



Cohesant Inc.

23400 Commerce Park, Beachwood, Ohio 44122
Phone: 216 910-1700

Financial Results
For the quarterly period ended May 31, 2009

COHESANT INC.

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COHESANT INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	May 31, 2009 (Unaudited)	November 30, 2008
Assets:		
Cash and cash equivalents	\$ 1,229,380	\$ 2,131,242
Accounts receivable, net of allowance for doubtful accounts of \$122,383 and \$110,262, respectively	1,700,166	1,937,840
Current portion of long-term note receivable	90,288	55,500
Inventories, net of allowance for obsolete and slow-moving inventory of \$7,000	1,179,157	1,254,460
Costs in excess of billings and estimated earnings	10,805	39,754
Prepaid expenses and other	195,589	275,855
Deferred tax assets	7,865	7,865
Total Current Assets	4,413,250	5,702,516
Property and equipment, net	1,536,258	1,767,644
License agreements, patents and other intangibles, net of accumulated amortization of \$482,488 and \$443,240, respectively	505,309	541,034
Goodwill	420,127	420,127
Long-term note receivable, net current portion	158,190	117,805
Other noncurrent assets	7,394	7,394
Total Assets	\$ 7,040,528	\$ 8,556,520
Liabilities and Shareholders' Equity:		
Accounts payable	\$ 722,568	\$ 1,221,138
Current portion of long-term note payable	68,792	135,843
Accrued salaries, benefits and commissions	144,326	293,385
Billings in excess of costs and estimated earnings	7,459	84,974
Accrued taxes	76,050	26,944
Other current liabilities	283,919	369,045
Total Liabilities	1,303,114	2,131,329
Shareholders' Equity		
Preferred stock (\$.01 par value, 1,000,000 shares authorized and 724,138 shares issued and outstanding)	724	724
Common stock (\$.01 par value, 7,000,000 shares authorized and 3,460,357 shares issued and outstanding)	3,460	3,460
Treasury stock at cost (73,988 shares)	(35,422)	-
Additional paid-in capital	15,835,035	15,797,049
Accumulated other comprehensive income	28,246	(97,083)
Accumulated deficit	(10,094,629)	(9,278,959)
Total Shareholders' Equity	5,737,414	6,425,191
Total Liabilities and Shareholders' Equity	\$ 7,040,528	\$ 8,556,520

The accompanying notes are an integral part of these condensed consolidated financial statements.

COHESANT INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the Three Months Ended	
	May 31, 2009	May 31, 2008
NET SALES	\$ 2,468,135	\$ 2,890,033
COST OF SALES	1,186,486	1,461,229
Gross profit	1,281,649	1,428,804
RESEARCH AND DEVELOPMENT EXPENSES	75,449	83,943
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,467,873	1,570,783
TOTAL OPERATING EXPENSES	1,543,322	1,654,726
Loss from operations	(261,673)	(225,922)
OTHER INCOME (EXPENSE):		
Interest income	346	-
Interest expense	(1,045)	(3,080)
Foreign exchange loss, net	(3,662)	(447)
Other income, net	2,926	5,286
LOSS BEFORE TAXES	(263,108)	(224,163)
INCOME TAX (PROVISION) BENEFIT	(29,530)	69,715
NET LOSS	\$ (292,638)	\$ (154,448)
LOSS PER COMMON SHARE (Basic and Diluted):	\$ (0.09)	\$ (0.04)
AVERAGE SHARES OF COMMON STOCK OUTSTANDING BASIC AND DILUTED	3,393,181	3,460,357
COMPREHENSIVE LOSS		
Net loss	\$ (292,638)	\$ (154,448)
Foreign currency translation adjustment	137,718	(11,749)
NET COMPREHENSIVE LOSS	\$ (154,920)	\$ (166,197)

The accompanying notes are an integral part of these condensed consolidated financial statements.

COHESANT INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the Six Months Ended	
	May 31, 2009	May 31, 2008
NET SALES	\$ 4,469,837	\$ 5,563,885
COST OF SALES	2,181,549	2,877,061
Gross profit	2,288,288	2,686,824
RESEARCH AND DEVELOPMENT EXPENSES	150,802	145,097
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	2,929,795	3,334,650
TOTAL OPERATING EXPENSES	3,080,597	3,479,747
Loss from operations	(792,309)	(792,923)
OTHER INCOME (EXPENSE):		
Interest income	6,313	294
Interest expense	(2,368)	(6,814)
Foreign exchange loss, net	(2,069)	(831)
Other income, net	14,104	14,050
LOSS BEFORE TAXES	(776,329)	(786,224)
INCOME TAX (PROVISION) BENEFIT	(39,341)	244,541
NET LOSS	\$ (815,670)	\$ (541,683)
LOSS PER COMMON SHARE (Basic and Diluted):	\$ (0.24)	\$ (0.16)
AVERAGE SHARES OF COMMON STOCK OUTSTANDING BASIC AND DILUTED	3,409,325	3,460,357
COMPREHENSIVE LOSS		
Net loss	\$ (815,670)	\$ (541,683)
Foreign currency translation adjustment	125,329	(4,333)
NET COMPREHENSIVE LOSS	\$ (690,341)	\$ (546,016)

The accompanying notes are an integral part of these condensed consolidated financial statements.

COHESANT INC.

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)**

	For the Six Months Ended	
	May 31, 2009	May 31, 2008
CASH FLOWS USED IN OPERATING ACTIVITIES:		
Net loss	\$ (815,670)	\$ (541,683)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	297,801	261,058
Loss on asset disposal	3,586	470
Stock-based compensation	37,986	9,564
Deferred tax provision	-	(58,088)
Provision for doubtful accounts	12,121	29,421
Foreign currency translation	110,344	8,257
Net change in assets and liabilities-		
Accounts receivable	225,553	(107,292)
Note receivable	(75,173)	(1,350)
Inventories	77,368	15,235
Costs in excess of billings and estimated earnings	28,949	(1,727)
Prepaid expenses and other	80,266	(86,904)
Accounts payable	(498,570)	12,446
Billings in excess of costs and estimated earnings	(77,515)	(39,509)
Other current liabilities	(185,079)	(228,711)
Other noncurrent assets	(152)	-
Net cash used in operating activities	(778,185)	(728,813)
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Patent and trademark additions	(3,369)	-
Property and equipment additions	(20,035)	(117,646)
Proceeds from sale of property and equipment	2,200	9,953
Net cash used in investing activities	(21,204)	(107,693)
CASH FLOWS (USED IN) PROVIDED BY FINANCING ACTIVITIES:		
Net contributions by Cohesant Technologies Inc.		719,646
Funding of allocated charges by Cohesant Technologies Inc.		182,117
Proceeds for preferred stock private placement		2,100,002
Purchase of treasury stock	(35,422)	-
Payments on Triton note payable	(67,051)	(63,700)
Net cash (used in) provided by financing activities	(102,473)	2,938,065
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(901,862)	2,101,559
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,131,242	191,486
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 1,229,380	\$ 2,293,045

The accompanying notes are an integral part of these condensed consolidated financial statements.

COHESANT INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1 – Separation and Background

Separation:

On December 3, 2007, Cohesant Technologies Inc. (“Cohesant Technologies”) announced that it had entered into definitive agreement pursuant to which Graco Inc. would acquire GlasCraft Inc, a subsidiary of Cohesant Technologies, the former parent of Cohesant Inc. This disposition occurred on February 27, 2008 and was accomplished through a merger of Cohesant Technologies with a Graco Inc. subsidiary that was immediately preceded by a spin-off of Cohesant Inc. (formerly known as CIPAR Inc.) and its subsidiaries (the “Company” or “Cohesant”). The spin-off was affected by declaring a taxable dividend of one share of Cohesant for each share of Cohesant Technologies common stock, which equated to 3,460,357 shares of Cohesant stock being distributed. In connection with the GlasCraft disposition and spin-off, certain Corporate personnel, assets and liabilities of Cohesant Technologies’ non-GlasCraft businesses were transferred from Cohesant Technologies to Cohesant pursuant to a Separation Agreement entered into between Cohesant Technologies and the Company.

Background:

Cohesant is engaged in the protection and renewal of drinking water distribution systems and wastewater collection systems for municipal, industrial, commercial and residential infrastructure; the design, development, manufacture and sale of specialty coatings; and the sale of specialized dispense equipment systems and replacement parts and supplies used in the operation of the equipment. Included within the Company are the net assets and operations of RLS Solutions Inc. (“RLS”), CuraFlo Services Inc. (“CSI”), CuraFlo Franchising Inc. (“CFI”), and Cohesant Materials Inc. (“CMI”). CuraFlo Services Inc. has two subsidiaries: CuraFlo of British Columbia Ltd. and CuraFlo Spincast Services Inc. (“CSS”). The Company sold the assets of CSS on June 11, 2009 (Note 13).

The Company’s executive offices are located in Cleveland, Ohio with its principal manufacturing, warehouse and distribution facilities located in Cleveland, Ohio, Tulsa, Oklahoma, and Vancouver, Canada.

Note 2 - Basis of Presentation

The condensed consolidated interim financial statements included herein have been prepared by the Company, without audit. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted. However, in the opinion of management of the Company, the condensed consolidated interim financial statements include all adjustments necessary to present fairly the financial information for such periods.

COHESANT INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The unaudited condensed consolidated financial statements in this quarterly report for the period presented prior to the spin-off and distribution of the assets and liabilities by Cohesant Technologies described in Note 1 of these financial statements include the assets, liabilities, operating results and cash flows of Cohesant Technologies' CIPAR and CMI subsidiaries (now Cohesant Inc.). The condensed consolidated financial statements of the Company have been prepared on a basis that management believes to be reasonable to reflect the financial position, results of operations and cash flows of the Company, including allocated portions of Cohesant Technologies' overhead and administrative shared services.

These interim financial statements should be read in conjunction with the Company's audited financial statements and the notes thereto for the fiscal year ended November 30, 2008.

The condensed consolidated financial statements include the accounts of the Company and its direct, wholly owned subsidiaries, RLS, CFI, CSI and CMI. Intercompany accounts and transactions have been eliminated.

Note 3 – Allocation Policies

In the 2008 six-month period, Cohesant's costs and expenses include allocations from Cohesant Technologies for services provided to or the benefits received by Cohesant. The following allocation policies have been established by management. Unless otherwise noted, these policies have been consistently applied in the condensed consolidated financial statements in this quarterly report prior to the spin-off and distribution of the assets and liabilities by Cohesant Technologies described in Note 1. In the opinion of management, the methods for allocating these costs are reasonable.

(i) Specifically Identifiable Operating Expenses

Costs which relate solely to the operations of the Company are allocated entirely to the Company. These expenses consist of costs of personnel who are 100% dedicated to the operations of the Company, all costs associated with locations that conduct only the business of the Company and amounts paid to third parties for services rendered to the Company. In addition, any costs incurred by Cohesant Technologies, which are specifically identifiable to the operations of the Company, are allocated to the Company.

(ii) Shared Operating Expenses

Prior to the spin-off effected on February 27, 2008, Cohesant Technologies allocated the cost of certain corporate general and administrative services and shared services, including shared personnel, to each of its business units. These shared services include executive compensation, legal, and accounting costs. These costs have been allocated to the Company based on their relative percentage to consolidated Cohesant Technologies revenues. Management believes the financial size of each of Cohesant Technologies' operating units best reflected the level of corporate service provided to each.

COHESANT INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(iii) *Allocated Expenses*

Allocations of Cohesant Technologies' expenses (exclusive of stock-based compensation discussed in Note 8) as described in (i) and (ii) above have been included in the condensed consolidated statements of operations of the Company as follows:

	Six Months Ended	
	<u>May 31, 2009</u>	<u>May 31, 2008</u>
Corporate administrative expenses	-	\$181,686
Investment income	-	(294)
Interest expense	-	725
Allocated expenses from Cohesant Technologies Inc.	<u>-</u>	<u>\$182,117</u>

(iv) *Taxes*

The Company's allocated share of the consolidated Cohesant Technologies' Federal and state tax provision is determined using the stand-alone method. Under the stand-alone method, tax expense or benefit is calculated as if the Company was subject to its own tax returns. Deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities of the Company and are measured using the enacted tax rates that are expected to be in effect in the period in which these differences are expected to reverse.

Note 4 – Shareholders Equity

During the second quarter of fiscal 2008 the Company issued and sold 724,138 shares of Series A 8% Cumulative Convertible Preferred Stock (the "Series A Preferred Stock") at a purchase price of \$2.90 per share in a private placement transaction. The shares were issued in a transaction exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended, and Rule 506 thereunder. The proceeds of the offering will be used for general corporate and working capital purposes.

The Series A Preferred Stock is convertible into the Company's shares of common stock at a price of \$1.45 per share, as may be adjusted (the "Conversion Price"). Upon conversion, all accrued and unpaid dividends shall also be converted into shares of Common Stock at the same Conversion Price. A holder of Series A Preferred Stock may convert its shares at any time. The Company has the right to cause the Series A Preferred Stock, in whole but not in part, to convert into shares of Common Stock in the event of a public or private offering of the Company's Common Stock at a per share price of \$2.25 or more, with the gross proceeds of such offering exceeding \$5,000,000.

COHESANT INC.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)**

The Series A Preferred Stock is subject to redemption, at the option of the Company, (a) on or after May 1, 2011 or (b)(i) in the event of a merger, capital reorganization or reclassification of the Company's shares, (ii) the liquidation, dissolution or winding-up of the Company, or (iii) a tender offer for the Company's common stock that has been recommended to the stockholders by the Board of Directors.

The Series A Preferred Stock ranks in priority senior to the Company's common stock with respect to preferences as to dividends, distributions, and payments upon liquidation. The Series A Preferred Stock are entitled to vote with the Common Stock on all matters submitted to a vote of the stockholders of the Company. Each share of Series A Preferred Stock shall, initially, have two votes, equal to the number of shares of common stock into which one share of Series A Preferred Stock may convert.

The Company had undeclared, cumulative dividends of \$177,335 and \$6,806 as of May 31, 2009 and 2008, respectively.

Note 5 – Costs and Estimated Earnings on Uncompleted Contracts

Costs and estimated earnings on uncompleted contracts consisted of the following:

	May 31, <u>2009</u>	November 30, <u>2008</u>
Costs incurred on uncompleted contracts	\$ 712,427	\$ 1,545,037
Estimated earnings to date	<u>592,188</u>	<u>617,671</u>
Subtotal	1,304,545	2,162,708
Less – Billings to date	<u>(1,301,199)</u>	<u>(2,207,928)</u>
Total	<u>\$ 3,346</u>	<u>\$ (45,220)</u>

Included in the accompanying balance sheets under the following caption:

Costs and estimated earnings in excess of billings	\$ 10,805	\$ 39,754
Billings in excess of costs and estimated earnings	<u>(7,459)</u>	<u>(84,974)</u>
Total	<u>\$ 3,346</u>	<u>\$ (45,220)</u>

All unbilled amounts were generated by the Company's CuraFlo Services segment and substantially all are expected to be billed and collected within one year.

COHESANT INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 6 – Loss Per Share

The calculation of basic and diluted net loss per share for the both the 2009 and 2008 periods, presented are based on the Company's weighted-average shares of common stock outstanding. The preferred stock (Note 4) and outstanding stock options did not have a dilutive impact on the Company's 2009 or 2008 results. The dilutive effect of the outstanding stock options and preferred stock issued by the Company will be included in the computation of diluted earnings per share in future periods when dilutive.

Note 7 – Related Party Transactions

Prior to the spin-off discussed in note 1 the Company received and provided services to its former parent and its subsidiaries. Post spin-off, the Company received and provided services to its former parent through the first quarter of fiscal 2009, however these services were not deemed related party transactions.

Note 8 – Stock-Based Compensation

Description of the Plan

On April 16, 2008, the Board of Directors adopted, subject to shareholder approval, the "Cohesant Inc. Long-Term Incentive Plan" (the "Plan"). The Plan which is intended as an incentive to further the growth and profitability of the Company and to encourage stock ownership on the part of (a) employees of the Company, (b) consultants and advisers who provide significant services to the Company, and (c) directors of the Company who are not employees of the Company. The Plan includes stock options, stock appreciation rights and restricted stock. The Plan authorizes the issuance of 610,000 shares. As of May 31, 2009, options for 385,000 shares and 30,000 restricted shares were outstanding and there remained an additional 195,000 shares available for issuance or reserved for stock option, restricted stock, or stock appreciation rights grants.

Prior to the spin-off on February 27, 2008, the Company participated in Cohesant Technologies' long-term incentive plan to provide employees with stock options to purchase Cohesant Technologies common stock and for the issuance of restricted stock of Cohesant Technologies

Cohesant accounts for the Plan and its participation in the predecessor Cohesant Technologies' plan according to the Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" (FAS 123R) using the modified prospective method. This Statement requires that all share-based payments to employees, including grants of employee stock options, be recognized in the financial statements based upon their fair value.

In accordance with FAS 123R, awards granted by Cohesant to employees and directors of Cohesant are reflected in the condensed consolidated statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Total stock-based compensation cost recognized by Cohesant during the three month period ended May 31, 2009 and May 31, 2008 was \$19,947 and \$9,564, respectively, and during the six month period ended May 31, 2009 and May 31, 2008 of \$37,986 and \$275,597 (\$266,033 relates to options from Cohesant Technologies), respectively, has been included in the condensed consolidated statements of operations.

On March 4, 2009, the Company granted 30,000 restricted stock units to two employees at a grant date fair value of \$0.45 per share with a vesting period over three years from their employment anniversary date.

Note 9 - Revolving Line of Credit

On February 26, 2008, the Company entered into a fully secured \$2,500,000 revolving line of credit facility which expired on April 30, 2009. The credit facility was not renewed. The Company is in discussions with potential lenders to secure a new credit facility but there is no assurance a new facility will be obtained.

Note 10 - Contingencies

From time to time the Company is a party to certain legal matters arising in the ordinary course of business. Management believes the ultimate disposition of these matters will not have a material adverse effect on the Company's financial position or results of operations.

Note 11 - Common Stock

On November 20, 2008 the Company announced that its Board of Directors approved a share repurchase program of up to 100,000 of its issued and outstanding shares of common stock. The Company has repurchased 73,988 shares under this program as of May 31, 2009, at an aggregate cost of \$35,422 or \$0.48 per share.

Note 12 - New Accounting Standards

On December 1, 2007, the Company adopted the Financial Accounting Standards Board (FASB) Final Interpretation Number 48, "Accounting for Uncertainty in Income Taxes" (FIN 48). The Company recorded no adjustment to the consolidated financial statements upon the adoption of FIN 48. The Company's policy with respect to interest and penalties associated with reserves or allowances for uncertain tax positions is to classify such interest and penalties in income tax expense in the Statement of Operations. As of December 1, 2007, the Company has no unrecognized income tax benefits. The Company foresees no significant changes to the facts and circumstances underlying its income tax positions as reasonably possible in the next twelve

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

months. As of December 1, 2007, the Company was subject to unexpired statutes of limitation for U.S. Federal income taxes for the years 2004–2007. The Company was also subject to unexpired statutes of limitation for various state income taxes for the years 2004-2007.

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements”. The Statement provides guidance for using fair value to measure assets and liabilities and only applies when other standards require or permit the fair value measurement of assets and liabilities. It does not expand the use of fair value measurement. In February 2008, the FASB agreed to defer the effective date to fiscal years beginning after November 15, 2008 for certain nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. For these financial and nonfinancial assets and liabilities that are remeasured at least annually, this statement is effective for fiscal years beginning after November 15, 2007. The adoption of this Statement had no impact to the consolidated financial statements in 2008 or 2009. The Company is evaluating the impact that this Statement will have on the Company’s financial position, results of operations or cash flows for the portion of the Statement that was deferred.

Note 13 – Subsequent Event

On June 11, 2009, the Company sold the assets of its CuraFlo Spincast operations, and granted a perpetual non-exclusive license to use its Spincast Technology to Triton Lining Systems LLC, a entity formed by Gary Sorohan, CuraFlo Spincast's former Manager. The Company will receive commissions on future projects derived from Triton's work for Company and its franchisee/licensees customers. Simultaneously with the sale, Mr. Sorohan released the Company from payment of the remaining obligations due his former business, a total of \$70,126, in exchange for a release of Mr. Sorohan from his non-competition obligations under the 2006 asset purchase agreement and his employment agreement. At the time of the sale, the Spincast assets had a book value of \$153,655.

COHESANT INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

On December 3, 2007, Cohesant Technologies announced that it had entered into definitive agreement pursuant to which Graco Inc. would acquire GlasCraft Inc, a subsidiary of Cohesant Technologies Inc., the former parent of Cohesant Inc. This disposition occurred on February 27, 2008 and was accomplished through a merger of Cohesant Technologies with a Graco Inc. subsidiary that was immediately preceded by a spin-off of Cohesant Inc. (formerly known as CIPAR Inc.) and its subsidiaries (the "Company" or "Cohesant"). The spin-off was effected by declaring a taxable dividend of one share of Cohesant for each share of Cohesant Technologies common stock, which equated to 3,460,357 shares of Cohesant stock being distributed. In connection with the GlasCraft disposition and spin-off, certain Corporate personnel, assets and liabilities of Cohesant Technologies' non-GlasCraft businesses were transferred from Cohesant Technologies to Cohesant pursuant to a Separation Agreement entered into between Cohesant Technologies and the Company.

We maintain a strategy for growth through steady organic expansion supported by select acquisitions. Our long-term strategic plan is to be a global leader providing technologies for infrastructure rehabilitation and protection in the water distribution and wastewater collection systems markets.

Results of Operations

Three months ended May 31, 2009 as compared to the three months ended May 31, 2008.

On a consolidated basis, the Company had net sales for the three months ended May 31, 2009 of \$2,468,135 compared to \$2,890,033 for the comparable period in fiscal 2008, a decrease of \$421,898, or 14.6%. This decrease was principally due to decreased coating, franchisee and licensee and equipment revenue and to a lesser extent decreased rehabilitation revenue.

The Company's gross margin decreased to \$1,281,649, or 51.9% of net sales, in the 2009 period from \$1,428,804, or 49.4% of net sales, in the 2008 period. The dollar decrease was due to decreased sales mentioned above while the percentage increase was primarily due to rehabilitation projects that had higher margins.

Operating expenses for the three months ended May 31, 2009 were \$1,543,322 compared to \$1,654,726 for the same period of the prior year, a decrease of \$111,404 or 6.7%. This decrease was primarily attributable to lower personnel costs.

The Company's effective tax rate for 2009 and 2008 periods were 11.2% and (31.1)%, respectively. The effective tax rate is less than the statutory rate due to recording of a valuation allowance for certain income tax benefits which are not expected to be realized. Taxes paid primarily reflect Canadian provincial taxes paid on the Company's foreign operations.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

On a consolidated basis, the Company had a loss in the quarter of (\$292,638) compared to (\$154,448) in 2008.

Six months ended May 31, 2009 as compared to the six months ended May 31, 2008.

On a consolidated basis, the Company had net sales for the six months ended May 31, 2009 of \$4,469,837 compared to \$5,563,885 for the comparable period in fiscal 2008, a decrease of \$1,094,048, or 19.7%. This decrease was principally due to decreased rehabilitation revenue (primarily in repipe and spincast projects), decreased coating sales and to lesser extent decreased equipment and franchisee and licensee revenue.

The Company's gross margin decreased to \$2,288,288, or 51.2% of net sales, in the 2009 period from \$2,686,824, or 48.3% of net sales, in the 2008 period. The dollar decrease was due to decreased sales mentioned above while the percentage increase was primarily due to rehabilitation projects that had higher margins.

Operating expenses for the six months ended May 31, 2009 were \$3,080,597 compared to \$3,479,747 for the same period of the prior year, a decrease of \$399,150 or 11.5%. This decrease was primarily attributable to the 2008 results including a stock compensation expense resulting from the accelerated vesting of stock options prior to the GlasCraft disposition and spin-off occurring in such period and to a lesser extent lower personnel costs.

Other income was \$15,980 compared to \$6,699 in the 2008 period. This increase was primarily attributable to increased interest earned on cash balances.

The effective tax rate for the six months ended May 31, 2009 and 2008 was 5.0% and (31.1)%, respectively. The effective tax rate is less than the statutory rate due to recording of a valuation allowance for certain income tax benefits which are not expected to be realized. Taxes paid primarily reflect Canadian provincial taxes paid on the Company's foreign operations.

On a consolidated basis, the Company had a first half loss of (\$815,670) compared to (\$541,683) in 2008.

Liquidity and Capital Resources

The Company's primary sources of liquidity are its cash reserves (including the cash raised from the private placement discussed below) and working capital. The Company raised \$2.1 million in the second quarter of fiscal 2008 by issuing and selling 724,138 preferred shares at a price of \$2.90 per share. The Company had net working capital of \$3,110,136, including \$1,229,380 in cash, at May 31, 2009.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the first half of fiscal 2009, cash used in operations was \$778,185 compared to \$728,813 in the comparable period last year. The difference was primarily attributable to the increased net loss in the 2009. Cash used in investing activities (primarily property and equipment additions) decreased to \$21,204 in the current period from \$107,693 in the period ended May 31, 2008. The Company has reduced its capital spending until economic conditions and its performance improves. Cash used in financing activities was \$102,473 in the current period compared to cash provided by financing activities of \$2,938,065 in the prior year period. This decrease was primarily due to the private placement mentioned above and contributions and funding of allocated charges from Cohesant Technologies occurring in the 2008 period.

The Company's fully secured \$2,500,000 revolving line of credit facility expired on April 30, 2009 and was not renewed. The Company is in discussions with potential lenders to secure a new credit facility but there is no assurance a new facility will be obtained.

The Company does not have any significant commitments or guarantees, except for rental commitments.

The Company believes that its existing cash resources and working capital will be adequate to meet its capital needs for the foreseeable future.

Forward Looking Statements

Certain statements contained in this report that are not historical facts are forward-looking statements that are subject to certain risks and uncertainties that could cause actual results to differ materially from those set forth in the forward-looking statement. These risks and uncertainties include, but are not limited to, a reduction in growth of markets for the Company's epoxy coating systems, customer resistance to Company price increases and the Company's ability to expand its operations.

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