a) the initial adoption of the Tax Cuts and Jobs Act of 2017 (the "Tax Act"), described in more detail below; and (b) a discrete tax benefit of \$977 related to stock-based compensation, recognized in relation to the Company's early adoption of ASU 2016-09.

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On December 22, 2017, President Trump signed into law the Tax Act. The Tax Act impacted the U.S. statutory Federal tax rate that the Company will be subject to going forward, reducing it from 35% to 21%. As the Company has an August 31 fiscal year-end, the lower corporate income tax rate was phased in during fiscal 2018 (the year of initial adoption), resulting in the Company applying U.S. statutory Federal rates of 21% and a blended rate of 25.7% for our fiscal years ending August 31, 2019 and 2018, respectively.

To transition to the reduced U.S. corporate tax rate, an adjustment was required to be made to our net U.S. deferred tax assets. During fiscal 2018, predominantly in the three months ended February 28, 2018 (the second fiscal quarter of 2018), the Company recorded initial provisional adjustments to the U.S. deferred tax assets and liabilities and uncertain tax positions resulting in a net discrete tax expense of \$681 recorded to the condensed consolidated statement of operations. This net discrete tax expense recorded in fiscal 2018 is the result of the following: (a) a \$379 tax benefit resulting from the remeasurement and reclassification of our existing deferred tax liability related to unrepatriated foreign earnings to accrued income tax balance (discussed in more detail below); (b) a \$917 tax expense for the remeasurement of the remaining net U.S. deferred tax assets in recognition of the new lower Federal rate; and (c) a \$143 tax expense recorded as the result of remeasuring the Federal benefit on our uncertain tax positions. During fiscal 2019, no additional transitional adjustments were made related to the adoption of the Tax Act in the quarter ended November 30, 2018, and only immaterial adjustments were made in the quarter ended February 28, 2019.

The Tax Act includes a transition tax or “toll charge”, which is a one-time tax charge on unrepatriated foreign earnings. The calculation of accumulated foreign earnings requires an analysis of each foreign entity’s financial results going back to 1986. During fiscal 2018, the Company recorded a provisional transition tax adjustment associated with its accumulated unrepatriated foreign earnings reducing long-term deferred tax liabilities by \$2,298 and increasing short and long-term accrued income taxes by \$153 and \$1,766, respectively (the short-term payable representing eight percent of the total amount due, the amount payable within the first year as per the Tax Act). The difference between the decrease in the deferred tax liabilities for unrepatriated foreign earnings and the increase in accrued income taxes, \$379, was recorded as a discrete tax benefit in fiscal 2018.

Under the guidance set forth in the SEC's Staff Accounting Bulletin No. 118 (“SAB 118”), the Company may record provisional amounts for the impact of the Tax Act. For the second quarter of fiscal 2018, the Company made a provisional and reasonable estimate of the effects of the Tax Act on its existing deferred tax balances, including a provisional adjustment for the toll charge, and made provisional adjustments to these initially recorded amounts in the third and fourth quarters of fiscal 2018. The Company made complete and final adjustments during the quarter ended February 28, 2019 (the second quarter of fiscal 2019), which were not material in nature.

During the quarter ended November 30, 2018 (the first quarter of fiscal 2019), the Company began recognizing an additional component of total Federal tax expense, the tax on Global Intangible Low-Taxed Income (“GILTI”) provision of the Tax Act, which became applicable to the Company in fiscal 2019. The Company elected to account for GILTI as a period cost, and therefore included GILTI expense in the effective tax rate calculation. This provision did not have a material effect on the effective tax rate for the quarter or six-month period ended February 28, 2019.

The Company concluded that the Base Erosion and Anti Abuse Tax (“BEAT”) provision of the Tax Act (which also became applicable to the Company in fiscal 2019) had no effect on our effective tax rate for the current quarter or year-to-date period. Additionally, the Company is deferring the application of Foreign-Derived Intangible Income (“FDII”) for the current period, in anticipation of further guidance and the establishment of industry standards by the U.S. Treasury Department and trade associations.

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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 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, 2018.

Overview

Driven predominantly by inorganic sales growth from our December 31, 2017 acquisition of our Zappa Stewart superabsorbent polymers business, revenue grew over the second quarter and first half of the prior year. Our Industrial Materials segment, which includes the operations of Zappa Stewart, surpassed the prior year for both periods, enabling the achievement of companywide growth. The Construction Materials segment negatively impacted topline comparative results for both the quarter and year-to-date period. Because its sales are heavily dependent on infrastructure-related projects and maintenance work in North America, our Construction Materials segment customarily experiences a seasonal downturn in the winter months, our second fiscal quarter. These net increases in overall revenue came at a time when our gross margin continued to experience compression. For both the current quarter and year-to-date periods, we experienced a companywide unfavorable sales mix, as our lower margin products constituted a comparatively higher portion of total sales. Further, elevated raw material cost trends continued for the quarter, as did our partial passing along of these increased costs to the market via sales price increases instituted for our affected products. Material costing headwinds are in part the results of supply and demand imbalances and have become further complicated by the shifting positions of both Brexit and China tariffs. With a continued focus on establishing long-term operational efficiencies at our Oxford, MA and Lenoir, NC facilities for cable material products previously manufactured in our Pawtucket, RI location, we continued to incur comparatively unfavorable additional expenses at the affected facilities in the second quarter. Given increased year-over-year demand for our cable material products during this time of transition, our operational costs were higher in part to maintain service levels.

Sales from our Industrial Materials segment’s products surpassed both the prior year periods on net increases of volume and price for our specialty chemical intermediates, cable materials, pulling and detection and specialty products product lines. Zappa Stewart whose financial results are now included in our specialty chemical intermediates product line, provided an additional lift to the overall organic growth achieved by the segment on a year-to-date basis, and more than offset a “same-store” decrease for the quarter. Sales from our structural composites, electronic materials and electronic and industrial coatings product lines were down compared to both prior year periods.

Our Construction Materials segment's sales decreased compared to the prior year for both the quarter and year-to-date period ended February 28, 2019. Our pipeline coatings and coating and lining systems product lines drove the overall decreases. With a continued tight credit market across the Middle East for water infrastructure project work, our U.K.-produced water and waste water pipeline products experienced the segment's sharpest declines. Our building envelope and bridge and highway product lines experienced revenue growth for both the current quarter and year-to-date period, partially offsetting the comparatively unfavorable sales results of the segment's other product lines.

During the second half of fiscal 2019, mergers, acquisitions and divestitures, marketing and product development efforts, and operational consolidation will remain the foundation of our strategy for smart and sustainable growth. This strategy includes our ongoing efforts to improve efficiencies at: (a) our Oxford, MA and Lenoir, NC locations, which recently absorbed the legacy operations of our Pawtucket, RI facility; and (b) our recently acquired Zappa Stewart locations. Management will also continue to focus on other previously acquired businesses, including Resin Designs (acquired in fiscal 2017) and the polymeric microspheres and the polyurethane dispersions businesses (both acquired in fiscal 2015). An impairment was recorded on the goodwill of the polyurethane dispersions business in the second quarter of 2019, based on changes in expected customer demands.

Our balance sheet remains strong, with cash on hand of \$25,088,000 and a current ratio of 5.1 at February 28, 2019. At the end of our second fiscal quarter, the outstanding principal balance of our \$150,000,000 revolving credit facility was \$6,000,000.

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We have two reportable operating 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-related 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; polyurethane dispersions, polymeric microspheres and superabsorbent polymers.
	Electronic and Industrial Coatings	
	Specialty Products	
	Pulling and Detection	
	Electronic Materials	
Construction Materials	Structural Composites (1)	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.
	Specialty Chemical Intermediates	
	Coating and Lining Systems	
	Pipeline Coatings	
	Building Envelope	
	Bridge and Highway	

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(1) Product line was substantially divested with the sale of the structural composites rod business on April 20, 2018. Custom manufacturing-related services performed for the purchaser of the structural composites rod business subsequent to the sale are included within the specialty products product line.



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## Results of Operations

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

	Three Months Ended February 28, 2019	% of Total Revenue		Three Months Ended February 28, 2018	% of Total Revenue		Six Months Ended February 28, 2019	% of Total Revenue		Six Months Ended February 28, 2018	% of Total Revenue	
Revenue												
Industrial Materials	\$ 57,265	86	%	\$ 55,267	84	%	\$ 117,425	84	%	\$ 105,252	82	%
Construction Materials	9,366	14	%	10,608	16	%	21,709	16	%	22,540	18	%
Total	\$ 66,631			\$ 65,875			\$ 139,134			\$ 127,792		
		% of			% of			% of			% of	
	Three Months Ended February 28, 2019	Segment Revenue		Three Months Ended February 28, 2018	Segment Revenue		Six Months Ended February 28, 2019	Segment Revenue		Six Months Ended February 28, 2018	Segment Revenue	
Income before income taxes												
Industrial Materials	\$ 12,269	(a) 21	%	\$ 16,161	(c) 29	%	\$ 27,072	(e) 23	%	\$ 31,526	(c) 30	%
Construction Materials	2,384	25	%	2,372	22	%	6,850	32	%	6,618	29	%
Total for reportable segments	14,653	22	%	18,533	28	%	33,922	24	%	38,144	30	%
Corporate and Common Costs	(7,721)	(b)		(6,793)	(d)		(15,182)	(f)		(13,805)	(d)	
Total	\$ 6,932	10	%	\$ 11,740	18	%	\$ 18,740	13	%	\$ 24,339	19	%

(a) Includes \$2,410 of loss on impairment of goodwill related to the Company's polyurethane dispersions business

(b) Includes \$273 of pension-related settlement costs due to the timing of lump-sum distributions

- (c) Includes \$1,530 of expenses related to inventory step-up in fair value attributable to the December 2017 acquisition of Zappa Stewart and \$1,085 on the gain on sale of license related to the structural composites product line recorded in the second quarter of fiscal 2018
- (d) Includes \$393 in acquisition-related expenses attributable to the December 2017 acquisition of Zappa Stewart
- (e) Includes \$260 of expense related to the closure and exit of our Pawtucket, RI location recognized in the first quarter of fiscal 2019 and \$2,410 of loss on impairment of goodwill recorded in the second quarter of fiscal 2019 related to the Company's polyurethane dispersions business
- (f) Includes \$473 of pension-related settlement costs due to the timing of lump-sum distributions

#### Total Revenue

Total revenue increased \$756,000 or 1% to \$66,631,000 for the quarter ended February 28, 2019, compared to \$65,875,000 in the same quarter of the prior year. Total revenue increased \$11,342,000 or 9% to \$139,134,000 in the fiscal year-to-date period compared to \$127,792,000 in the same period in fiscal 2018.

Revenue in our Industrial Materials segment increased \$1,998,000 or 4% and \$12,173,000 or 12% in the current quarter and year-to-date period, respectively. The increases in this segment as compared to the prior year periods were primarily due to the following for the current quarter and year-to-date period, respectively: (a) our specialty chemical intermediates product line, which had mostly volume-driven net increases of \$1,651,000 and \$7,856,000 due to the inclusion of our December 31, 2017 acquired Zappa Stewart business, which had sales of \$6,544,000 and \$13,075,000, partially offset by volume-driven reductions in sales of our polyurethane dispersion products in the current year quarter and year-to-date period based on customer buying patterns, and with sales of our polymeric microspheres products being slightly down for the quarter, but still up on a year-to-date basis; (b) volume- and price-driven increases totaling \$1,346,000 and \$4,101,000 in our cable materials products, which continued to have strong demand from customers servicing the communication cable industry; (c) our pulling and detection product line had volume and price increases totaling \$790,000 and \$1,979,000 on continued strong demand by the utilities and telecommunication industries; and (d) our

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specialty materials products had sales increases of \$42,000 and \$1,406,000, which included \$420,000 and \$1,383,000 in lower-margin custom manufacturing-related services revenue for the quarter and year-to-date periods. The segment's net increases in sales was negatively impacted in the current quarter and year-to-date period by: (a) sales volume decreases of \$992,000 and \$1,919,000 for our structural composites product line, which, following the divestiture of the structural composites rod business in April 2018, did not record any revenue in the current year; (b) sales volume decreases of \$279,000 and \$669,000 for our electronic materials product line; and (c) our electronic and industrial coatings product line which had predominantly sales-volume-driven decreases of \$560,000 and \$581,000, with product offerings related to the previously acquired Resin Designs business most significantly affected for the periods.

Compared to the prior year second quarter and year-to-date period, revenue from our Construction Materials segment decreased \$1,242,000 or 12% and \$831,000 or 4%, respectively. The segment's revenue decreases were chiefly driven by sales decreases for our Rye, U.K.-produced water infrastructure pipeline products, with sales of our domestically-produced oil and gas pipeline products being only slightly down compared to both the prior quarter and year-to-date period. Total quarter and year-to-date decreases for the combined pipeline products were \$1,773,000 and \$2,258,000, respectively. Our coating and lining systems had mainly sales-volume driven decreases of \$696,000 and \$54,000 as compared to the prior year periods. The segment's net decreases in sales were partially offset in the current quarter and year-to-date period, respectively, by: (a) our building envelope product line achieving sales favorable to the prior year by \$1,158,000 and \$929,000; and (b) our bridge and highway product line's volume- and price-driven increases totaling \$69,000 and \$552,000.

#### Cost of Products and Services Sold

Cost of products and services sold increased \$1,222,000 or 2.9% to \$43,213,000 for the quarter ended February 28, 2019, compared to \$41,991,000 in the prior year quarter. Cost of products and services sold increased \$10,902,000 or 14% to \$89,788,000 in the first six months of fiscal 2019, compared to \$78,886,000 in the comparative year-to-date period.

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				Six Months Ended			
	February 28, 2019		2018		February 28, 2019		2018	
Cost of products and services sold	66	%	64	%	66	%	62	%
Industrial Materials	66	%	63	%	58	%	58	%
Construction Materials	65	%	64	%	65	%	62	%
Total	65	%	64	%	65	%	62	%

Cost of products and services sold in our Industrial Materials segment was \$37,558,000 and \$77,167,000 in the current quarter and year-to-date periods compared to \$35,268,000 and \$65,732,000 in the comparable periods in the prior year. Cost of products and services sold in our Construction Materials segment was \$5,655,000 and \$12,621,000 for the quarter and year-to-date period ended February 28, 2019, compared to \$6,723,000 and \$13,154,000 in the same periods of the prior year. As a percentage of revenue, cost of products and services sold increased for the Industrial Materials segment for both the quarter and year-over-year period. As a percentage of revenue, cost of products and services sold decreased for the Construction Materials segment for the quarter and remained consistent for the year-over-year period. These changes were primarily due to: (a) a less favorable sales mix, most predominantly felt in our Industrial Materials segment, as our lower margin products constituted a comparatively higher portion of total sales; (b) increasing supply and demand imbalances and tariffs causing rising raw material costs not fully offset by price increases, most acutely seen in our Industrial Materials segment; and (c) production inefficiencies and additional costs to maintain service levels, which are not seen as long-term additions to our manufacturing run rates, at our Oxford, MA and Lenoir, NC locations following the consolidation of our former Pawtucket, RI operations. These increased manufacturing expenses following the consolidation, which are beyond the \$260,000 recognized in the first quarter as part of exit costs related to idle facility, comprise additional labor, contracting, freight and material costs incurred as production capabilities and workflows at the new locations are being optimized. With the composition of our finished goods, and the markets we serve, the costing of certain commodities (including petroleum-based solvents, films, yarns, polymers and nonwovens, aluminum and copper foils, specialty papers, and various resins, adhesives and inks) both directly and indirectly affects

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the purchase price of our raw materials and the market demand for our product offerings. The Company diligently monitors raw material and commodities pricing across all its product lines in its efforts to preserve margins.

### Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$1,111,000 or 9% to \$13,086,000 for the quarter ended February 28, 2019 compared to \$11,975,000 in the prior year quarter. Selling, general and administrative expenses increased \$2,577,000 or 11% to \$26,448,000 in the fiscal year-to-date period compared to \$23,871,000 in the same period in fiscal 2018. As a percentage of revenue, selling, general and administrative expenses represented 20% and 19% for the current second quarter and fiscal year-to-date period, respectively, compared to 18% and 19% for the same respective periods in the prior year. The nominal increase for both the current fiscal quarter and year-to-date period compared to the prior year periods, respectively, was primarily attributable to: (a) increased amortization expense of \$193,000 and \$992,000, predominantly related to intangible assets acquired in our December 2017 acquisition of Zappa Stewart; (b) increased research and development costs of \$294,000 and \$473,000, after the addition of the established research and development department within Zappa Stewart; and (c) (decreased)/increased selling and commission expense of (\$66,000) and \$341,000, principally related to sales growth on our highest commissionable products in the current year-to-date period, coupled with the addition of the established sales force of Zappa Stewart.

### Loss on Impairment of Goodwill

The ordering patterns of our polyurethane dispersions reporting unit's customers during the three-month period ended February 28, 2019, especially those in the automotive industry, combined with a decrease in the reporting unit's backlog of customer orders believed to be firm as of February 28, 2019 indicated an impairment in the carrying value of the reporting unit might have occurred. As such, we performed an impairment test on our long-lived assets related to our polyurethane dispersions reporting unit, part of the Industrial Materials operating segment, in accordance with ASC Topic 350, "Intangibles — Goodwill and Other" and ASC Topic 360, "Disclosure — Impairment or Disposal of Long-Lived Assets." As a result of impairment testing, which included first testing long-lived assets other than goodwill for impairment under applicable guidance, the Company recorded a charge of \$2,410,000 to loss on impairment of goodwill within the condensed consolidated statement of operations during the quarter ended February 28, 2019.

### Exit Costs Related to Idle Facility

On June 25, 2018, the Company announced to its employees the planned closing of its Pawtucket, RI manufacturing facility effective August 31, 2018. This is in line with the Company's ongoing efforts to consolidate its manufacturing plants and streamline its existing processes. The manufacture of products previously produced in the Pawtucket, RI

facility was substantially moved to existing Company facilities in Oxford, MA and Lenoir, NC during a two-month transition period, with certain additional expenditures recognized in the first fiscal quarter of 2019. In the fourth quarter of fiscal 2018, \$1,272,000 was expensed related to the closure, including: (a) cash-related employee-related, logistics and uncapitalized facilities improvement costs of \$590,000; and (b) non-cash-related accelerated depreciation expense of \$682,000. The Company expensed \$260,000 in the three-month period ended November 30, 2018 related to the move, with no additional expense recognized in the quarter ended February 28, 2019. Future costs related to this move are not anticipated to be significant to the Company's Condensed Consolidated Financial Statements.

#### Acquisition-Related Costs

In the second quarter of fiscal 2018, the Company incurred \$393,000 of costs related to our acquisition of Stewart Superabsorbents, LLC ("SSA, LLC" or "Zappa Stewart"). 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 second fiscal quarter of 2018.

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Interest Expense

Interest expense decreased \$278,000 or 63% to \$162,000 for the quarter ended February 28, 2019 compared to \$440,000 in the prior year second quarter. Interest expense decreased \$119,000 or 25% to \$366,000 for the fiscal year-to-date period compared to \$485,000 in the same period in fiscal 2018. The decrease in interest expense in the current quarter is the result of the decreased average outstanding balance of our revolving debt facility, following the \$65,000,000 draw on the facility in December 2017 (the second fiscal quarter of the prior year) to substantially fund the Company's acquisition of Zappa Stewart.

In fiscal 2018, subsequent to the December 2017 borrowing, the Company made \$40,000,000 in payments against the principal. In the first and second quarters of fiscal 2019, Chase made additional \$10,000,000 and \$9,000,000 principal payments, respectively, bringing the balance to \$6,000,000 at February 28, 2019.

Gain on Sale of License

In November 2017, the Company entered an agreement with an unrelated party to sell a license, including certain intellectual property, and sell certain construction in process assets, both related to the manufacturing of certain structural composite materials. In the second fiscal quarter of 2018, the transaction was finalized for gross consideration of \$1,111,000 comprising cash proceeds of \$1,000,000 and foreign tax consideration paid by the purchaser on Chase's behalf of \$111,000. This transaction resulted in a gain of \$1,085,000, which was recorded in the Company's condensed consolidated statement of operations as a gain on sale of license during the fiscal quarter ended February 28, 2018.

Other Income (Expense)

Other income (expense) was an expense of \$828,000 in the quarter ended February 28, 2019 compared to an expense of \$421,000 in the same period in the prior year, an increase of \$407,000. Other income (expense) was an expense of \$1,122,000 for the fiscal year-to-date period compared to an expense of \$903,000 in the same period in the prior year, an increase of \$219,000. Other income (expense) primarily includes 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, non-service cost components of periodic pension expense (including pension-related settlement costs due to the timing of lump-sum distributions), interest income, rental income and other non-trade/non-royalty/non-commission receipts. Other income (expense) in the current quarter and year-to-date period was predominantly the non-service cost components of periodic pension expense, including \$273,000 and \$473,000 of pension related settlement costs due to the timing of lump-sum disbursements.

## Income Taxes

The effective tax rates for the second quarter and the six-month periods ended February 28, 2019 were 23.9% and 24.8%, respectively, and 13.8% and 24.2% for the second quarter and the six-month periods ended February 28, 2018, respectively.

The current and prior year effective tax rates were most prominently affected by the passage of the Tax Cuts and Jobs Act (the “Tax Act”) in December 2017, and in the case of the prior year periods a discrete tax benefit of \$977 related to stock-based compensation, recognized in relation to the Company’s early adoption of ASU 2016-09. For fiscal 2019, the Company will utilize the new 21% Federal tax rate enacted by the Tax Act. During fiscal 2018 (the prior year), Chase utilized a blended rate of 25.7%, based on a combination of four months of operations under the old 35% corporate income tax rate, and eight months at the new 21% rate. Please see Note 18 — “Income Taxes” to the Condensed Consolidated Financial Statements for further discussion of the effects of the Tax Act.



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Net Income

Net income decreased \$4,849,000 or 48% to \$5,273,000 in the quarter ended February 28, 2019 compared to \$10,122,000 in the prior year second quarter. The decrease in net income in the second fiscal quarter was primarily due to a lower recognized gross margin on sales, a loss on impairment of goodwill recognized in the quarter, a nonrecurring gain on sale of license in the prior year period and a more favorable effective tax rate recognized in the prior year second fiscal quarter on the adoption of the Tax Act and recognition of a discrete tax benefit on stock-based compensation, which did not recur in the current year.

Net income decreased \$4,341,000 or 24% to \$14,096,000 in the six months ended February 28, 2019 compared to \$18,437,000 in the same period in the prior year. The decrease in net income in the current six-month period was primarily due to a loss on impairment of goodwill, increased amortization expense recognized in the current period and related to our December 2017 acquisition of Zappa Stewart, a nonrecurring gain on sale of license in the prior year period and increased pension-related settlement costs due to the timing of lump-sum disbursements in the current year-to-date period.

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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 also useful to investors. EBITDA is useful in comparing the core operations of the business from period to period by removing the impact of the Company's capital structure (through interest expense), asset base (through depreciation and amortization) and tax rate, and in evaluating operating performance relative to others in the industry. Adjusted EBITDA allows for comparison to the Company's performance in prior periods without the effect of items that, by their nature, tend to obscure the Company's core operating results due to the potential variability across periods based on their timing, frequency and magnitude. Free Cash Flow provides a means for measuring the cash generated from operations that is available for mandatory obligations, including interest payments and debt repayment, and discretionary investment opportunities such as funding acquisitions, product and market development and paying dividends. As a result, management believes these metrics, which are commonly used by financial analysts and others in the industries in which the Company operates, enhance the ability of investors to analyze trends in the Company's business and evaluate the Company's performance relative to peer companies and the past performance of the Company itself. EBITDA, Adjusted EBITDA and Free Cash Flow are non-U.S. 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, exit costs related to facility consolidation, 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 solely 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.

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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		Six Months Ended	
	February 28,		February 28,	
	2019	2018	2019	2018
Net income	\$ 5,273	\$ 10,122	\$ 14,096	\$ 18,437
Interest expense	162	440	366	485
Income taxes	1,659	1,618	4,644	5,902
Depreciation expense	1,253	1,364	2,491	2,618
Amortization expense	3,112	2,919	6,225	5,233
EBITDA	\$ 11,459	\$ 16,463	\$ 27,822	\$ 32,675
Loss on impairment of goodwill (a)	2,410	—	2,410	—
Pension settlement costs (b)	273	—	473	—
Exit costs related to idle facility (c)	—	—	260	—
Cost of sale of inventory step-up (d)	—	1,530	—	1,530
Acquisition-related costs (e)	—	393	—	393
Gain on sale of license (f)	—	(1,085)	—	(1,085)
Adjusted EBITDA	\$ 14,142	\$ 17,301	\$ 30,965	\$ 33,513

- (a) Represents loss on impairment of goodwill related to the polyurethane dispersions business in the second quarter of fiscal 2019
- (b) Represents pension-related settlement costs due to the timing of lump-sum distributions
- (c) Represents Pawtucket, RI facility closure costs recognized in the first quarter of fiscal 2019
- (d) Represents expenses related to inventory step-up in fair value related to the December 2017 acquisition of Zappa Stewart
- (e) Represents costs related to the December 2017 acquisition of Zappa Stewart
- (f) Represents fiscal 2018 second quarter gain on sale of a license related to the structural composites product line

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		Six Months Ended	
	February 28,		February 28,	
	2019	2018	2019	2018
Net cash provided by operating activities	\$ 5,726	\$ 13,430	\$ 17,303	\$ 19,984
Purchases of property, plant and equipment	(665)	(735)	(1,304)	(1,586)
Free Cash Flow	\$ 5,061	\$ 12,695	\$ 15,999	\$ 18,398

## Liquidity and Sources of Capital

Our overall cash and cash equivalents balance decreased \$9,740,000 to \$25,088,000 at February 28, 2019, from \$34,828,000 at August 31, 2018. The decreased cash balance is primarily attributable to \$19,000,000 in principal debt pay down and a cash dividend payment of \$7,522,000, partially offset by \$17,303,000 of cash provided by operations. Of the above-noted amounts, \$20,735,000 and \$28,521,000 were held outside the United States by Chase Corporation and our foreign subsidiaries as of February 28, 2019 and August 31, 2018, respectively. Given our cash position and borrowing capability in the United States and the potential for increased investment and acquisitions in foreign jurisdictions, prior to the second quarter of fiscal 2018 (prior year), we did not have a history of repatriating a significant portion of our foreign cash. With the passage of the Tax Cuts and Jobs Act (the “Tax Act”) in the second fiscal quarter of 2018, significant changes in the Internal Revenue Code were enacted, changing the U.S. taxable nature of previously unrepatriated foreign earnings. During the first half of fiscal 2019, and fiscal 2018 (following the passage of the Tax Act), the Company repatriated \$10,060,000 and \$10,499,000 in U.K. foreign earnings, respectively. Please see Note 18

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— “Income Taxes” to the Condensed Consolidated Financial Statements for further discussion of the effects of the Tax Act.

Cash flow provided by operations was \$17,303,000 in the first six months of fiscal year 2019 compared to \$19,984,000 in the same period in the prior year. Cash provided by operations during the current period was primarily related to operating income. Negatively impacting our cash flow from operations were certain increases in inventory, as the Company continued to make opportunistic purchases of nonperishable materials to: (a) take advantage of current costs, which were believed to be lower than future costs; and (b) to assure certainty of supply.

The ratio of current assets to current liabilities was 5.1 as of February 28, 2019 compared to 4.4 as of August 31, 2018. The ratio increased over the first six months of fiscal 2019 primarily as a result of increased inventory and a decrease in accounts payable and accrued payroll and other compensation, partially tempered by a decrease in both cash and cash equivalents and accounts receivable.

Cash flow used in investing activities of \$975,000 was primarily due to cash spent on capital purchases of machinery and equipment in fiscal 2019, partially offset by the final escrow payment received by the Company for our April 2017 sale of the fiber optic cable components business.

Cash flow used in financing activities of \$26,340,000 was largely due to an incremental pay down during the period of the debt we incurred in the second quarter of fiscal 2018 (the prior year) to acquire Zappa Stewart, and payment of our annual dividend in December 2018.

On November 13, 2018, we announced a cash dividend of \$0.80 per share (totaling \$7,522,000). The dividend was paid on December 5, 2018 (the second quarter of fiscal 2019) to shareholders of record on November 23, 2018.

On December 15, 2016, we entered an Amended and Restated Credit Agreement (the “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 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 Credit Agreement contains customary affirmative and negative covenants that, among other things, restrict our ability to incur additional indebtedness and require 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 February 28, 2019. The applicable interest rate for the 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 February 28,

2019, the applicable interest rate was 3.6% per annum and the outstanding principal amount was \$6,000,000.

We have several ongoing 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 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.

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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, 2018 for a complete discussion of our contractual obligations.

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 and recently adopted 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. Other than changes which came as a result of adopting ASC 606 “Revenue from Contracts with Customers” which are discussed within Note 2 — “Recent Accounting Standards” and Note 9 — “Revenue from Contracts with Customers” of the Condensed Consolidated Financial Statements contained herein, management believes that there have been no material changes during the six months ended February 28, 2019 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, 2018.

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

We limit the amount of credit exposure to any one issuer. At February 28, 2019, 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 February 28, 2019, the Company had cash balances in the following foreign currencies (with USD equivalents, dollars in thousands):

Currency Code	Currency Name	USD Equivalent at February 28, 2019
GBP	British Pound	\$ 8,540
EUR	Euro	\$ 4,001
INR	Indian Rupee	\$ 425
CAD	Canadian Dollar	\$ 391
CNY	Chinese Yuan	\$ 351

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 Internal Revenue Code, working capital requirements, infrastructure improvements and potential acquisitions.

We recognized a foreign currency translation gain for the six months ended February 28, 2019 in the amount of \$538,000 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 \$6,000,000 at February 28, 2019. 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 16 — “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.

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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 material weakness in our internal control over financial reporting described below, identified in the fourth quarter of fiscal 2018 and not remediated as of February 28, 2019, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective at a reasonable assurance level as of the end of the period covered by this report.

We did not design and maintain effective internal controls over the review of the cash flow forecasts used in the valuation of customer relationship intangible assets acquired in a business combination. Specifically, the review of certain assumptions, including those related to revenue and gross margin, related to the development of the cash flow forecasts used in valuing the customer relationship intangible assets was not designed to operate at an appropriate level of precision. This control deficiency resulted in immaterial audit adjustments to intangible assets and related amortization expense, goodwill, inventory, costs of products and services sold, and income taxes in the Company's consolidated financial statements for the year ended August 31, 2018. This control deficiency did not result in a misstatement of our interim consolidated financial statements for the three and six months ended February 28, 2019. Additionally, this control deficiency could result in a misstatement of the aforementioned account balances or disclosures that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected. Accordingly, our management has determined that this control deficiency constitutes a material weakness.

Changes in internal control over financial reporting

During the quarter ended November 30, 2018, the Company completed the process of implementing its worldwide ERP computer system, and other applicable shared services, on operations associated with Zappa Stewart acquired in December 2017.

As part of the Company's succession plan, effective with its annual shareholders meeting held on February 5, 2019, and as approved by the board at that time, Christian J. Talma has been named Chief Financial Officer of Chase Corporation. Kenneth J. Feroldi, the former Treasurer and Chief Financial Officer, will continued in his role as Treasurer, and as an executive employee of the Company.

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.

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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, 2018 for a discussion of the risk factors which could materially affect our business, financial condition or future results.

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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

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\*Furnished, not filed

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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: April 9, 2019 By: /s/ Adam P. Chase  
Adam P. Chase  
President and Chief Executive Officer

Dated: April 9, 2019 By: /s/ Christian J. Talma  
Christian J. Talma  
Chief Financial Officer