

CHASE CORP  
Form 10-Q/A  
April 17, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C., 20549

FORM 10-Q/A

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarter Ended February 28, 2003 Commission File Number:1-9852

CHASE CORPORATION

(Exact name of registrant as specified in its charter)

Massachusetts (State or other jurisdiction of incorporation of organization) 26 Summer St. Bridgewater, Massachusetts (Address of principal executive offices)	11-1797126 (I.R.S. Employer Identification No.)  02324 (Zip Code)
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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

	Yes <input checked="" type="checkbox"/>	No
<u>Common Shares Outstanding as of January 31, 2003</u>	<u>4,047,317</u>	

Part 1: FINANCIAL INFORMATION  
CHASE CORPORATION  
CONSOLIDATED BALANCE SHEET

ASSETS	Feb 28 2003 (UNAUDITED)	Aug 31 2002 (AUDITED)
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$745,173	\$329,084
Trade receivables, less allowances for doubtful accounts of \$470,775 and \$2288,177 respectively	10,665,749	11,019,325
Finished and in process	5,106,265	4,536,453
Raw Materials	<u>5,311,738</u>	<u>4,981,086</u>
	10,418,003	9,517,539
Prepaid expenses & other current assets	871,116	604,512
Deferred taxes	<u>188,310</u>	<u>137,888</u>
<b>TOTAL CURRENT ASSETS</b>	<b>22,888,351</b>	<b>21,608,348</b>

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PROPERTY, PLANT AND EQUIPMENT

Land and improvements	1,096,704	1,096,704
Buildings	10,197,575	7,480,873
Machinery & equipment	23,121,733	21,992,666
Construction in Process	<u>660,538</u>	<u>855,100</u>
	35,076,550	31,425,343
Less allowance for depreciation	<u>17,276,609</u>	<u>16,293,137</u>
	17,799,941	15,132,206

OTHER ASSETS

Excess of cost over net assets acquired	10,503,820	10,503,820
Less amortization	<u>1,922,089</u>	<u>1,922,089</u>
	8,581,731	8,581,731
Patents, agreements and trademarks less amortization of \$1,035,384 for Feb 28, 2003 and August 31, 2002	605,340	653,985
Cash surrender value of life insurance net	4,723,279	4,459,167
Deferred taxes	775,808	655,279
Investment in joint venture	1,249,595	1,324,595
Other	<u>957,398</u>	<u>889,518</u>
	<u>16,893,151</u>	<u>16,564,275</u>
	\$57,581,443	\$53,304,829
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

	Feb 28 2003 (UNAUDITED)	Aug 31 2002 (AUDITED)
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$4,655,375	\$5,354,907
Notes payable	1,467,309	1,524,324
Accrued expenses	1,649,632	1,685,181
Accrued pension expense-current	407,156	407,156
Income taxes	1,921,066	866,332
Current portion of L.T. debt	<u>2,429,330</u>	<u>1,966,382</u>
<b>TOTAL CURRENT LIABILITIES</b>	12,529,868	11,804,282
<b>LONG-TERM DEBT, less current portion</b>	8,846,527	6,780,834
Long-term deferred compensation obligation	950,398	882,518
<b>ACCRUED PENSION EXPENSE</b>	823,311	552,827
<b>STOCKHOLDERS' EQUITY</b>		
First Serial Preferred Stock, par value \$1.00 a share authorized 100,000 shares; (issued-none)		
Common Stock, par value \$.10 a share, Authorized 10,000,000 shares; issued and outstanding 5,135,901 shares at Feb 28, 2003, and 5,135,901 shares at Aug. 31, 2002 respectively.	513,590	513,590
Additional paid-in capital	4,293,011	4,243,787
	(4,687,565)	(4,687,565)

Treasury Stock, 1,088,584 and 1,088,584 Feb  
28, 2003, and Aug. 31, 2002, respectively

Cum. G/(L) on currency translation	(187,605)	(212,916)
Retained earnings	<u>34,499,908</u>	<u>33,427,472</u>
	<u>34,431,339</u>	<u>33,284,368</u>
	\$57,581,443	\$53,304,829
	=====	=====

See accompanying notes to the consolidated financial statements and accountants' review report.

CHASE CORPORATION  
STATEMENT OF CONSOLIDATED OPERATIONS  
(UNAUDITED)

	Six Months Ended		Three Months Ended	
	Feb 28, 2003	Feb 28 2002	Feb 28, 2003	Feb 28 2002
Sales	\$33,507,862	\$31,999,373	\$15,718,210	\$16,847,200
Commissions and other income	<u>391,519</u>	<u>407,887</u>	<u>203,890</u>	<u>206,776</u>
	33,899,381	32,407,260	15,922,100	17,053,976
Cost and Expenses				
Cost of products sold(Note B)	23,410,952	23,870,015	11,126,003	12,617,618
Sell, general and admin expenses	6,843,218	6,212,032	3,254,740	3,156,975
Bad debt expense	91,085	61,427	49,834	48,922
Non-operating interest income	(49,467)	(178)	(17,341)	(176)
Interest expense	<u>196,132</u>	<u>265,786</u>	<u>101,226</u>	<u>143,690</u>
	<u>30,491,920</u>	<u>30,409,082</u>	<u>14,514,462</u>	<u>15,967,029</u>
Income before income taxes and minority interest and participation	3,407,461	1,998,178	1,407,638	1,086,947
Income taxes	<u>1,167,100</u>	<u>595,900</u>	<u>474,200</u>	<u>311,100</u>
Income before minority interest and participation	2,240,361	1,402,278	933,438	755,847
Income from minority interest	<u>(75,000)</u>	<u>75,000</u>	<u>(10,000)</u>	<u>35,000</u>
NET INCOME	\$2,165,361	\$1,477,278	\$923,438	\$810,847
	=====	=====	=====	=====
Net income per share of Common Stock				
Basic	\$0.535	\$0.366	\$0.228	\$0.200
	=====	=====	=====	=====
Fully Diluted	\$0.522	\$0.359	\$0.222	\$0.196
	=====	=====	=====	=====

See accompanying notes to the consolidated financial statements and accountants' review report.

CHASE CORPORATION  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY(continued)  
(UNAUDITED)

6 MONTH ENDED February 28, 2003 AND February 28, 2002

Common Stock      Additional

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	Shares Issued	Paid-In Amount	Paid-In Capital	Treasury Stock Shares	Treasury Stock Amount
Balance @ Aug 31, 2001	5,094,389	\$509,439	\$3,721,442	1,088,584	\$(4,687,565)
Currency Translation adjustment					
Exercise of stock options	1,512	151	(151)		
Issue of 40,000 shares-Tapecoat	40,000	4,000	424,000		
Compensatory stock issuance			49,248		
Net Income for 6 months					
Dividend paid in cash \$.36 a share on common stock					
Balance @ Feb 28, 2002	5,135,901	513,590	4,194,539	1,088,584	(4,687,565)
	Common Stock		Additional		
	Shares	Amount	Paid-In	Treasury Stock	
	Issued	Amount	Capital	Shares	Amount
Balance @ Feb 28, 2002	5,135,901	513,590	4,194,539	1,088,584	(4,687,565)
Currency Translation adjustment					
Compensatory stock issuance			49,248		
Net Income for 6 months					
Balance @ Aug 31, 2002	5,135,901	513,590	4,243,787	1,088,584	(4,687,565)
	Common Stock		Additional		
	Shares	Amount	Paid-In	Treasury Stock	
	Issued	Amount	Capital	Shares	Amount
Balance @ Aug 31, 2002	5,135,901	513,590	4,243,787	1,088,584	(4,687,565)
Currency Translation adjustment					
Treasury Stock dividend					
Exercise of stock options					
Compensatory stock issuance			49,224		
Net Income for 6 months					
Dividends paid in cash \$.27 a share on common stock					
Balance @ Feb 28, 2003	5,135,901	\$513,590	\$4,293,011	1,088,584	\$(4,687,565)

	Cumulative	
	Effect of	Total
Retained	Currency	Shareholders Comprehensive

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	Earnings	Translation	Equity	Income
Balance @ Aug 31, 2001	\$30,406,446	\$(213,002)	\$29,736,760	
Currency Translation adjustment		(22,404)	(22,404)	\$(22,404)
Exercise of stock options				
Issue of 40,000 shares-Tapecoat			428,000	
Compensatory stock issuance			49,248	
Net Income for 6 months	1,477,278		1,477,278	1,477,278
Dividend paid in cash \$ .36 a share on common stock	(1,442,290)		(1,442,290)	
	-----	-----	-----	-----
Balance @ Feb 28, 2002	30,441,434	(235,406)	30,226,592	1,454,874
				=====
	Retained	Cumulative	Total	Comprehensive
	Earnings	Effect of	Shareholders	Income
		Currency	Equity	
		Translation		
Balance @ Feb 28, 2002	30,441,434	(235,406)	30,226,592	1,454,874
Currency Translation adjustment		22,490	22,490	22,490
Compensatory stock issuance			49,248	
Net Income for 6 months	2,986,038		2,986,038	2,986,038
	-----	-----	-----	-----
Balance @ Aug 31, 2002	33,427,472	(212,916)	33,284,368	3,008,528
				=====
	Retained	Cumulative	Total	Comprehensive
	Earnings	Effect of	Shareholders	Income
		Currency	Equity	
		Translation		
Balance @ Aug 31, 2002	33,427,472	(212,916)	33,284,368	3,008,528
Currency Translation adjustment		25,311	25,311	25,311
Treasury Stock dividend				
Exercise of stock options				
Compensatory stock issuance			49,224	
Net Income for 6 months	2,165,361	2,165,361	2,165,361	2,165,361
Dividends paid in cash \$ .27 a share on common stock	(1,092,925)		(1,092,925)	
	-----	-----	-----	-----
Balance @ Feb 28, 2003	\$34,499,908	\$(187,605)	\$34,431,339	\$2,190,672
	=====	=====	=====	=====

See accompanying notes to the consolidated financial statements and accountants' review report.

CHASE CORPORATION  
CONSOLIDATED STATEMENT OF CASH FLOWS  
(UNAUDITED)

Six Months Ended  
Feb. 28, 2003    Feb. 28, 2002

CASH FLOWS FROM OPERATING ACTIVITIES

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Net Income	\$2,165,361	\$1,477,278
Adjmts. to reconcile net income to net cash provided by operating activities:		
Income from joint venture	75,000	(75,000)
Depreciation	983,472	893,533
Amortization	48,645	48,645
Provision for losses on accounts receivable	182,598	86,285
Stock issued for compensation	49,224	49,248
Deferred taxes	(170,951)	(152,583)
Change in assets and liabilities		
Proceeds from notes receivable	0	147,000
Trade receivables	170,978	1,939,651
Inventories	(900,464)	586,430
Prepaid. expenses & other current assets	(266,604)	(480,050)
Accounts payable	(699,532)	168,449
Accrued expenses	234,935	(436,741)
Income taxes payable	1,054,734	(513,897)
Deferred compensation	0	0
	<hr/>	<hr/>
TOTAL ADJUSTMENTS	762,035	2,260,970
NET CASH FROM OPERATIONS	2,927,396	3,738,248
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(3,625,896)	(2,389,468)
Cash paid for investment	0	(15,352)
Investment in trustee assets	0	0
Investment in subsidiaries	0	(3,500)
Purchase of cash surrender value	(264,112)	(393,502)
Dividend received from joint venture	0	0
	<hr/>	<hr/>
	(3,890,008)	(2,801,822)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in long-term debt	7,600,000	6,797,783
Payments of principal on debt	(5,071,359)	(6,030,898)
Net borrowing under line-of-credit	(57,015)	(61,184)
Dividend paid	(1,092,925)	(1,442,290)
Reduction of cash paid for dividends		
	<hr/>	<hr/>
	(1,378,701)	(736,589)
NET CHANGE IN CASH	416,089	199,837
CASH AT BEGINNING OF PERIOD	329,084	49,283
	<hr/>	<hr/>
CASH AT END OF PERIOD	\$745,173	\$249,120
	=====	=====
CASH PAID DURING PERIOD FOR:		
Income taxes	\$53,699	\$1,385,285
Interest	\$196,132	\$265,786

See accompanying notes to the consolidated financial statements and accountants' review report.

**CHIEF EXECUTIVE OFFICER CERTIFICATION**

I, Peter R. Chase, President and Chief Executive Officer of Chase Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of Chase Corporation (the "Registrant");

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this quarterly report;
4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared.
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 9, 2003

/s/ Peter R. Chase

Peter R. Chase  
President & CEO

#### **CHIEF FINANCIAL OFFICER CERTIFICATION**

I, Everett Chadwick, Treasurer and Chief Financial Officer of Chase Corporation, certify that:

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1. I have reviewed this quarterly report on Form 10-Q/A of Chase Corporation (the "Registrant");
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this quarterly report;
4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared.
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 9, 2003

/s/ Everett Chadwick

Everett Chadwick  
Treasurer & CFO

CHASE CORPORATION                      SECURITIES AND EXCHANGE COMMISSION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENT



April 14, 2003

Note A - Basis of Presentation

The accompanying unaudited Consolidated Financial Statements have been prepared in accordance with the instructions to Form 10-Q/A and all adjustments (consisting of nonrecurring accruals) have been made which are, in the opinion of Management, necessary to a fair statement of the results for the interim periods reported. The financial statements of Chase Corporation include the activities of its divisions and its foreign sales subsidiary.

Note B - Inventories

Certain divisions used estimated gross profit rates to determine the cost of goods sold. No significant adjustments have resulted from reconciling with the interim physical inventories as a result of using this method.

Note C - Income per Share of Common Stock

	Six Months Ended		Three Months Ended	
	February 28,	February 28,	February 28,	February 28,
	2003	2002	2003	2002
Income available to common shareholders	\$2165,361	\$1,477,278	\$923,438	\$810,847
Weighted average common shares outstanding	4,047,317	4,032,984	4,047,317	4,047,132
Basic earnings per share	0.535	0.366	0.228	0.200
Weighted average common shares outstanding	4,047,317	4,032,984	4,047,317	4,047,132
Effect of options outstanding	104,360	83,396	111,770	85,507
Common shares and share equivalents	4,151,677	4,116,380	4,159,087	4,132,639
Diluted earnings per share	0.522	0.359	0.222	0.196

Note D - Acquisition of Assets

Chase Corporation (the "Company") has purchased certain operating assets of the Tapecoat Division of TC Manufacturing, Inc. from TC Manufacturing, Inc. The assets were purchased effective November 1, 2001. The purchase price consisted of:

Cash	\$5,427,217
Accounts Payable	417,034
Other Current Liabilities assumed	868,728
Common Stock issued, 40,000 shares at \$10.70 per share	<u>428,000</u>
	\$7,140,979

Cash was provided through operating cash and borrowing under the Company's credit facility.

Note E - Change in Accounting Method

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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.

Based on the evaluation of estimated future cash flows no adjustment to goodwill has been made at this time. Projected amortization of intangibles not included in goodwill for the next 5-year period is:

2003 - \$97,047  
2004 - \$97,047  
2005 - \$96,060  
2006 - \$93,897  
2007 - \$93,897

	Six Months Ended		Three Months Ended	
	February 28, 2003	February 28, 2002	February 28, 2003	February 28, 2002
Net income as reported	2,165,361	1,477,278	923,438	810,847
Amortization Expense related to goodwill	0	0	0	0
Net income	2,165,361	1,477,278	923,438	810,847

### Note F - Review by Independent Public Accountant

The financial information included in this form has been reviewed by an independent public accountant in accordance with established professional standards and procedures. Based upon such review, no adjustments or additional disclosure were recommended.

Letter from the independent public accountant is included as a part of this report.

### INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors

Chase Corporation

Bridgewater, Massachusetts

We have reviewed the consolidated balance sheet of Chase Corporation and Subsidiaries as of February 28, 2003 and the related statements of operations, stockholders equity, and cash flows for the three and six months periods then ended February 28, 2003 and February 28, 2002. These financial statements are the responsibility of the company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is

substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of Chase Corporation and Subsidiaries as of August 31, 2002 and the related consolidated statements of income, retained earnings and cash flows for the year then ended (not presented herein); and in our report dated November 25, 2002, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of August 31, 2002, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/S/ LIVINGSTON & HAYNES, P.C.

Wellesley, Massachusetts  
April 4, 2003

## Results of Operations

Net revenues increased 5% for the first six months of fiscal 2003 versus the same period last year; although second quarter revenues declined 7% when compared to the like period in fiscal 2002. The Company continues to be negatively impacted by the general economic downturn and which has now been further confused by the war and the uncertainties associated with this action. From a revenue analysis, most of the negative impact when comparing this fiscal year versus last year is associated with certain markets within our Electronic Manufacturing Services (EMS) segment. It is anticipated that these markets, predominantly electronic and telecommunications, will continue to be soft during the remainder of the year. However, the Company's diversification should allow us to continue to be able to manage our resources on a positive revenue base during this difficult period. The Company will also continue to look for potential investment opportunities that can benefit the Company in the future.

When comparing the six months of fiscal 2002 revenue to that of the prior years, the decrease of 7% was associated to the recession. The decline was somewhat offset from the benefits of our acquisition of the Tapecoat Division of TC Manufacturing, Inc. concluded November 1, 2001.

### Sales and Operating Profit by Segment (\$-000)

#### For the six months ended:

Feb 28, 2003		Operating		
		<u>Sales</u>	<u>Profit</u>	<u>%</u>
	Specialized Manufacturing	\$25,008	\$4,842	19.4
	Electronic Manufacturing Services	<u>\$ 8,500</u>	<u>\$ 386</u>	<u>4.5</u>
		\$33,508	\$5,228	15.6

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			<u>(1,820)</u>	
			\$3,408	10.2
Feb 28, 2002				
	Specialized Manufacturing	\$21,961	\$3,420	15.6
	Electronic Manufacturing Services	<u>\$10,038</u>	<u>\$ 176</u>	<u>1.8</u>
		\$31,999	\$3,596	11.2
			<u>(1,598)</u>	
			\$1,998	6.2
Feb 28, 2001				
	Specialized Manufacturing	\$22,776	\$4,642	20.4
	Electronic Manufacturing Services	<u>\$11,746</u>	<u>\$1,153</u>	<u>9.8</u>
		\$34,522	\$5,795	16.8
			<u>(2,055)</u>	
			\$3,740	10.8

The cost of products decreased by \$1,492,000 during the current quarter when comparing it to the same quarter last year. When comparing the 6 month period this year versus the prior year there was a decrease of \$459,000. For the first half, as a percent of sales, cost of products decreased to 69.9% from 74.6%. While we have had some selling price erosion during this period, we received the benefit of a change in product mix mostly associated with the lower sales within our Electronic Manufacturing Services segment. This EMS segment has a higher cost of materials than our more traditional products. The EMS sales were off \$1,500,000 for the six month period. The Specialized Manufacturing segment also received benefits this year of having the Tapecoat division results included in the full six months versus only four month during fiscal 2002.

When comparing fiscal 2002 versus 2001, the cost of products decreased 7%. The Company's performance had been negatively impacted by the recession, which was somewhat offset from the benefits of our acquisition of Tapecoat concluded on November 1, 2001.

Selling and administration expenses increased by \$631,000 during the current year and as a percent of sales increased by 1%. About \$343,000 of the increase relates to the Tapecoat acquisition and as a result of having a full six months of their selling and administration expenses included as compared to only four months included last year. The Company has also invested in certain personnel that it believes is required to support continued growth. Last year the Company was more focused with cost containment as we moved through a difficult economic cycle.

Interest expense decreased to \$196,000 for the first six months of this year as compared to \$266,000 and \$470,000 for the periods of 2002 and 2001. The decreases relate to the repayment of debt incurred for acquisition and also the reduction of interest rates. The Company continues to receive the benefits from low borrowing rates from its financial institutions.

A majority of the operating income improvement of \$1,400,000 for the first six months of fiscal 2003 relates to improvement within our Specialized Manufacturing segment. About \$746,000 of the improvement relates to Tapecoat which was acquired November 1, 2001. Also, the Electronic Manufacturing Services (EMS) segment generated some improvement. That market continues to be difficult with no signs of solid improvement during fiscal 2003. The cost structure of EMS has been modified in an attempt to maximize profitability even with lower sales. The Company remains concerned over the recovery of the economy but anticipates continued improvement during the year.

When comparing 2002 to 2001, both of our segments were influenced by the general economic slow down and the impact of the World Trade Center attack. However, during the first six months of 2002, the Company's traditional markets continued to provide reasonable earnings during a difficult period.

The income (loss) from minority interest relates to a 42% equity position in the Stewart Group, Inc., Toronto, Canada. The business focus is the telecom market and continued market difficulty is anticipated during fiscal 2003.

### **Liquidity and Sources of Capital**

The ratio of current assets to current liabilities was 1.9 to 1 at the end of the second quarter of fiscal 2003 and as of the end of fiscal 2002.

Long-term debt increased by \$2,066,000 and total liabilities increased \$2,838,000. The increases are associated with debt incurred to acquire Facile, Inc. The amount borrowed was \$4,000,000 of which \$3,200,000 would currently be considered long-term. The Company anticipates continued debt reduction as a result of improved earnings and cash flow improvements related to a stronger business environment.

The Company had \$4,500,000 in available credit at February 28, 2003 under its credit arrangements with its primary bank and plans to utilize this means to help finance its interim needs during the year. 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 Statement of Financial Accounting Standard No. 141, "Business Combinations" (FAS 141) 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 impairment exists. The Company adopted FAS 141 & 142 on September 1, 2001. As of that date, amortization of goodwill and other indefinite-lived intangible assets, including those recorded in past business combinations ceases. 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 test 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. Examples of such circumstances include, but are not limited to, a significant change in legal factors or in the business climate, an adverse action or assessment by a regulator, unanticipated competition, a loss of key personnel, a more-likely-than-not expectation that a reporting unit or a significant portion of a reporting unit will be sold or otherwise disposed of, the testing for recoverability under Statement 121 of a significant asset group within a reporting unit. Recognition of a goodwill impairment loss is the financial statements of a subsidiary that is a component of a reporting unit. 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 then had 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 unit. The reporting unit's fair value is determined by discounting its estimated future cash flows. 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. If the carrying value of goodwill allocated to the reporting unit exceeds the implied fair value we will record an impairment loss. FAS 142 requires that this second step be completed as soon as possible, but no later than the end of the year of adoption. The Company's reporting units are its Specialized Manufacturing and Electronic Manufacturing Services operating segments. The similar economic characteristics and inter-company services performed among segment components enable the Company to aggregate components into its two operating segments.

In connection with the FAS 142 indefinite-lived intangible asset impairment test, we will utilize the required one-step method to determine whether 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.

As of February 28, 2002, the Company performed the required transitional goodwill impairment assessment and no impairment to goodwill was indicated. The Company performed its annual goodwill impairment assessment, as of June 30, 2002, and no impairment to its goodwill was indicated.

## ITEM 6 EXHIBITS AND REPORTS ON FORM 8-K

### (A) Exhibits

Reg. S-K

Item 601

Subsection	Description of Exhibit	State	Page Number
	Pursuant to reg. S-K item 601 no exhibits are required.		

### (b) Reports on Form 8-K

A report on Form 8-K was filed on February 25, 2003 relating to the purchase of certain assets.

No financial statements were filed during the three months ended February 28, 2003.

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by

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the undersigned thereunto duly authorized.

CHASE CORPORATION

/s/ Peter R. Chase

Peter R. Chase, President & CEO

Dated: April 14, 2003