

CHASE CORP
Form 10-K/A
December 19, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C., 20549

FORM 10-KA

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

For the fiscal year ended August 31, 2001
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.) |
| 26 Summer Street, Bridgewater, Massachusetts | 02324 |
| (Address of principal executive offices) | (Zip Code) |
| (508)279-1789 | |
| Registrant's telephone number, including area code | |

| | |
|---|---|
| Securities registered pursuant to section 12(b) of the Act: | |
| Common Stock, \$.10 par value | American Stock Exchange |
| (Title of class) | (Name of each exchange on which registered) |

Securities registered pursuant to section 12(g) of the Act:
Common Stock, \$.10 par value
 (Title of class)

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, (or for such shorter period that the registrant was required to file such reports, and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.
[x]

As of October 31, 2001, the Company had outstanding 4,005,805 shares of common stock, \$.10 par value, which is its only class of common stock; and the aggregate market value of the voting stock held by non-affiliates of the registrant was \$42,061,000.

DOCUMENT INCORPORATED BY REFERENCE

The registrant's definitive proxy statement (the "Definitive Proxy Statement") to be filed in connection with the Annual Meeting of Shareholders to be held on January 29, 2002, is incorporated by this reference into items 10-13 hereof.

Item 1. Business.

General Development and Industry Segment.

Chase Corporation (the "Company") is a multi-divisional advanced manufacturing company providing industrial products to a wide variety of industries including wire and cable, construction and electronics. During fiscal 1991, the Company implemented a strategy of maximizing the core businesses while seeking future opportunities through selective acquisitions. During 1992, a facility that manufactures tape and related products in Webster, Massachusetts became operational. In April 1992, the Company acquired certain tape product lines and associated assets for cash from the Stewart Group, Ltd. This division, Chase Canada, maintains manufacturing operations in Winnipeg, Manitoba, Canada. Effective May 25, 1994, the Company purchased the electrical cable insulation tape product lines and certain associated assets from Haartz Mason, Inc. and these products were folded into the Chase & Sons division. On June 5, 1995, the Company formed a joint venture with The Stewart Group, Ltd. which was called The Stewart Group, Inc. This venture produced a variety of dielectric strength members from composite materials and sold into the fiber optic cable market. The original investment was increased on February 1, 1996 and at that time the Company owned 42% of the venture. It was announced on May 16, 1997 that the majority of the assets related to the original business were sold to Owens Corning. The venture will continue to provide consulting services during most of fiscal 2002 to Owens Corning while pursuing other market opportunities. On June 29, 1995, certain assets of Fluid Polymers, Inc. of Las Vegas, Nevada were acquired and then relocated to the Royston facility. On August 7, 1996 the Company announced that it had purchased a 20% interest in DC Scientific and then purchased a controlling interest on January 16, 1997. On January 27, 1999 the Company acquired the remaining interest of DC Scientific Inc. and changed the name to Sunburst Electronic Manufacturing Solutions Inc., (Sunburst EMS). The Company expanded its electronic manufacturing holding on May 26, 1999 with the acquisition of RWA, Inc. Melrose, MA. and acquired the assets of NETCO Automation, Inc. effective February 1, 2000. Northeast Quality Products, Co. Inc., Newburyport, MA specialty printer producing custom pressure sensitive labels, was acquired July 29, 1999. Effective November 1, 2001 substantially all of the assets of Tapecoat, a division of T.C. Manufacturing Co., Inc., were purchased for cash and 40,000 shares of Chase common stock. Tapecoat is a manufacturer of protective coatings within several markets.

As of October 31, 2001 the Company employed approximately 323 people.

Products and Markets.

The Company's principal products are protective coatings and tape products that are sold by Company salespeople and manufacturers' representatives. These products consist of: (i) insulating and conducting materials for the manufacture of electrical and telephone wire and cable, electrical splicing, and terminating and repair tapes which are marketed to wire and cable manufacturers and public utilities; (ii) protective pipe coating tapes and other protectants for valves, regulators, casings, joints, metals, concrete, and wood that are sold to oil companies, gas utilities, and pipeline companies; (iii) protectants for highway bridge deck metal supported surfaces sold to municipal transportation authorities; (iv) thermo-electric insulation for transformers, motors and other electrical equipment that are sold to original equipment manufacturers; (v) moisture protective coatings that are sold to the electronics industry; and (vi) in addition, the Company's electronic manufacturing group, Sunburst EMS, RWA, Inc. and NETCO Automation provide circuit board assembly services to electronic goods manufacturers. There are no material seasonal aspects to the Company's business and the Company has introduced no new products or segments requiring an investment of a material amount of the Company's assets.

Backlog, Customers and Competition.

As of October 31, 2001, the backlog of orders believed to be firm was about \$9,721,000, of which \$8,299,000 was related to our electronic contract-manufacturing group. This compared with a total of \$12,951,000 as of October 31, 2000 with \$9,074,000 associated with electronic manufacturing. The backlog is not seasonal. During fiscal years 2001, 2000 and 1999 one customer accounted for approximately 14%, 12% and 15%, respectively, of total sales. No material portion of the Company's business is subject to renegotiation or termination of profits or contracts at the election of the government.

There are other companies that manufacture or sell products and services similar to those made and sold by the Company. Many of those companies are larger and have greater financial resources than the Company. Competition is principally based on technical performance, service reliability, quality and price.

Raw Materials.

The Company obtains raw materials from a wide variety of suppliers with alternative sources of all essential materials available within reasonable lead times.

Patents, Trademarks, Licenses, Franchises and Concessions.

Other than HumiSeal, a trademark for moisture protective coatings sold to the electronics industry, Chase BLH2OCK, a trademark for water blocking compound sold to the wire and cable industry, and Rosphalt50, a trademark for an asphalt additive used predominantly on bridge decks for waterproofing protection, there are no material trademarks, licenses, franchises, or concessions. The Company holds various patents, but believes that at this time they are not material to the success of the business.

Working Capital and Research and Development.

There are no special practices followed by the Company relating to working capital. Approximately \$531,000, \$620,000 and \$618,000 was spent for Company-sponsored research and development during the fiscal years 2001, 2000 and 1999, respectively.

Financial Information about Foreign and Domestic Operations and Export Sales.

Export sales from continuing domestic operations to unaffiliated third parties were \$5,941,000, \$4,936,000 and \$4,460,000, for the years ended August 31, 2001, 2000 and 1999, respectively. The Company does not anticipate any material change to export sales during fiscal 2002. The Company's products are sold worldwide with no foreign geographic area accounting for more than 10% of revenues. The Company's Canadian operations accounted for 5.3% of consolidated sales and 2.4% of its assets.

The Company has very limited currency exposure since all invoices, except those from the Canadian operation to Canadian customers, are denominated in US dollars. The Company maintains minimal cash balances in Canada and, other than the currency conversion effects on the fixed assets in Canada, which are deferred and recorded directly in equity per FAS52, and reported in the Statement of Changes in Equity per FAS130, there are no significant assets held in foreign currencies. The Company does not engage in hedging activities. Foreign currency transaction gains or losses have not been material.

Item 1A. Executive Officers of the Registrant.

The following table sets forth information concerning the Company's Executive officers. Each officer is selected by the Company's Board of Directors and holds office until his successor is elected and qualified.

| <u>Name</u> | <u>Age</u> | <u>Offices Held and Business Experience during Past Five Years.</u> |
|-----------------------|------------|---|
| Peter R. Chase | 53 | Chief Executive Officer of the Company since September 1993 and President of the Company since April 1992; Chief Operating Officer of the Company since September 1988. |
| Everett Chadwick, Jr. | 60 | Treasurer of the Company since September 1993 and Chief Financial Officer since September 1992; Director of Finance of the Company from April 1991 to August 1993 and Controller of the Company from September 1988 to August 1993. |

ITEM 2. Properties.

During 1998 the Company purchased a building containing about 5,200 square feet located in Bridgewater, Massachusetts to which it relocated its principle executive office. The Company also rents a modern one-story building of approximately 5,000 square feet in Woodside, New York, which is used by the conformal coatings division.

Chase & Sons, a division, engaged in the manufacture and sale of electrical protective coatings and tape products uses offices and plants owned by the Company that are located on seven acres in Randolph, Massachusetts and consist of a three-story building containing about 10,500 square feet and ten one-story buildings, aggregating about 67,000 square feet. This division also occupies space, which was purchased last year and is located in Webster, Massachusetts. The plant of about 25,000 square feet, manufactures tape and related products for the electronic and telecommunication industries.

The Canadian division of the Company is engaged in the process of laminating and slitting film, foils and papers primarily for the wire and cable industry. This division leases about 14,000 square feet of manufacturing space in Winnipeg, Manitoba, Canada.

The Royston and Fluid Polymers divisions use offices and a plant, owned by the Company that is located on three acres in Pittsburgh, Pennsylvania. The facilities consist of thirteen buildings, three of which are used for offices, one of which is rented as a residence and the rest of which are used as manufacturing and warehouse facilities. These facilities, excluding the residence, contain about 44,000 square feet and are used in the manufacture and sale of protective coatings and tape products.

A subsidiary of the Company, Northeast Quality Products Co., Inc., is a specialty printer producing custom pressure-sensitive labels and leases about 15,000 square foot of space in Newburyport, Massachusetts.

Sunburst EMS, RWA, Inc. and NETCO Automation, Inc. provide electronic manufacturing services. During fiscal 2001, Sunburst EMS leased 35,700 square feet of manufacturing space in West Bridgewater, Massachusetts. The Company purchased this property in November 2001. RWA rents about 21,000 square feet in Melrose, Massachusetts, while NETCO Automation leases about 7,000 square feet in Haverhill, Massachusetts.

The above facilities range in age from new to about 100 years, are generally in good condition and, in the opinion of management, adequate and suitable for present operations. The Company also owns equipment and machinery that is in good repair and, in the opinion of management, adequate and suitable for present operations. The Company could significantly add to its capacity by increasing shift operations. Availability of machine hours through additional shifts would provide expansion of current product volume without significant additional capital investment.

Item 3. Legal Proceedings.

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders.

There were no matters submitted to a vote of the Company's security holders during the fourth quarter of the Company's last fiscal year.

PART II**Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters.**

The Company's common stock is traded on the American Stock Exchange (Symbol CCF). The approximate number of shareholders of common stock on October 31, 2001 was 1750.

The quarterly high and low sales prices for the Company's common stock over the last two years were as follows:

| | Year ended August 31, 2001 | | Year ended August 31, 2000 | |
|------------------|----------------------------|-------|----------------------------|------|
| | Sales Price | | Sales Price | |
| | High | Low | High | Low |
| November 30 | 10.25 | 9.00 | 12.50 | 9.13 |
| February 29 & 28 | 14.25 | 9.63 | 12.13 | 9.81 |
| May 31 | 11.85 | 10.75 | 11.75 | 9.63 |
| August 31 | 12.70 | 11.45 | 11.37 | 9.00 |

Item 6. Selected Financial Data.

| | <u>2001</u> | <u>2000</u> | <u>1999</u> | <u>1998</u> | <u>1997</u> |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Net Sales and other operating revenues | \$70,531,150 | \$68,551,490 | \$49,569,430 | \$46,639,338 | \$40,991,125 |
| Net Sales and other operating revenues | \$70,483,764 | \$68,480,226 | \$49,499,881 | \$46,560,172 | \$40,955,690 |
| Income from operations | 5,577,360 | 5,443,923 | 4,870,677 | 4,101,643 | 2,811,460 |
| Equity in earnings of unconsolidated joint venture | 296,000 | 326,000 | 238,000 | 195,000 | 195,375 |
| Minority participation in Subsidiary | - | - | 99,633 | 107,585 | 303,680 |
| Gain in sale of assets from unconsolidated joint venture | - | - | - | 1,718,425(1) | - |
| Net Income | 5,873,360 | 5,769,923 | 5,208,310 | 6,122,653(1) | 3,312,515 |
| Total Assets | 46,788,503 | 45,352,786 | 38,984,136 | 25,261,786 | 22,635,761 |
| Long-term debt and capital leases | 3,562,793 | 6,273,478 | 6,508,471 | 682,576 | 3,020,708 |
| Per Common Share: | | | | | |
| Diluted | 1.44 | 1.44 | 1.30 | 1.56 | .84 |
| Basic | 1.47 | 1.46 | 1.34 | 1.58 | .84 |
| Cash dividends* | .36 | .36 | .32 | .28 | .21 |

*Single annual payments declared and paid subsequent to fiscal year end.

(1) Includes a non-recurring gain of \$1,718,425 (\$0.44 per share) related to the sale of certain assets by The Stewart Group, Inc. joint venture.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

SELECTED RELATIONSHIPS WITHIN THE CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended August 31,

2001 2000 1999

(Dollars in thousands)

| | | | |
|--|---------------------|---------------------|---------------------|
| Net revenue | \$70,531 | \$68,551 | \$49,569 |
| Net revenue | \$70,484 | \$68,480 | \$49,500 |
| Net Income from operations | \$ 5,873 | \$ 5,770 | \$ 5,208 |
| Increase in net revenue from previous years | | | |
| Amount | \$ 1,980 | \$18,982 | \$ 2,930 |
| Amount | \$2,004 | \$18,980 | \$2,940 |
| Percentage | 3% | 38% | 6% |
| Increase in net income from previous year | \$ 103 | \$ 562 | \$ 804 |
| Percentage of net revenue: | | | |
| Net revenue | 100.0% | 100.0% | 100.0% |
| Expenses: | | | |
| Cost of Sales | 70.1 | 69.5 | 65.9 |
| Cost of Sales | 70.2 | 69.6 | 66.0 |
| Selling, general and | | | |
| administrative expenses | 17.1 | 17.2 | 18.1 |
| administrative expenses | 17.1 | 17.3 | 18.0 |
| Other expenses | 1.2 | 1.4 | 0.5 |
| Other expenses | 1.1 | 1.2 | 0.4 |
| Income from operations before income taxes and minority interest | 11.6 | 11.9 | 15.5 |
| Provision for income taxes | 3.7 | 4.0 | 5.7 |
| Income from operations before minority interest | 7.9% | 7.9% | 9.8% |
| Minority participation in subsidiary | - | - | .2 |
| Equity in earnings of unconsolidated joint venture | .4 | .5 | .5 |
| Gain on sales of assets by | = | = | = |
| Unconsolidated joint venture | = | = | = |
| Net Income | 8.3% | 8.4% | 10.5% |

Overview

During fiscal 1999, the Company acquired the remaining interest in its subsidiary, Sunburst Electronics Manufacturing Services and also completed its acquisition of RWA, Inc. Effective February 1, 2000, the Company acquired the assets of NETCO Automation, Inc. These companies participate within the electronic manufacturing services industry. To align the requirements of the Financial Accounting Standards with the Company's operational and organizational structure, the Company now has two reportable segments, the Specialized Manufacturing segment which produces protective coatings and trade products and the Electronic Manufacturing Services segment which provides assembly and turnkey contract manufacturing services to the electronics industry.

The company has reached an agreement to purchase the manufacturing assets of the Tapecoat Division of TC Manufacturing, Inc. It is anticipated that this will increase annualized revenues by approximately \$8,000,000.

Results of Operations.

Total revenues for fiscal 2001 increased ~~\$1.98~~ **\$2.00** million to \$70.5 million, an increase of ~~2.8%~~ **2.9%** over the prior year. Net revenues for the first half of fiscal 2001 increased by 16% and fiscal 2001 second half net revenues declined 7.38% when compared to the comparable periods in fiscal 2000. During the second half of the year, the weak economy had negative impacts especially within the Company's telecommunications and electronic markets. However, the Company's diversity enabled it to generate growth opportunities within certain construction and other manufacturing markets.

Fiscal 2000 revenues increased \$19 million to ~~\$68.6~~ **\$68.5** million, an increase of 38% over fiscal 1999. A significant portion of this increase was the result of the Company's electronic contract manufacturing investments. Seventy-five percent of the fiscal 2000 sales increase was attributed to the EMS group. Prior to fiscal year ended August 31, 1999, the electronic manufacturing services segment accounted for less than 10% of operations and assets.

The dollar value of cost of products was higher in fiscal 2001 compared to both 2000 and 1999. These increases were mostly volume related. As a percent of sales, cost of products increased to 72.5% in 2001 when compared to 70.1% and 66.3% during 2000 and 1999 respectively. The increase this year, as a percent of sales, relates to the increased volume, product mix and some selling price erosion created by competitive pressure.

The fiscal 2000 increase as a percentage of sales was the result of a change in business philosophy within our electronic manufacturing services segment. The raw material cost, as a percent of sales, is typically higher in this market segment than in the Company's more traditional Specialized Manufacturing segment. Also, during fiscal 2000, electronic manufacturing service customers required that the Company provide a full service operation. This requires complete ownership and control of inventory, which while improving overall gross margin dollars, it also increased the Company's cost of products as a percent of sales.

Selling and administrative expenses increased \$.415 million to \$12.1 million during fiscal 2001 compared to fiscal 2000. Expenses in 2000 increased \$2.9 million over fiscal 1999. As a percent of sales, expenses remained the same as the prior year. Fiscal 2000 expenses were lower than fiscal 1999 by .7%. The Company will continue to be focused on expense reduction while maintaining and improving the quality of its products and services to the marketplace.

Interest expense decreased to \$798,963 in fiscal 2001 as compared to \$910,499. The decrease correlated to both the repayment of debt incurred for fiscal 1999 and 2000 acquisitions, as well as, a reduction in interest rates. Interest expense increased to \$910,000 in fiscal 2000 as compared to \$341,000 during fiscal 1999. The increase was related to the borrowing required to complete the investments and acquisitions, as well as the cost of borrowing associated with interest rate adjustments. The Company expects to benefit from favorable borrowing rates from its financial institutions.

Fiscal 2001 earnings benefited from growth in construction markets and improvements in certain areas of electronic manufacturing services, which offset weakness in telecommunications related product lines and services.

A majority of fiscal 2000 earnings improvement was related to the financial benefits received from the investments in the Electronic Manufacturing Services segment primarily concluded over the last few months of fiscal 1999. Sales and profitability from the Company's traditional Specialized Manufacturing group remained solid although somewhat affected by certain economic factors, which created a higher cost structure that had not been passed on to customers.

The effective tax rates for fiscal 2001 when compared to the prior two years are lower. In all three years the Company received the benefit of solid export sales through the Chase Export Corporation subsidiary. Also, effective January 1999, the Company acquired 100% ownership of Sunburst EMS that enabled consolidating of historical losses for income tax purposes.

Minority participation in subsidiaries during fiscal 1999 represented the Company's 49.9% equity in the losses of Sunburst EMS, Inc. As of January 1999, the Company acquired 100% ownership of Sunburst EMS.

The equity in earnings of unconsolidated joint ventures over the past few years is from the Company's 42% ownership position in The Stewart Group Inc., Toronto, Canada.

Sales and Operating Profit by Segment

| | | <u>Operating</u> | |
|--|------------------|------------------|--------------|
| | <u>Sales</u> | <u>Profit</u> | |
| - | - | - | - |
| <u>Fiscal 2001</u> | - | - | - |
| <u>(\$-000's)</u> | - | - | - |
| <u>Specialized Manufacturing</u> | <u>\$ 47,445</u> | <u>\$ 10,322</u> | <u>21.8%</u> |
| <u>Electronic Manufacturing Services</u> | <u>\$ 22,308</u> | <u>\$ 1,608</u> | <u>7.2</u> |
| - | <u>\$ 69,753</u> | <u>\$ 11,930</u> | <u>17.1</u> |
| - | - | - | - |
| <u>Fiscal 2000</u> | - | - | - |
| <u>(\$-000's)</u> | - | - | - |
| <u>Specialized Manufacturing</u> | <u>\$ 47,110</u> | <u>\$ 10,019</u> | <u>21.3%</u> |
| <u>Electronic Manufacturing Services</u> | <u>\$ 20,870</u> | <u>\$ 1,809</u> | <u>8.7</u> |
| - | <u>\$ 67,980</u> | <u>\$ 11,828</u> | <u>17.4</u> |
| - | - | - | - |
| <u>Fiscal 1999</u> | - | - | - |
| <u>(\$-000's)</u> | - | - | - |
| <u>Specialized Manufacturing</u> | <u>\$ 42,711</u> | <u>\$ 9,182</u> | <u>21.5%</u> |
| <u>Electronic Manufacturing Services</u> | <u>\$ 6,537</u> | <u>\$ 164</u> | <u>2.5</u> |
| - | <u>\$ 49,248</u> | <u>\$ 9,346</u> | <u>19.0</u> |

Liquidity and Sources of Capital

Cash flow generated from operations was \$7,229,173 in 2001 as compared to \$4,519,805 and \$3,264,000 during 2000 and 1999 respectively. Improved working capital management accounted for the increase in fiscal 2001 cash flow from operations. Receivable and inventory increases during both 2000 and 1999 were the result of increased sales and acquisitions.

The ratio of current assets to current liabilities was 1.8 at the end of fiscal 2001 as compared to 1.7 and 1.5 for 2000 and 1999, respectively.

The unused available long-term credit amounted to \$4,260,000 at August 31, 2001 as compared to \$2,740,000 at the previous year-end. Current financial resources and anticipated funds from operations are expected to be adequate to meet requirements for funds in the year ahead.

Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board (FASB) issued FASB Statements Nos. 141 and 142 (FAS 141 and FAS 142), Business Combinations and Goodwill and Other Intangible Assets. FAS 141 replaces APB 16 and eliminates pooling-of-interests accounting prospectively. It also provides guidance on purchase accounting related to the recognition of intangible assets and accounting for negative goodwill. FAS 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Under FAS 142, goodwill will be tested annually and whenever events or circumstances occur indicating that goodwill might be impaired.

FAS 141 and FAS 142 are effective for all business combinations completed after June 30, 2001. Upon adoption of FAS 142, amortization of goodwill recorded for business combinations consummated prior to July 1, 2001 will cease, and intangible assets acquired prior to July 1, 2001 that do not meet the criteria for recognition under FAS 141 will be reclassified to goodwill. Companies are required to adopt FAS 142 for fiscal years beginning after December 15, 2001, but early adoption is permitted. The Company will adopt FAS 142 on September 1, 2001, the beginning of fiscal 2002. In connection with the adoption of FAS 142, the Company will be required to perform a transitional goodwill impairment assessment. We have not yet determined the impact these standards will have on our operating results and financial position. Amortization of Goodwill was \$666,744, \$660,074 and \$159,582 for the fiscal years 2001, 2000 and 1999 respectively.

Forward-Looking Information

From time to time, the company may publish, verbally or in written form, forward-looking statements relating to such matters as anticipated financial performance, business prospects, technological developments, new products, research and development activities and similar matters. In fact, this Form 10-K (or any other periodic reporting documents required by the 1934 Act) may contain forward-looking statements reflecting the current views of the Company concerning potential future events or developments. The Private Securities Litigation Reform Act of 1995 (the "Act") provides a "safe harbor" for forward-looking statements. In order to comply with the terms of the "safe harbor," the Company cautions investors that any forward-looking statements made by the Company are not guarantees of future performance and that a variety of factors could cause the Company's actual results and experience to differ materially from the anticipated results or other expectations expressed in the Company's forward-looking statements. The risks and uncertainties which may affect the operations, performance, development and results of the Company's business include, but are not limited to, the following: uncertainties relating to economic conditions; uncertainties relating to government and regulatory policies; uncertainties relating to customer plans and commitments; the pricing and availability of equipment, materials and inventories; technological developments; performance issues with key suppliers and subcontractors; worldwide political stability and economic growth; regulatory uncertainties; delays in testing of new products; rapid technology changes and the highly competitive environment in which the Company operates. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statement was made.

Impact of Inflation

Inflation has not had a significant long-term impact on earnings. In the event of significant inflation, the Company's efforts to recover cost increases would be hampered as a result of the competitive nature of its products.

Recently Issued Accounting Standards

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 141, "Business Combinations" (FAS 141) and Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets" (FAS 142). FAS 141 requires the purchase method of accounting to be used for all business combinations initiated after June 30, 2001. FAS 141 also specifies criteria that intangible assets acquired must meet to be recognized and reported separately from goodwill. The adoption of FAS 141 will not have any material effect on our results of operations or financial position.

FAS 142 requires that goodwill and intangible assets with indefinite lives no longer be amortized but instead be measured for impairment at least annually, or when events indicate that an impairment exists. Our adoption date will be September 1, 2001. As of that date, amortization of goodwill and other indefinite-lived intangible assets, including those recorded in past business combinations, will cease. As a result of the elimination of this amortization, selling, general and administrative expenses will decrease by approximately \$667,000 annually.

As required by FAS 142, we will perform impairment tests on goodwill and other indefinite-lived intangible assets as of the adoption date. Thereafter, we will perform impairment tests annually and whenever events or circumstances indicate that the value of goodwill or other indefinite-lived intangible assets might be impaired. In connection with the FAS 142 transitional goodwill impairment test, we will utilize the required two-step method for determining goodwill impairment as of the adoption date. To accomplish this, we will identify our reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of the adoption date. We will then have up to six months from the adoption date to determine the fair value of each reporting unit and compare it to the carrying amount of the reporting unit. To the extent the carrying amount of a reporting unit exceeds the fair value of the reporting unit, we then will perform the second step of the transitional impairment test. If necessary, in the second step, we will compare the implied fair value of the reporting unit goodwill with the carrying amount of the reporting unit goodwill, both of which would be measured as of the adoption date. The implied fair value of goodwill will be determined by allocating the fair value of the reporting unit to all of the assets (recognized and unrecognized) and liabilities of the reporting unit in a manner similar to a purchase price allocation, in accordance with FAS 141. The residual fair value after this allocation will be the implied fair value of the reporting unit goodwill. We will record a transitional impairment loss for the excess of the carrying value of goodwill allocated to the reporting unit over the implied fair value. FAS 142 requires that this second step be completed as soon as possible, but no later than the end of the year of adoption.

In connection with the FAS 142 indefinite-lived intangible asset impairment test, we will utilize the required one-step method to determine whether an impairment exists as of the adoption date. The test will consist of a comparison of the fair values of indefinite-lived intangible assets with the carrying amounts. If the carrying amount of an indefinite-lived intangible asset exceeds its fair value, we will recognize an impairment loss in an amount equal to that excess.

We have not yet determined the impact of FAS 142's impairment test provisions on our results of operations and financial position; however, the possibility exists that we will incur a significant transitional impairment loss. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle in our income statement during the quarter ending February 28, 2002.

Item 8. Financial Statements and Supplementary Data.

Financial statements and supplementary financial information required to be filed hereunder may be located through the List of Financial Statements and Schedules attached to this report.

Item 9. Changes in and Disagreement with Accountants on Accounting and Financial Disclosures.

Not applicable.

PART III

Item 10. Directors and Executive Officers of the Registrant.

Information with respect to the names, ages, positions with the Company, terms of office, periods of service, business experience, and other directorships of the Company's Directors and Executive Officers is incorporated herein by reference to Item 1A of the report and to the Definitive Proxy Statement (under the caption "Election of Directors").

Item 11. Executive Compensation.

The information required in Item 10 is contained in the Definitive Proxy Statement (under the caption "Executive Compensation"). Such information is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

Information regarding the ownership of the Company's common stock by certain beneficial owners and by management is incorporated herein by reference to the Definitive Proxy Statement (under the captions "Principal Holders of Voting Securities" and "Election of Director's").

Item 13. Certain Relationships and Related Transactions.

Information regarding certain relationships and related transactions with the Company's Directors and Executive Officers is incorporated herein by reference to the Definitive Proxy Statement under the captions "Election of Directors" and "Remuneration of Directors and Executive Officers."

PART IV

Item 14. Exhibits, Financial Statements, Schedules and Reports on Form 8-K.

See the List of Financial Statements and Schedules included in this report for a list of the financial statements and schedules included with this report and see the Exhibit index included in this report for a list of the exhibits required to be filed with this report.

Signatures

Pursuant to the requirements of Section 13 or 15 (d) 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

Date

By /s/ Peter R. Chase

President and Chief Executive Officer

November 27, 2001

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Peter R. Chase

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| | Capacity | Date |
|---------------------------|--|-------------------|
| By /s/ Peter R. Chase | President, Chief Executive Officer and Director (Principal Executive Officer) | November 27, 2001 |
| Peter R. Chase | | |
| By /s/ Everett Chadwick | Treasurer and Chief Financial Officer (Principal Financial and Accounting Officer) | November 27, 2001 |
| Everett Chadwick | | |
| By /s/ Edward L. Chase | Director | November 27, 2001 |
| Edward L. Chase | | |
| By /s/ Sarah Chase | Director | November 27, 2001 |
| Sarah Chase | | |
| By /s/ William H. Dykstra | Director | November 27, 2001 |
| William H. Dykstra | | |
| By /s/ George M. Hughes | Director | November 27, 2001 |
| George M. Hughes | | |
| By /s/ Ronald Levy | Director | November 27, 2001 |
| Ronald Levy | | |

EXHIBIT INDEX

| Exhibit Number | Description |
|----------------|---|
| 3.1 | Articles of Organization (incorporated by reference from Exhibit 3 to the Company's annual report on Form 10-K for the fiscal year ended August 31, 1988) |
| 3.2 | By-Laws (incorporated by reference from Exhibit 3 to the Company's annual report on Form 10-K for the fiscal year ended August 31, 1988) |
| 3.3 | Amendment to By-Laws (adding Article IV, Section 7) (incorporated by reference from Exhibit 3.3 to the Company's annual report on Form 10-K for the fiscal year ended August 31, 1990) |
| 10.1 | Split Dollar Insurance Agreement dated December 2, 1983 by and between the Company and Edward L. Chase (incorporated by reference from Exhibit 10.1 to the Company's annual report on Form 10-K for the fiscal year ended August 31, 1990) |
| 10.2 | Split Dollar Insurance Agreement dated December 2, 1983 by and between the Company and Francis M. Chase (incorporated by reference from Exhibit 10.2 to the Company's annual report on Form 10-K for the fiscal year ended August 31, 1990) |

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10.11 Purchase and Sale Agreement dated October 26, 1990 by and between the Company and Avon Custom Mixing Service, Inc. (incorporated by reference from Exhibit 2.1 to the Company's Current Report on Form 8-K dated October 26, 1990)

10.17 Amendment dated April 30, 1992 to Split Dollar Insurance Agreement dated December 2, 1983 by and between the Company and Edward L. Chase (incorporated by reference from Exhibit 10.17 to the Company's annual report on Form 10-K for the fiscal year ended August 31, 1992)

10.18 Amendment dated April 30, 1992 to Split Dollar Insurance Agreement dated November 10, 1987 by and between the Company and Edward L. Chase and Claire Chase (incorporated by reference from Exhibit 10.18 to the Company's annual report on Form 10-K for the fiscal year ended August 31, 1992.

10.20 Amendment dated August 31, 1992 to Split Dollar Insurance Agreement dated December 2, 1983 by and between the Company and Francis M. Chase (incorporated by reference from Exhibit 10.20 to the Company's annual report on Form 10-K for the fiscal year ended August 31, 1992.

10.21 Amendment dated August 31, 1992 to Split Dollar Insurance Agreement dated November 10, 1987 by and between the Company and Francis M. Chase and Barbara Chase (incorporated by reference from Exhibit 10.21 to the Company's annual report on Form 10-K for the fiscal year ended August 31, 1992)

10.25 Endorsement Split-Dollar Agreement dated June 8, 1995 by and between the Company and Edward L. Chase and Claire Chase.

10.26 Amendment to and Confirmation of Split Dollar Insurance Agreement dated June 8, 1995 by and between the Company and Edward L. Chase and Claire Chase.

10.27 Stock Purchase Agreement effective May 25, 1999 by and between the Company and RWA, Inc., (incorporated by reference from Exhibit 2.1 to the Company's current report on Form 8K dated June 8, 1999 and amended on August 12, 1999 to include financials).

10.28 Asset purchase agreement effective November 1, 2001 by and between the Company and TC Manufacturing Co., Inc., (incorporated by reference from Exhibit 2.1 to the Company's current report on Form 8K dated November 27, 2001.

22 Subsidiaries of the Company

List of Financial Statements and Schedules

| | |
|--|------|
| Report of Independent Certified Public Accountants | Page |
| Consolidated Balance Sheets as of August 31, 2001 and August 31, 2000 | Page |
| Consolidated Statements of Operations for each of the three fiscal years in the period ended August 31, 2001 | Page |
| Consolidated Statements of Shareholders' Equity for each of the three fiscal years in the period ended August 31, 2001 | Page |
| Consolidated Statements of Cash Flows for each of the three fiscal years in the period ended August 31, 2001 | Page |
| Notes to Consolidated Financial Statements | Page |

REPORT OF MANAGEMENT

The management of Chase Corporation is responsible for the integrity and objectivity of the financial information presented in the Company's annual report to shareholders. The financial statements have been prepared in accordance with generally accepted accounting principles appropriate in the circumstances, and include amounts that are based on management's best estimates and judgement.

The Company maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded, transactions are executed in accordance with appropriate authorization, and that the financial records are adequate and reliable for preparing financial statements. Management endeavors to ensure that the cost of internal controls is commensurate with maintaining a reasonable level of assurance.

The Audit Committee of the Board of Directors, composed solely of directors who are not officers or employees of the Company, meets with management and with the Company's independent auditors to discuss audit scope and results, internal control evaluations and other accounting, reporting and financial matters. The independent auditors have direct access to the Audit committee to discuss the results of their activities and the adequacy of controls.

Peter R. Chase
President and
Chief Executive Officer

Everett Chadwick
Treasurer and
Chief Financial Officer

CHASE CORPORATION AND SUBSIDIARIES

BRIDGEWATER, MASSACHUSETTS

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

AUGUST 31, 2001 AND 2000

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors
Chase Corporation
Bridgewater, Massachusetts

We have audited the consolidated balance sheets of Chase Corporation and subsidiaries as of August 31, 2001 and 2000, and the related consolidated statements of operations, shareholders' equity and cash flows for each year in the three year period ended August 31, 2001 and the Schedule II, Valuation and Qualifying Accounts and Reserves. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Chase Corporation and subsidiaries at August 31, 2001 and 2000, and the consolidated results of their operations and cash flows for each year in the three year period ended August 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

/s/ LIVINGSTON & HAYNES, P.C.

Wellesley, Massachusetts

November 7, 2001

CHASE CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

AUGUST 31, 2001 AND 2000

ASSETS

2001

2000

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CURRENT ASSETS

| | | |
|--|------------------|------------------|
| Cash and cash equivalents | \$49,283 | \$65,289 |
| Trade receivables, less allowances for doubtful accounts of \$264,946 and \$292,443, at August 31, 2001 and 2000, respectively | 12,081,284 | 11,880,228 |
| Inventories: | | |
| Finished and in process | 3,099,182 | 1,321,210 |
| Raw Materials | <u>5,859,553</u> | <u>7,621,750</u> |
| | 8,958,735 | 8,942,960 |
| Prepaid expenses | 458,796 | 376,694 |
| Receivable from related parties | 147,000 | 147,000 |
| Deferred income taxes | <u>186,836</u> | <u>116,977</u> |
| TOTAL CURRENT ASSETS | 21,881,934 | 21,529,148 |

PROPERTY, PLANT AND EQUIPMENT

| | | |
|----------------------------------|-------------------|-------------------|
| Land and improvements | 524,423 | 514,423 |
| Buildings | 4,642,781 | 4,625,764 |
| Machinery and equipment | 18,612,037 | 16,688,701 |
| Construction in Progress | <u>387,953</u> | <u>559,188</u> |
| | 24,167,194 | 22,388,076 |
| Less allowances for depreciation | <u>14,602,820</u> | <u>13,272,188</u> |
| | 9,564,374 | 9,115,888 |

OTHER ASSETS

| | | |
|---|----------------------|----------------------|
| Excess of cost over net assets of acquired businesses, less amortization of \$1,922,089 and \$1,255,344 at August 31, 2001 and 2000, respectively | 8,340,523 | 8,731,486 |
| | 8,540,523 | 8,731,486 |
| Patents, agreements and trademarks, less amortization of \$889,692 and \$792,213 at August 31, 2001 and 2000, respectively | 751,033 | 848,510 |
| Cash surrender value of life insurance, net of loans of \$47,618 at August 31, 2001 and 2000 | 3,792,515 | 3,473,091 |
| Deferred income taxes | 534,794 | 172,483 |
| Investments in minority interests | 1,179,243 | 1,208,797 |
| Other | <u>744,087</u> | <u>643,849</u> |
| | <u>15,342,195</u> | <u>15,078,216</u> |
| | 15,542,195 | 15,078,216 |
| | \$46,788,503 | \$45,723,252 |
| | \$46,988,503 | \$45,723,252 |
| | ===== | ===== |

See accompanying notes to the consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY

| | <u>2001</u> | <u>2000</u> |
|--|----------------|------------------|
| CURRENT LIABILITIES | | |
| Accounts payable | \$5,261,112 | \$5,790,018 |
| Notes payable to bank | 1,763,184 | 2,050,726 |
| Accrued payroll and other compensation | 1,232,885 | 1,029,506 |
| Accrued pension expense-current | 353,857 | 231,507 |
| Other accrued expenses | <u>961,660</u> | <u>1,297,508</u> |

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| | | |
|---|---------------------|---------------------|
| Other accrued expenses | 1,161,661 | 1,297,508 |
| Taxes payable | 188,066 | (68,452) |
| Current portion of Long-Term debt | <u>2,543,400</u> | <u>2,605,284</u> |
| TOTAL CURRENT LIABILITIES | 12,304,164 | 12,936,097 |
| TOTAL CURRENT LIABILITIES | 12,504,165 | 12,936,097 |
| LONG-TERM DEBT, less current portion | 3,562,793 | 6,569,352 |
| DEFERRED COMPENSATION | 737,088 | 636,849 |
| ACCRUED PENSION EXPENSE | 447,698 | 351,859 |
| COMMITMENTS (See Note G) | - | - |
| CONTINGENCIES | - | - |
| SHAREHOLDERS' EQUITY | | |
| First Serial Preferred Stock, par value \$1.00 a share: Authorized 100,000 shares; none issued | | |
| Common Stock, par value \$.10 a share, Authorized 10,000 shares; issued and outstanding 5,094,389 shares and 5,073,613 shares at Aug. 31, 2001 and 2000, respectively. | 509,439 | 507,361 |
| Additional paid-in capital | 3,721,442 | 3,625,023 |
| Treasury Stock, 1,088,584 shares of Common Stock at August 31, 2001 and 2000 | (4,687,565) | (4,687,565) |
| Cumulative effect of currency translation | (213,002) | (180,073) |
| Retained earnings | <u>30,406,446</u> | <u>25,964,349</u> |
| | <u>29,736,760</u> | <u>25,229,095</u> |
| | \$46,788,503 | \$45,723,252 |
| | \$46,988,503 | \$45,723,252 |
| | ===== | ===== |

CHASE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR EACH YEAR IN THE THREE YEAR PERIOD ENDED AUGUST 31, 2001

| | <u>2001</u> | <u>2000</u> | <u>1999</u> |
|---|-----------------------|-----------------------|-----------------------|
| Revenue: | | | |
| Sales | \$69,752,859 | \$67,980,176 | \$49,247,915 |
| Commissions and other income | 777,702 | 546,673 | 272,320 |
| Commissions and other income | 730,905 | 500,000 | 251,966 |
| Interest | 589 | 24,641 | 49,195 |
| | <u>70,531,150</u> | <u>68,551,490</u> | <u>49,569,430</u> |
| | 70,483,764 | 68,480,226 | 49,499,881 |
| Cost and Expenses: | | | |
| Cost of products and services sold | 49,450,526 | 47,656,084 | 32,695,014 |
| Cost of products and services sold | 49,450,526 | 47,656,084 | 32,693,734 |
| Selling, general and administrative expenses | 12,035,890 | 11,809,638 | 8,931,753 |

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| | | | |
|--|-------------------------|-------------------------|-------------------------|
| Selling, general and administrative expenses | 12,035,890 | 11,809,638 | 8,912,679 |
| Bad debt expense-net of recoveries | 42,416 | 5,733 | (88,940) |
| Non-operating interest income | (47,386) | (71,264) | (49,195) |
| Interest expense | 798,963 | 910,499 | 340,977 |
| | <u>62,327,795</u> | <u>60,381,954</u> | <u>41,878,804</u> |
| | 62,280,409 | 60,310,690 | 41,809,255 |
| INCOME FROM OPERATIONS BEFORE INCOME TAXES | 8,203,355 | 8,169,536 | 7,690,626 |
| <u>INCOME BEFORE INCOME TAXES AND MINORITY INTEREST</u> | <u>8,203,355</u> | <u>8,169,536</u> | <u>7,690,626</u> |
| Income taxes | 2,625,995 | 2,725,613 | 2,819,949 |
| INCOME FROM OPERATIONS | 5,577,360 | 5,443,923 | 4,870,677 |
| INCOME BEFORE MINORITY INTEREST | 5,577,360 | 5,443,923 | 4,870,677 |
| Minority participation in subsidiary | -- | -- | 99,633 |
| Equity in earnings of unconsolidated joint venture. | <u>296,000</u> | <u>326,000</u> | <u>238,000</u> |
| NET INCOME | \$5,873,360 | \$5,769,923 | \$5,208,310 |
| | ===== | ===== | ===== |
| Net income per share of Common Stock | | | |
| Basic | \$1.47 | \$1.46 | \$1.34 |
| | ===== | ===== | ===== |
| Fully Diluted | \$1.44 | \$1.44 | \$1.30 |
| | ===== | ===== | ===== |

See accompanying notes to the consolidated financial statements.

CHASE CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

FOR EACH YEAR IN THE THREE YEAR PERIOD ENDED AUGUST 31, 2001

| Common Stock | | Additional | | Treasury Stock | |
|--------------|--------|------------|--|----------------|--------|
| Shares | | Paid-In | | Shares | Amount |
| Issued | Amount | Capital | | | |

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| | | | | | |
|--------------------------------------|-----------|-----------|-------------|-----------|---------------|
| Balance @ Aug 31, 1998 | 4,977,650 | \$497,765 | \$3,370,066 | 1,072,084 | \$(4,535,476) |
| Cash dividend paid, \$0.28 per share | -- | -- | -- | -- | -- |
| Currency translation adjustment | -- | -- | -- | -- | -- |
| Exercise of stock options | 17,278 | 1,728 | (1,728) | -- | -- |
| Compensatory stock issuance | -- | -- | 98,496 | -- | -- |
| Purchase of Treasury Stock | -- | -- | -- | 16,500 | (152,089) |
| Net Income | -- | -- | -- | -- | -- |
| <u>Comprehensive Income</u> | -- | -- | -- | -- | -- |

| | | | | | |
|------------------------|-----------|---------|-----------|-----------|-------------|
| Balance @ Aug 31, 1999 | 4,994,928 | 499,493 | 3,466,834 | 1,088,584 | (4,687,565) |
|------------------------|-----------|---------|-----------|-----------|-------------|

| | Common Stock Shares | | Additional Paid-In Capital | | Treasury Stock Amount | |
|--------------------------------------|------------------------|---------|----------------------------------|-----------|--------------------------|----|
| | Issued | Amount | Capital | Shares | Amount | |
| Balance @ Aug 31, 1999 | 4,994,928 | 499,493 | 3,466,834 | 1,088,584 | (4,687,565) | |
| Cash dividend paid, \$0.32 per share | -- | -- | -- | -- | -- | -- |
| Currency Translation adjustment | -- | -- | -- | -- | -- | -- |
| Exercise of stock options | 78,685 | 7,868 | 46,788 | -- | -- | -- |
| Compensatory stock issuance | -- | -- | 98,496 | -- | -- | -- |
| Gain on stock sales | -- | -- | 12,905 | -- | -- | -- |
| Net Income | -- | -- | -- | -- | -- | -- |
| <u>Comprehensive Income</u> | -- | -- | -- | -- | -- | -- |

| | | | | | |
|------------------------|-----------|---------|-----------|-----------|-------------|
| Balance @ Aug 31, 2000 | 5,073,613 | 507,361 | 3,625,023 | 1,088,584 | (4,687,565) |
|------------------------|-----------|---------|-----------|-----------|-------------|

| | Common Stock Shares | | Additional Paid-In Capital | | Treasury Stock Amount | |
|-------------------------------------|------------------------|---------|----------------------------------|-----------|--------------------------|----|
| | Issued | Amount | Capital | Shares | Amount | |
| Balance @ Aug 31, 2000 | 5,073,613 | 507,361 | 3,625,023 | 1,088,584 | (4,687,565) | |
| Cash dividend paid \$0.36 per share | -- | -- | -- | -- | -- | -- |
| Currency Translation adjustment | -- | -- | -- | -- | -- | -- |
| Exercise of stock options | 20,776 | 2,078 | (2,078) | -- | -- | -- |
| Compensatory stock issuance | -- | -- | 98,497 | -- | -- | -- |
| Net Income | -- | -- | -- | -- | -- | -- |
| <u>Comprehensive Income</u> | -- | -- | -- | -- | -- | -- |

| | | | | | |
|------------------------|-----------|-----------|-------------|-----------|---------------|
| Balance @ Aug 31, 2001 | 5,094,389 | \$509,439 | \$3,721,442 | 1,088,584 | \$(4,687,565) |
|------------------------|-----------|-----------|-------------|-----------|---------------|

| | Retained Earnings | Cumm Effect of Currency Translation | Total Shareholders Equity | <u>Comprehensive Income</u> |
|--------------------------------------|----------------------|--|---------------------------------|--|
| Balance @ Aug 31, 1998 | \$17,330,039 | \$(238,728) | \$16,423,666 | |
| Cash dividend paid, \$0.28 per share | (1,093,715) | -- | (1,093,715) | |
| Currency translation adjustment | -- | 50,397 | 50,397 | <u>50,397</u> |
| Exercise of stock options | -- | -- | -- | |
| Compensatory stock issuance | -- | -- | 98,496 | |

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| | | | | |
|--------------------------------------|--------------|-------------|--------------|-----------------------------|
| Purchase of Treasury Stock | -- | -- | (152,089) | |
| Net Income | 5,208,310 | -- | 5,208,310 | <u>5,208,310</u> |
| <u>Comprehensive Income</u> | -- | -- | -- | <u>5,258,707</u> |
| | ----- | ----- | ----- | ----- |
| Balance @ Aug 31, 1999 | 21,444,634 | (188,331) | 20,535,065 | |
| | | Cumm | | |
| | | Effect of | Total | |
| | Retained | Currency | Shareholders | <u>Comprehensive</u> |
| | Earnings | Translation | Equity | <u>Income</u> |
| Balance @ Aug 31, 1999 | 21,444,634 | (188,331) | 20,535,065 | |
| Cash dividend paid, \$0.32 per share | (1,250,208) | -- | (1,250,208) | |
| Currency Translation adjustment | -- | 8,258 | 8,258 | 8,258 |
| Exercise of stock options | -- | -- | 54,656 | |
| Compensatory stock issuance | -- | -- | 98,496 | |
| Gain on stock sales | -- | -- | 12,905 | |
| Net Income | 5,769,923 | -- | 5,769,923 | <u>5,769,923</u> |
| <u>Comprehensive Income</u> | -- | -- | -- | <u>5,778,181</u> |
| | ----- | ----- | ----- | ----- |
| Balance @ Aug 31, 2000 | 25,964,349 | (180,073) | 25,229,095 | |
| | | Cumm | | |
| | | Effect of | Total | |
| | Retained | Currency | Shareholders | <u>Comprehensive</u> |
| | Earnings | Translation | Equity | <u>Income</u> |
| Balance @ Aug 31, 2000 | 25,964,349 | (180,073) | 25,229,095 | |
| Cash dividend paid \$0.36 per share | (1,431,263) | -- | (1,431,263) | |
| Currency Translation adjustment | -- | (32,929) | (32,929) | (32,929) |
| Exercise of stock options | -- | -- | -- | |
| Compensatory stock issuance | -- | -- | 98,497 | |
| Net Income | 5,873,360 | -- | 5,873,360 | <u>5,873,360</u> |
| <u>Comprehensive Income</u> | -- | -- | -- | <u>5,833,431</u> |
| | ----- | ----- | ----- | ----- |
| Balance @ Aug 31, 2001 | \$30,406,446 | \$(213,002) | \$29,736,760 | |
| | ===== | ===== | ===== | |

See accompanying notes to the consolidated financial statements.

CHASE CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR EACH YEAR IN THE THREE YEAR PERIOD ENDED AUGUST 31, 2001

| | 2001 | 2000 | 1999 |
|--------------------------------------|-------------|-------------|-------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net Income | \$5,873,360 | \$5,769,923 | \$5,208,310 |

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Adjustments to reconcile net income to net cash provided by operating activities:

| | | | |
|---|-------------------------|---------------------------|---------------------------|
| Depreciation | 1,330,630 | 1,224,701 | 1,019,715 |
| Amortization | 764,224 | 757,758 | 371,761 |
| (Gain) on sale of assets | - | - | - |
| Stock issued for compensation | 98,496 | 98,496 | 98,496 |
| Change in provision for losses on trade receivables | (27,497) | 35,394 | (64,086) |
| Deferred federal tax | (432,170) | (117,900) | 9,000 |
| Revaluation of investments in minority interest | (20,000) | - | (300,000) |
| Change in assets and liabilities: | | | |
| Trade receivables | (173,560) | (3,044,836) | (1,547,854) |
| Inventories | (15,774) | (1,493,650) | (2,712,855) |
| Prepaid expenses and other | (82,106) | (40,451) | 49,352 |
| Accounts payable | (528,906) | 1,402,075 | 1,539,744 |
| Accrued expenses | 162,452 | 91,754 | (716,651) |
| Accrued expenses | (37,548) | 91,754 | (716,651) |
| Taxes payable | 179,786 | (121,460) | 169,817 |
| Deferred compensation | <u>100,238</u> | <u>(41,999)</u> | <u>139,451</u> |
| TOTAL ADJUSTMENTS | 1,355,813 | (1,250,118) | (1,944,110) |
| TOTAL ADJUSTMENTS | <u>1,155,813</u> | <u>(1,250,118)</u> | <u>(1,944,110)</u> |
| | | | |
| NET CASH FROM OPERATIONS | 7,229,173 | 4,519,805 | 3,264,200 |
| NET CASH FROM OPERATIONS | <u>7,029,173</u> | <u>4,519,805</u> | <u>3,264,200</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Proceeds of note receivable | - | (39,418) | - |
| Capital expenditures including patents and agreements | (1,725,592) | (2,659,962) | (3,166,868) |
| Investment in trustee assets | (100,238) | (309,901) | (185,451) |
| (Increase) in net cash surrender value | (319,424) | (541,106) | (508,133) |
| Investments in minority interests | 49,553 | - | (258,002) |
| Investment in subsidiaries' goodwill | (362,231) | (141,777) | (8,530,570) |
| Investment in subsidiaries' goodwill | <u>(162,231)</u> | <u>(141,777)</u> | <u>(8,530,570)</u> |
| | (2,457,932) | (3,692,164) | (12,649,024) |
| | <u>(2,257,932)</u> | <u>(3,692,164)</u> | <u>(12,649,024)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Increase in long-term debt | 9,160,381 | 12,419,390 | 8,941,219 |
| Payments of principal on debt | (12,228,824) | (12,658,613) | (862,184) |
| Net borrowing under line-of-credit | (287,541) | 474,249 | 440,477 |
| Cash dividends paid | (1,431,263) | (1,250,208) | (1,093,714) |
| Purchase of Common Shares for Treasury | = | = | <u>(152,089)</u> |
| Cash received on options exercise | = | <u>67,561</u> | = |
| | <u>(4,787,247)</u> | <u>(947,621)</u> | <u>7,273,709</u> |

| | | | |
|--|-------------------|--------------------|----------------------|
| NET CHANGE IN CASH | (16,006) | (119,980) | (2,111,115) |
| CASH AT BEGINNING OF PERIOD | 65,289 | 185,269 | 2,296,384 |
| CASH AT BEGINNING OF YEAR | 65,289 | 185,269 | 2,296,384 |
| CASH AT END OF YEAR | \$49,283 | \$65,289 | \$185,269 |
| | ===== | ===== | ===== |

See Note M for supplemental cash flow data.

See accompanying notes to the consolidated financial statements.

CHASE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR EACH YEAR IN THE THREE YEAR PERIOD ENDED AUGUST 31, 2001

NOTE A - ACCOUNTING POLICIES

The principal accounting policies of Chase Corporation ("the Company") and its subsidiaries are as follows:

Basis of Presentation

The financial statements include the accounts of the Company and its wholly-owned subsidiaries. Investments in unconsolidated companies which are at ~~least~~ **least** 20% owned are carried ~~at~~ **at** cost plus equity in undistributed earnings since acquisition. All significant intercompany transactions and balances have been eliminated in consolidation. The Company uses the U.S. dollar as the functional currency for financial reporting.

Products and Markets

The Company's principal products are protective coatings and tape products that are sold in national and international markets. These products consist of: (i) insulating and conducting materials for the manufacture of electrical and telephone wire and cable, and electrical splicing, terminating and repair tapes which are marketed to wire and cable manufacturers and public utilities; (ii) protective pipe coating tapes and other protectants for valves, regulators, casings, joints, metals, concrete, and wood that are sold to oil companies, gas utilities and pipeline companies; (iii) protectants for highway bridge deck metal supported surfaces which are sold to municipal transportation authorities; (iv) thermo-electric insulation for transformers, motors, and other electrical equipment that are sold to original equipment manufacturers; and (v) moisture protective coatings that are sold to the electronics industry. The Company's electronics manufacturing services group provides assembly and contract manufacturing services to the electronics industry.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported

amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

Sales are recognized when goods are ~~shopped~~ shipped by common carrier against a customer purchase order. Commissions are recognized based on commission statements received from the manufacturers represented.

Cash

For the purpose of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

CHASE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR EACH YEAR IN THE THREE YEAR PERIOD ENDED AUGUST 31, 2001

NOTE A - ACCOUNTING POLICIES (Continued)

Inventories

Inventories are stated at first-in, first-out cost, which is not in excess of market.

Investment in Minority Interests

The Company makes investments in closely held companies. These investments are recorded on the equity method reflecting the Company's original investment and a proportional interest in the net operations of these companies since no public quotations exist for these investments. The carrying values of these investments are periodically reviewed based upon estimated market values.

Property, Plant and Equipment

These assets are reflected at cost. Provisions for depreciation of property, plant and equipment were computed by both straight-line and accelerated methods.

Expenditures for maintenance repairs and minor renewals have been charged to expense as incurred. Betterments and major renewals have been capitalized. Upon retirement or other disposition of assets, related allowances for depreciation and amortization have been eliminated from the accounts and any resulting profit or loss reflected in consolidated net income. The annual provisions for depreciation have been computed principally in accordance with the following range of rates:

| | |
|-------------------------|-------------|
| Buildings | - 4% to 7% |
| Machinery and equipment | -10% to 20% |

Excess of Cost Over Net Assets of Acquired Businesses

The excess of cost over the fair value of net assets of acquired business is being amortized over periods from fifteen to forty years or until the disposal of the acquired business. The carrying value of goodwill is periodically reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Patents and Agreements

The Company capitalizes costs related to patent applications and technology agreements. The costs of these assets are amortized using the straight-line method over the lesser of the useful life of the asset or its statutory life. Capitalized costs are periodically reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.

CHASE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR EACH YEAR IN THE THREE YEAR PERIOD ENDED AUGUST 31, 2001

NOTE A - ACCOUNTING POLICIES (Continued)

Pension Plan

The projected unit credit method is utilized for measuring net periodic pension cost over the employee's service life.

Stock-Based Compensation

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related interpretations in accounting for its stock-based compensation plans, rather than the alternative fair value accounting provided for under Financial Accounting Standards Board Statement: No. 123, "Accounting for Stock-Based Compensation". Grants of restricted stock are recorded as compensation expense over the vesting period at the fair market value of the stock at the date of grant. No compensation expense is recorded for options granted in which the exercise price equals or exceeds the market price of the underlying stock on the date of grant.

Deferred Compensation

The net present value of the estimated payments to be made under agreements for deferred compensation is accrued over the period of active employment from the time of the agreement to the anticipated date of retirement.

Translation of Foreign Currency

The financial position and results of operations of the Company's Canadian ~~branch~~ **division** are measured using the Canadian dollar as the functional currency. Revenues and expenses of the branch have been translated at average exchange rates. Assets and liabilities have been translated at the year-end exchange rate. Translation gains and losses are being deferred as a separate component of shareholders' equity, unless there is a sale or liquidation of the underlying foreign investments. The Company has no present plans for the sale or liquidation of its foreign investment. Aggregate foreign currency transaction, gains and losses, are included in determining net income. The amounts of gains and losses were immaterial in 2001, 2000 and 1999.

Income Taxes

The Company has adopted the method of accounting for income taxes of SFAS No. 109. This method compares the tax basis and financial reporting basis of the Company's assets and liabilities and recognizes the related tax benefits and liabilities under enacted tax law. Assets arising from future tax benefits are recognized when it is more likely than not that the Company will have sufficient future taxable income or has had sufficient taxable income in the available carryback period to allow realization of the tax asset. A valuation allowance is provided for potential limitations on the realization of future benefits.

CHASE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR EACH YEAR IN THE THREE YEAR PERIOD ENDED AUGUST 31, 2001

NOTE A - ACCOUNTING POLICIES (Continued)

Income Per Share of Common Stock

Income per share is computed based upon the weighted average number of shares outstanding, after giving effect to the number of shares purchased for Treasury and the dilutive effect of stock options determined on the treasury method. ~~The number of shares used in the computation of basic income per share was 4,005,805 at August 31, 2001, 3,985,029 at August 31, 2000 and 3,898,735 at August 31, 1999. Fully diluted income per share was computed based upon 4,067,735 shares at August 31, 2001, 3,997,163 shares at August 31, 2000 and 3,994,472 shares at August 31, 1999.~~

NOTE B - NOTE RECEIVABLE - RELATED PARTIES

The Company has a note receivable from Avon Custom Mixing Service, Inc., the purchaser of its Avon Custom Mixing Division, secured by the assets of the purchaser. Subsequent to August 31, 2001, the note was fully paid.

NOTE C - CASH SURRENDER VALUE OF LIFE INSURANCE

The Company recognizes cash surrender value in life insurance policies, net of loans secured by the policies, with Security Life of Denver, the Manufacturers' Life Insurance Company, Sun Life Assurance Company of Canada,

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Metropolitan Life Insurance and other carriers of \$637,713; \$1,636,442; \$566,571; \$795,985 and \$155,804, respectively. Subject to periodic review, the Company intends to maintain these policies through the lives of the insureds.

NOTE D - LONG-TERM DEBT

Long-term debt consists of the following at August 31, 2001 and 2000:

| | <u>2001</u> | <u>2000</u> |
|--|-------------|-------------|
| Note payable to bank at the Eurodollar rate plus 1.5% | \$1,600,000 | \$3,100,000 |
| Term note payable to Bank in 20 quarterly payments of \$250,000 through May 2004 with interest at the Eurodollar rate plus 1.5% | 1,300,000 | 2,500,000 |
| Term note payable to bank in 20 quarterly payments of \$34,500 commencing February 2000 with interest at the Eurodollar rate plus 1.5% | 345,000 | 483,000 |
| Term note payable to bank in 20 quarterly payments of \$50,000 commencing 2001 with interest at the Eurodollar rate plus 1.5% | 900,000 | - |

CHASE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR EACH YEAR IN THE THREE YEAR PERIOD ENDED AUGUST 31, 2001

NOTE D - LONG-TERM DEBT (Continued)

| | <u>2001</u> | <u>2000</u> |
|---|-------------|-------------|
| Term note payable to an individual in connection with the acquisition of RWA, Inc. with quarterly payments of \$250,000 including interest at 7.5% through June 2002 | \$ 450,000 | \$1,700,000 |
| Term notes payable to bank with principal payments of \$12,267 per month with interest at the bank's base rate plus 1/2 percent secured by all assets of Sunburst EMS, Inc. | 100,449 | 223,698 |
| Equipment notes with monthly payments of \$7,943 with interest averaging 9.11% secured by manufacturing equipment | 93,813 | 182,767 |

| | | |
|--|------------------|------------------|
| Equipment notes with monthly payments of \$2,559 with interest at 6.49% secured by printing equipment | 38,339 | 52,521 |
| Equipment note with monthly payments of \$2,942 with interest at 7.43% secured by manufacturing equipment | 80,332 | 108,526 |
| Equipment note with monthly payments of \$11,138 with interest at 7.05% secured by data processing equipment | 278,067 | 387,803 |
| Equipment note with monthly payments of \$7,368 with interest at 8.11% secured by manufacturing equipment | 295,874 | 364,931 |
| Equipment note with monthly payments of \$5,319 with interest at 12.35% secured by manufacturing equipment | 34,387 | 71,390 |
| Equipment note with monthly payments of \$6,308 with interest at 6.92% secured by manufacturing equipment | 307,182 | - |
| Equipment note with monthly payments of \$6,911 with interest at 8.06% secured by manufacturing equipment | <u>282,750</u> | <u>-</u> |
| | 6,106,193 | 9,174,636 |
| Less portion payable within one year classified as a current liability | <u>2,543,400</u> | <u>2,605,284</u> |
| | \$3,562,793 | \$6,569,352 |
| | ===== | ===== |

CHASE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR EACH YEAR IN THE THREE YEAR PERIOD ENDED AUGUST 31, 2001

NOTE D - LONG-TERM DEBT (Continued)

The Company has long-term unsecured credit available up to a maximum amount of \$6,000,000 at the bank's base lending rate or, at the option of the Company, at the effective London Interbank Offered Rate (LIBOR) or "Eurodollar rate" for ninety days plus 1.5 percent. The unused available long-term credit amounted to \$4,260,000 at August 31, 2001. **The facility is included in scheduled principal payments at its' maturity although it is intended that it will continue to be renewed.**

Scheduled principal payments on long-term debt for the next five years are:

Year ending August 31,
2002 \$2,543,400

2003 \$2,490,2962004 \$579,6312005 \$388,4752006 \$104,390

NOTE E - NOTES PAYABLE TO BANK

The Company has a short-term credit facility at one half percent over prime with a Canadian bank secured by a letter of credit.

The Company's Sunburst EMS subsidiary has a revolving line of credit secured by its assets.

The weighted average interest rate on short-term borrowings was 5.45% and 8.90% at August 31, 2001 and 2000, respectively.

NOTE F - INCOME TAXES

A reconciliation of federal income taxes computed at applicable rates of income from continuing operations before income taxes to the amounts provided in the consolidated financial statements is as follows:

| | Year Ended August 31, | | |
|--|-----------------------|------------------|-----------------|
| | <u>2001</u> | <u>2000</u> | <u>1999</u> |
| Federal income taxes at applicable rates | \$2,788,986 | \$2,777,642 | \$2,614,649 |
| Adjustments resulting from the tax effect of: | | | |
| Increase in cash surrender value of life insurance | (181,462) | (229,404) | (172,765) |
| Benefit plans not qualified for deduction from federal tax | - | - | 146,905 |
| Net loss of subsidiary not consolidated for tax | - | - | (140,231) |
| State and local taxes net of federal tax effect | 304,693 | 347,825 | 413,531 |
| Other | <u>(286,222)</u> | <u>(170,450)</u> | <u>(42,140)</u> |
| INCOME TAXES | \$2,625,995 | \$2,725,613 | \$2,819,949 |
| | ===== | ===== | ===== |

CHASE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR EACH YEAR IN THE THREE YEAR PERIOD ENDED AUGUST 31, 2001

NOTE F - INCOME TAXES (Continued)

| Current | Year Ended August 31, | | |
|---------|-----------------------|-------------|-------------|
| | <u>2001</u> | <u>2000</u> | <u>1999</u> |
| | \$3,058,165 | \$2,662,368 | \$2,828,949 |

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| | | | |
|--|--------------------|--------------------|--------------------|
| Deferred (benefit): | | | |
| Pension expense | (38,336) | 23,133 | 26,185 |
| Depreciation | (159,577) | (35,127) | (32,668) |
| Allowance for doubtful accounts | 10,999 | 14,157 | 32,365 |
| Market Valuation of investments | - | (16,400) | (120,000) |
| Deferred compensation | (276,486) | 118,907 | 77,287 |
| Deferred state taxes | 31,230 | 1,230 | 7,831 |
| Reserve | - | 12,000 | - |
| Total Deferred | (432,170) | 117,900 | (9,000) |
| (Benefit) of option exercises credited to shareholders' equity | - | (54,655) | - |
| | <u>\$2,625,995</u> | <u>\$2,725,613</u> | <u>\$2,819,949</u> |
| | ===== | ===== | ===== |

The timing differences that give rise to the components of net tax assets are as follows at August 31, 2001 and 2000:

| | | |
|------------------------------|------------------|------------------|
| | <u>2001</u> | <u>2000</u> |
| Assets: | | |
| Reserve for bad debt | \$105,978 | \$116,977 |
| Patents and agreements | 35,200 | 35,200 |
| Pension accrual | 179,079 | 140,743 |
| State tax accrual | (2,330) | 28,900 |
| Deferred compensation | 531,226 | 254,740 |
| Investments marked to market | <u>161,600</u> | <u>161,600</u> |
| | 1,010,753 | 738,160 |
| Less valuation allowance | - | - |
| | <u>1,010,753</u> | <u>738,160</u> |
| Liabilities: | | |
| Depreciation | <u>289,123</u> | <u>448,700</u> |
| Net Assets | <u>\$721,630</u> | <u>\$289,460</u> |
| | ===== | ===== |

NOTE G - OPERATING LEASES

The following is a schedule for the next five years of future minimum rental payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year as of August 31, 2001:

| | | |
|------|------------------------|------------------|
| | Year Ending August 31, | Buildings |
| 2002 | | \$152,610 |
| 2003 | | 82,500 |
| 2004 | | 75,625 |
| 2005 | | - |
| 2006 | | - |
| | | <u>\$310,735</u> |
| | | ===== |

NOTE G - OPERATING LEASES (Continued)

Total rental expense for all operating leases amounted to \$440,762, \$572,623 and \$519,293 for the years ended August 31, 2001, 2000 and 1999, respectively.

NOTE H - SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Selected unaudited quarterly financial data for 2001, 2000 and 1999, is as follows:

| <u>2001</u> | <u>Quarter</u> | | | | <u>Year</u> |
|--------------------------------|----------------|---------------|--------------|---------------|--------------|
| | <u>First</u> | <u>Second</u> | <u>Third</u> | <u>Fourth</u> | |
| Net Sales | \$17,784,472 | \$16,737,356 | \$16,984,666 | \$18,246,365 | \$69,752,859 |
| Gross Profit | \$5,502,996 | \$4,709,089 | \$4,930,381 | \$5,159,867 | \$20,302,333 |
| Net Income | \$1,501,070 | \$1,123,327 | \$1,449,583 | \$1,799,380 | \$5,873,360 |
| Net income per common share | \$.38 | \$.28 | \$.36 | \$.45 | \$1.47 |
| | ===== | ===== | ===== | ===== | ===== |
| <u>2000</u> | <u>Quarter</u> | | | | <u>Year</u> |
| | <u>First</u> | <u>Second</u> | <u>Third</u> | <u>Fourth</u> | |
| Net Sales | \$14,827,683 | \$14,917,478 | \$18,529,601 | \$19,705,414 | \$67,980,176 |
| Gross Profit | \$4,635,238 | \$4,267,396 | \$5,162,163 | \$6,259,295 | \$20,324,092 |
| Net Income | \$1,310,069 | \$991,182 | \$1,395,685 | \$2,072,987 | \$5,769,923 |
| Net income per common share | \$.34 | \$.25 | \$.35 | \$.52 | \$1.46 |
| | ===== | ===== | ===== | ===== | ===== |
| <u>1999</u> | <u>Quarter</u> | | | | <u>Year</u> |
| | <u>First</u> | <u>Second</u> | <u>Third</u> | <u>Fourth</u> | |
| Net Sales | \$11,551,910 | \$10,414,555 | \$12,929,890 | \$14,352,560 | \$49,247,915 |
| Gross Profit | \$4,055,358 | \$3,329,280 | \$4,212,522 | \$4,955,741 | \$16,552,901 |
| Net Income | \$1,160,808 | \$833,635 | \$1,279,970 | \$1,933,897 | \$5,208,310 |
| Net income per common share | \$.30 | \$.21 | \$.33 | \$.50 | \$1.34 |
| | ===== | ===== | ===== | ===== | ===== |

CHASE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR EACH YEAR IN THE THREE YEAR PERIOD ENDED AUGUST 31, 2001

NOTE I - EXPORT SALES AND FOREIGN OPERATIONS

Export sales from continuing domestic operations to unaffiliated third parties were \$5,941,493, \$4,935,701 and \$4,459,743 for the years ended August 31, 2001, 2000 and 1999, respectively. The Company's products are sold

world-wide with no foreign geographic area accounting for more than 10 percent of revenues from continuing operations. The Company's Canadian operations accounted for 5.3 percent of consolidated sales and 2.4 percent of assets.

During fiscal years 2001, 2000 and 1999 one customer accounted for approximately fourteen, twelve and fifteen percent, respectively, of total sales.

NOTE J - RESEARCH AND DEVELOPMENT EXPENSE

Research and development expense amounted to approximately \$531,474, \$620,037, and \$617,789 for the years ended August 31, 2001, 2000 and 1999, respectively.

NOTE K - BENEFITS

401 (K) PLAN

The Company has a deferred compensation plan adopted pursuant to Section 401 (k) of the Internal Revenue Code of 1986. Any qualified employee who has attained age 21 and has been employed by the Company for at least six months may contribute a portion of their salary to the plan and the Company will match 50% of such contribution up to an amount equal to three percent of such employee's yearly salary. The Company's contribution expense was \$188,178, \$168,604 and \$91,219 for the years ended August 31, 2001, 2000 and 1999, respectively.

Non-Qualified Deferred Savings Plan

The Company has a non-qualified deferred savings plan covering directors and selected employees. Participants may elect to defer a portion of their compensation for future payment. The plan is funded by trusteed assets that are restricted to the payment of deferred compensation or satisfaction of the Company's general creditors. The Company's liability under the plan was \$737,088 at August 31, 2001.

Pension Plan

The Company has non-contributory defined benefit pension plans covering substantially all employees excluding subsidiaries. Net periodic pension cost was \$449,696, \$289,343, and \$327,266 for the years ended August 31, 2001, 2000 and 1999, respectively. The Company has a funded, qualified plan and an unfunded supplemental retirement plan designed to maintain benefits for all employees at the plan formula level. The plans provide for pension benefits determined by a participant's years of service and final average compensation. The qualified plan assets consist of separate pooled investment accounts with a trust company.

CHASE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR EACH YEAR IN THE THREE YEAR PERIOD ENDED AUGUST 31, 2001

NOTE K - BENEFITS (Continued)

| | <u>Year Ended August 31,</u> | | |
|---|------------------------------|-------------|-------------|
| | <u>2001</u> | <u>2000</u> | <u>1999</u> |
| Net pension expense components: | | | |
| Service cost of benefits earned during the period | \$329,118 | \$289,503 | \$283,651 |
| Interest cost on projected benefit obligations | 447,942 | 350,585 | 355,789 |

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| | | | |
|-------------------------------|---------------|----------------|---------------|
| Return on plan assets | (422,297) | (500,035) | (334,303) |
| Net amortization and deferral | <u>94,933</u> | <u>149,290</u> | <u>22,129</u> |
| Net periodic pension cost | \$449,696 | \$289,343 | \$327,266 |
| | ===== | ===== | ===== |

The following table sets forth the actuarial present value of benefit obligations and funded status:

| | August 31, <u>2001</u> | <u>2000</u> | <u>1999</u> |
|--|---------------------------|------------------|------------------|
| Accumulated benefit obligations | \$2,882,790 | \$3,149,248 | \$2,706,803 |
| | ===== | ===== | ===== |
| Projected benefit obligations | \$(6,276,332) | \$(4,939,023) | \$(4,701,105) |
| Plan assets at fair value, including prefunded amounts | <u>3,875,060</u> | <u>4,207,214</u> | <u>3,761,924</u> |
| Funded status | (2,401,272) | (731,809) | (939,181) |
| Unrecognized net (gain) loss | 643,269 | (42,238) | 186,130 |
| Unrecognized prior service cost | 956,448 | 190,681 | 214,752 |
| Unamortized net transition assets | - | - | (6,997) |
| | ===== | ===== | ===== |
| (Accrued) pension expense | \$(801,555) | \$583,366 | \$(545,296) |
| | ===== | ===== | ===== |

| | <u>Year Ended August 31,</u> | | |
|---|------------------------------|------------------|------------------|
| | <u>2001</u> | <u>2000</u> | <u>1999</u> |
| <u>Change in benefit obligation</u> | | | |
| <u>Projected Benefit obligation at beginning of year</u> | <u>4,939,023</u> | <u>4,701,105</u> | <u>4,502,041</u> |
| <u>Service Cost</u> | <u>329,118</u> | <u>289,503</u> | <u>283,651</u> |
| <u>Interest Cost</u> | <u>447,942</u> | <u>350,585</u> | <u>355,789</u> |
| <u>Amendments</u> | <u>606,627</u> | <u>0</u> | <u>0</u> |
| <u>Actuarial gain (loss)</u> | <u>153,622</u> | <u>(96,152)</u> | <u>34,262</u> |
| <u>Expenses</u> | <u>0</u> | <u>(14,280)</u> | <u>(13,702)</u> |
| <u>Acquisition</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| <u>Benefits paid</u> | <u>(200,000)</u> | <u>(291,738)</u> | <u>(460,936)</u> |
| | <u>0</u> | <u>0</u> | <u>0</u> |
| <u>Benefit obligation end of year</u> | <u>6,276,332</u> | <u>4,939,023</u> | <u>4,701,105</u> |
| | ===== | ===== | ===== |
| <u>Change in plan assets</u> | | | |
| <u>Fair value of plan assets at beginning of year</u> | <u>4,207,214</u> | <u>3,761,924</u> | <u>3,273,542</u> |
| <u>Actual return on plan assets</u> | <u>(363,661)</u> | <u>500,035</u> | <u>673,542</u> |
| <u>Acquisition</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| <u>Employer contribution</u> | <u>231,504</u> | <u>251,273</u> | <u>289,478</u> |
| <u>Expenses</u> | <u>0</u> | <u>(14,280)</u> | <u>(13,702)</u> |
| <u>Benefits paid</u> | <u>(200,000)</u> | <u>(291,738)</u> | <u>(460,936)</u> |
| <u>Fair value of plan assets at end of year</u> | <u>3,875,057</u> | <u>4,207,214</u> | <u>3,761,924</u> |
| | ===== | ===== | ===== |
| <u>Funded status</u> | <u>(2,401,275)</u> | <u>(731,809)</u> | <u>(939,181)</u> |
| <u>Unrecognized net actuarial (gain)/loss</u> | <u>643,269</u> | <u>(42,238)</u> | <u>186,130</u> |
| <u>Unrecognized prior service cost</u> | <u>956,448</u> | <u>190,681</u> | <u>214,752</u> |
| <u>Unrecognized net obligation (asset)</u> | <u>0</u> | <u>0</u> | <u>(6,997)</u> |

| | | | |
|--|--------------------|------------------|------------------|
| <u>Prepaid (accrued) benefit cost</u> | <u>(801,558)</u> | <u>(583,366)</u> | <u>(545,296)</u> |
| | ===== | ===== | ===== |
| <u>Weighted average assumptions as of August 31,</u> | | | |
| <u>Discount rate</u> | <u>8.00%</u> | <u>8.00%</u> | <u>8.00%</u> |
| <u>Expected return on assets</u> | <u>10.00%</u> | <u>10.00%</u> | <u>10.00%</u> |
| <u>Rate of compensation increase</u> | <u>5.00%</u> | <u>5.00%</u> | <u>5.00%</u> |
| <u>Components of net periodic benefit cost</u> | | | |
| <u>Service cost</u> | <u>329,118</u> | <u>289,503</u> | <u>283,651</u> |
| <u>Interest cost</u> | <u>447,942</u> | <u>350,585</u> | <u>355,789</u> |
| <u>Expected return on plan assets</u> | <u>(422,297)</u> | <u>(500,035)</u> | <u>(673,542)</u> |
| <u>Amortization of prior service cost</u> | <u>94,933</u> | <u>24,071</u> | <u>24,071</u> |
| <u>Unrecognized net transaction asset</u> | <u>0</u> | <u>(6,997)</u> | <u>(6,999)</u> |
| <u>Recognized net (gain)/loss</u> | <u>0</u> | <u>(1,327)</u> | <u>5,057</u> |
| <u>Net asset gain/(loss) deferred</u> | <u>0</u> | <u>133,543</u> | <u>339,239</u> |
| | <u>449,696</u> | <u>289,343</u> | <u>327,266</u> |
| | ===== | ===== | ===== |
| <u>Actuarial present value of benefit obligation and funded status</u> | | | |
| <u>Accumulated benefit obligations</u> | <u>3,863,900</u> | <u>3,149,240</u> | <u>2,706,803</u> |
| <u>Projected benefit obligations</u> | <u>6,276,332</u> | <u>4,939,023</u> | <u>4,701,105</u> |
| <u>Plan assets at fair value</u> | <u>3,875,057</u> | <u>4,207,214</u> | <u>3,761,924</u> |
| <u>Funded status</u> | <u>(2,401,275)</u> | <u>(731,809)</u> | <u>(939,181)</u> |
| <u>Unrecognized net (gain)/loss</u> | <u>643,269</u> | <u>(42,238)</u> | <u>186,130</u> |
| <u>Unrecognized prior service cost</u> | <u>956,448</u> | <u>190,681</u> | <u>214,752</u> |
| <u>Unrecognized net transition assets</u> | <u>0</u> | <u>0</u> | <u>(6,997)</u> |
| <u>(Accrued) pension expense</u> | <u>(801,558)</u> | <u>(583,366)</u> | <u>(545,296)</u> |
| | ===== | ===== | ===== |

CHASE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR EACH YEAR IN THE THREE YEAR PERIOD ENDED AUGUST 31, 2001

NOTE K - BENEFITS (Continued)

The net transition assets amount is being amortized at a level rate over 15 years. The actuarial calculations were based on assumptions of a weighted average discount rate of 8.0% and a future rate of increase in compensation levels of 5%. The expected rate of return on plan assets is 10%. Prior service cost arose from the amendment of the plan's benefit schedules to comply with the Tax Reform Act of 1986 (TRA) and adoption of the unfunded supplemental pension plan.

Deferred Compensation

Life insurance is provided under a split dollar life insurance agreement whereby the Company will recover the premiums paid from the proceeds of the policies. The Company recognizes an offset to expense for the growth in the cash surrender value of the policies.

The Company also has an agreement with its former Chairman of the Board who retired August 31, 1991, that the Company will make ten annual payments of \$58,000 to him or his beneficiaries.

Stock Option Plans

1995 Stock Option Plan - Effective July 18, 1995, the Company adopted, and the stockholders subsequently approved, a stock award plan and an incentive plan which permit the issuance of options and restricted stock to selected employees and independent directors of the Company. The plans reserve 600,000 shares of Common Stock for grant.

Under the terms of the 1995 stock option plan, options granted may be either nonqualified or incentive stock options and the exercise price may not be less than the fair market value of a share at the date of grant. The board of directors approved issuance of 450,000 options (~~at \$3.375, based upon the market value at July 18, 1995~~). The options vest ratably over ten years. In addition, the board of directors granted 250,000 (at \$3.375, based upon the market value at July 18, 1995) shares of restricted Common Stock to the Company's CEO, Mr. Peter Chase. Compensation expense of approximately \$98,000 per year is being recognized over nine years. Other than the restrictions which limit the sale and transfer of these shares, Mr. Chase is entitled to all rights of a shareholder. The grants vest at the end of nine years. If Mr. Chase is not providing services to the Company prior to vesting, the shares revert to the Company.

CHASE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR EACH YEAR IN THE THREE YEAR PERIOD ENDED AUGUST 31, 2001

NOTE K - BENEFITS (Continued)

Stock Option Plans (Continued)

Options at August 31, 2001:

| Exercise Price | Weighted Average Exercise Price | Remaining Life | Exercisable | Weighted Average Exercise Price |
|-----------------------|---------------------------------|----------------|-------------|---------------------------------|
| 254,355 \$3.375-4.625 | \$ 3.40 | 5 years | 96,855 | \$3.63 |
| 15,000 \$8.75-9.09 | \$ 8.98 | 7 years | 14,000 | \$9.02 |
| 5,000 \$11.83 | \$11.83 | 8 years | 3,000 | \$11.83 |

Stock option plan activity was as follows:

| | Directors | Weighted Average Exercise Price | Officers and Employees | Weighted Average Exercise Price | <u>Weighted Average In Market</u> |
|-----------------------------|-----------------|---------------------------------|------------------------|---------------------------------|-----------------------------------|
| Outstanding August 31, 1998 | 70,500 | \$4.00 | 370,474 | \$3.59 | |
| Exercisable | 40,500 | \$2.92 | 57,573 | \$3.43 | |
| Grants at market price | - | - | 5,000 | \$11.83 | <u>\$3.61</u> |
| Exercises | <u>(19,000)</u> | \$4.63 | <u>(3,000)</u> | \$5.63 | |

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| | | | | |
|-----------------------------|-----------------|--------|-----------------|--------|
| Outstanding August 31, 1999 | 51,500 | \$3.76 | 372,474 | \$3.68 |
| Exercisable | 36,500 | \$3.59 | 107,774 | \$3.73 |
| Grants at market price | - | - | - | - |
| Exercises | <u>(30,000)</u> | \$3.14 | <u>(86,619)</u> | \$3.79 |
| Outstanding August 31, 2000 | 21,500 | \$6.84 | 285,855 | \$3.65 |
| Exercisable | 21,500 | \$6.84 | 76,355 | \$3.84 |
| Exercises | <u>(9,000)</u> | \$4.96 | <u>(24,000)</u> | \$3.78 |
| Outstanding August 31, 2001 | 12,500 | \$8.20 | 261,855 | \$3.64 |
| Exercisable | 12,500 | \$8.20 | 101,355 | \$3.84 |

CHASE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR EACH YEAR IN THE THREE YEAR PERIOD ENDED AUGUST 31, 2001

NOTE K - BENEFITS (Continued)

Proforma Disclosures - The Company accounts for stock options issued to directors, officers and employees under Accounting Principles Board Opinion No. 25 (see Note A). The proforma net income and earnings per share, based upon a Black-Scholes pricing model, using a volatility of 146.05%, a risk-free interest rate of 7.5%, a dividend yield of 4% and an expected life of 5 years, had Financial Accounting Standards Board Statement No. 123 been applied, are as follows:

| | | August 31, | | |
|--|-------------|----------------------|----------------------|----------------------|
| | <u>2001</u> | <u>2000</u> | <u>1999</u> | |
| Net Income | | \$5,809,558 | \$5,711,089 | \$5,121,614 |
| Basic net income per share | | \$1.45 | \$1.45 | \$1.31 |
| <u>Diluted net income per share</u> | | <u>\$1.43</u> | <u>\$1.43</u> | <u>\$1.28</u> |

NOTE L - SEGMENT DATA

Chase Corporation operates in two business segments, a specialized manufacturing segment consisting of protective coatings and tapes and an electronic manufacturing services segment. Specialized manufacturing products include insulating and conducting materials for wire and cable manufacturers, protective coatings for pipeline applications and moisture protective coatings for electronics and printing services. Electronic manufacturing services include printed circuit board and electro-mechanical assembly services for the electronics industry.

| | <u>August 31, 2001</u> | | |
|--|--------------------------------------|--|-----------------------------|
| | <u>Specialized Manufacturing</u> | <u>Electronic Manufacturing Services</u> | <u>Total</u> |
| Sales | \$47,445,350 | \$22,307,509 | <u>\$69,752,859</u> |
| Operating Profit | \$10,322,166 | \$1,607,712 | <u>\$11,929,878</u> |
| <u>Less common costs</u> | | | <u>\$(3,726,523)</u> |
| <u>Income before taxes and minority interests</u> | | | <u>\$8,203,355</u> |
| Identifiable assets | \$27,234,081 | \$11,398,605 | <u>\$38,632,686</u> |
| <u>Common corporate assets</u> | | | <u>\$8,155,817</u> |
| <u>Total assets</u> | | | <u>\$46,788,503</u> |

August 31, 2000

| | Specialized <u>Manufacturing</u> | Electronic Manufacturing <u>Services</u> | <u>Total</u> |
|---|-------------------------------------|--|----------------------|
| Sales | \$47,109,676 | \$20,870,500 | <u>\$67,980,176</u> |
| Operating Profit | \$10,018,565 | \$1,809,332 | <u>\$11,827,897</u> |
| <u>Less common costs</u> | | | <u>\$(3,658,361)</u> |
| <u>Income before taxes and minority interests</u> | | | <u>\$8,169,536</u> |
| Identifiable assets | \$29,428,664 | \$8,995,454 | <u>\$38,424,118</u> |
| <u>Common corporate assets</u> | | | <u>\$7,299,134</u> |
| <u>Total assets</u> | | | <u>\$45,723,252</u> |

August 31, 1999

| | Specialized <u>Manufacturing</u> | Electronic Manufacturing <u>Services</u> | <u>Total</u> |
|---|-------------------------------------|--|----------------------|
| Sales | \$42,711,390 | \$6,536,525 | <u>\$49,247,915</u> |
| Operating Profit | \$9,182,016 | \$164,278 | <u>\$9,346,294</u> |
| <u>Less common costs</u> | | | <u>\$(1,655,668)</u> |
| <u>Income before taxes and minority interests</u> | | | <u>\$7,690,626</u> |
| Identifiable assets | \$24,441,128 | \$8,067,407 | <u>\$32,508,535</u> |
| <u>Common corporate assets</u> | | | <u>\$6,475,601</u> |
| <u>Total assets</u> | | | <u>\$38,984,136</u> |

CHASE CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 FOR EACH YEAR IN THE THREE YEAR PERIOD ENDED AUGUST 31, 2001

NOTE M - SUPPLEMENTAL CASH FLOW DATA

Cash paid during the year for:

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| | <u>2001</u> | <u>2000</u> | <u>1999</u> |
|--------------|-------------|-------------|-------------|
| Income taxes | \$2,801,191 | \$2,846,770 | \$2,817,685 |
| Interest | \$ 727,444 | \$ 706,993 | \$ 340,591 |

NOTE N - INVESTMENT IN MINORITY INTERESTS

The Company has formed a joint venture, The Stewart Group, Inc., with The Stewart Group, Ltd. of Canada, to produce various products for the fiber optic cable market. Chase Corporation owns a 42% interest in the joint venture at August 31, 2001.

NOTE O - ACQUISITIONS

Effective January 27, 1999, Chase Corporation acquired the outstanding shares of D.C. Scientific, Inc., that it did not previously own. In connection with the acquisition, D.C. Scientific, Inc. changed its name to Sunburst Electronic Manufacturing Solutions, Inc.

Effective April 30, 1999, the Company acquired RWA, Inc., an electronic manufacturing services company. The Company purchased the stock of RWA, Inc. for cash of \$5,000,000 and a note for \$2,700,000, discounted at 7.5%. ~~Contingent amounts at the time of purchase have been settled by an agreement to pay an additional \$200,000 in 2002.~~ *The Company has a potential future contingent payment of \$200,000 payable as settlement to the RWA, Inc. stockholder.*

Effective August 1, 1999, the Company acquired Northeast Quality Products, Inc. (NEQP), a printer of high quality pressure sensitive materials.

~~Effective February 1, 2000, the Company acquired the assets and operations of NETCO Automation, Inc., an electronic manufacturing services company specializing in prototyping and rework.~~

Effective November 1, 2001, The Company acquired the assets and operations of Tapecoat, a division of TC Manufacturing Co., Inc. of Evanston, Illinois, a provider of protective coatings for the transportation, marine and geo-synthetics industries and for underground oil, gas and water pipelines.

All acquisitions were accounted for as purchase transactions and the operations of the acquired entity or assets are included in consolidated operations from the effective date.

NOTE P - EARNINGS PER SHARE

| | <u>Years Ended August 31,</u> | | |
|---|-------------------------------|--------------------|--------------------|
| | <u>2001</u> | <u>2000</u> | <u>1999</u> |
| <u>Income available to common shareholders</u> | <u>\$5,873,360</u> | <u>\$5,769,923</u> | <u>\$5,208,310</u> |
| <u>Weighted average common shares outstanding</u> | <u>3,997,968</u> | <u>3,940,459</u> | <u>3,898,735</u> |
| <u>Basic earnings per share</u> | <u>\$1.47</u> | <u>\$1.45</u> | <u>\$1.34</u> |
| <u>Basic earnings per share</u> | <u>\$1.47</u> | <u>\$1.46</u> | <u>\$1.34</u> |
| <u>Weighted average common shares outstanding</u> | <u>3,997,968</u> | <u>3,940,459</u> | <u>3,898,735</u> |
| <u>Effect of options outstanding</u> | <u>69,407</u> | <u>56,704</u> | <u>95,737</u> |
| <u>Common shares and share equivalents</u> | <u>4,067,375</u> | <u>3,997,163</u> | <u>3,994,472</u> |

Diluted earnings per share **\$1.44** **\$1.44** **\$1.30**

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

CHASE CORPORATION AND SUBSIDIARIES

| COL. A Description | COL. B Balance At Beginning Of Period | COL. C (1) Charged To Cost and Expense | COL. D (2) (3) Charged To Other Accounts | COL. D Deductions | COL. E Balance At End Of Period |
|---------------------------------|--|---|---|----------------------|--|
| Year ended Aug 31, 2001: | | | | | |
| Allowance for doubtful accounts | \$292,443 | \$40,057 | | \$- | \$67,554 |
| Year ended Aug 31, 2000: | | | | | |
| Allowance for doubtful accounts | \$257,049 | \$5,733 | \$29,661 | \$- | \$292,443 |
| Year ended Aug 31, 1999: | | | | | |
| Allowance for doubtful accounts | \$201,135 | \$(88,940) | \$146,458 | \$1,604 | \$257,049 |

(1) Deductions are charged to accounts receivable when specific amounts are judged to be uncollectible. Reserves are adjusted based on reviews of the risk associated with specific accounts and with the overall collectibility expectations of the total receivables.

(2) \$29,661 reserve acquired with the purchase of assets of NETCO Automation, Inc.

(3) \$146,458 reserve acquired with purchase of RWA, Inc. \$57,860 adjustment to insurance adjustment receivable recorded as prepaid insurance and \$25,000 reserve acquired with majority interest in DC Scientific, Inc.