

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

**FORM 10-Q**

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended March 30, 2024

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-35383

**THE EASTERN COMPANY**

(Exact name of registrant as specified in its charter)

Connecticut

(State or other jurisdiction of incorporation or organization)

06-0330020

(I.R.S. Employer Identification No.)

3 Enterprise Drive, Suite 408, Shelton, Connecticut

(Address of principal executive offices)

06484

(Zip Code)

(203)-729-2255

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class        | Trading Symbol(s) | Name of each exchange on which registered |
|----------------------------|-------------------|---|
| Common Stock, No Par Value | EML               | NASDAQ Global Market                      |

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 whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  
Non-accelerated filer

Accelerated filer  
Smaller reporting company  
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of March 30, 2024, 6,233,510 shares of the registrant's common stock, no par value per share, were issued and outstanding.

The Eastern Company  
Form 10-Q

FOR THE QUARTERLY PERIOD ENDED MARCH 30, 2024

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**PART 1 – FINANCIAL INFORMATION**

**ITEM 1 – FINANCIAL STATEMENTS**

**THE EASTERN COMPANY AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**

|                                     | <b>Three Months Ended</b> |                       |
|-------------------------------------|---------------------------|-----------------------|
|                                     | <b>March 30,<br/>2024</b> | <b>April 1, 2023</b>  |
| <b>Net sales</b>                    | <b>\$ 67,929,087</b>      | <b>\$ 72,495,367</b>  |
| Cost of products sold               | (51,732,988)              | (56,997,668)          |
| Gross margin                        | <u>16,196,099</u>         | <u>15,497,699</u>     |
| Product development expense         | (1,359,797)               | (1,401,199)           |
| Selling and administrative expenses | (11,498,958)              | (11,937,637)          |
| Operating profit                    | <u>3,337,344</u>          | <u>2,158,863</u>      |
| Interest expense                    | (845,035)                 | (726,006)             |
| Other income (expense)              | <u>10,354</u>             | <u>(630,699)</u>      |
| <b>Income before income taxes</b>   | <b><u>2,502,663</u></b>   | <b><u>802,158</u></b> |
| Income tax expense                  | (555,091)                 | (194,845)             |

|                           |              |            |
|---------------------------|--------------|------------|
| Net income                | \$ 1,947,572 | \$ 607,313 |
| Earnings per share:       |              |            |
| Basic                     | \$ 0.31      | \$ 0.10    |
| Diluted                   | \$ 0.31      | \$ 0.10    |
| Cash dividends per share: | \$ 0.11      | \$ 0.11    |

See accompanying notes.

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**THE EASTERN COMPANY AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**

|  | Three Months Ended |                |
|--|--------------------|----------------|
|  | March 30,<br>2024  | April 1, 2023  |
| Net income   | \$ 1,947,572       | \$ 607,313     |
| Other comprehensive income:  |                    |                |
| Change in foreign currency translation   | (157,000)          | 336,585        |
| Change in fair value of foreign currency swap, net of tax cost (benefit) of:<br>2024 - \$96,724; 2023 - \$(87,691) | 403,016            | (277,687)      |
| Change in pension and postretirement benefit costs, net of taxes of:<br>2024 - \$71,355; 2023 - \$74,360           | 243,336            | 252,668        |
| Total other comprehensive income   | <u>489,352</u>     | <u>311,566</u> |

|                      |                     |                   |
|----------------------|---------------------|-------------------|
| Comprehensive income | <u>\$ 2,436,924</u> | <u>\$ 918,879</u> |
|----------------------|---------------------|-------------------|

See accompanying notes.

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**THE EASTERN COMPANY AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS**

|  | March 30,<br>2024<br>(unaudited) | December 30,<br>2023  |
|--|----------------------------------|-----------------------|
| <b>ASSETS</b>  |                                  |                       |
| <b>Current Assets</b>  |                                  |                       |
| Cash and cash equivalents  | \$ 7,356,444                     | \$ 8,299,453          |
| Marketable Securities  | 2,127,735                        | 986,477               |
| Accounts receivable, less allowances: 2024 - <b>\$541,103</b> ; 2023 - \$564,816 | 42,881,758                       | 37,057,488            |
| Inventories  | 55,847,071                       | 59,272,207            |
| Current portion of notes receivable  | 618,231                          | 573,269               |
| Prepaid expenses and other assets  | 6,199,897                        | 6,047,814             |
| <b>Total Current Assets</b>  | <b>115,031,136</b>               | <b>112,236,708</b>    |
| <b>Property, Plant and Equipment</b>   | <b>61,842,148</b>                | <b>60,270,096</b>     |
| Accumulated depreciation   | (32,710,475)                     | (31,980,335)          |
| <b>Property, Plant and Equipment, Net</b>  | <b>29,131,673</b>                | <b>28,289,761</b>     |
| Goodwill   | 70,722,962                       | 70,776,893            |
| Trademarks   | 5,514,884                        | 5,514,960             |
| Patents and other intangibles net of accumulated amortization                    | 14,360,192                       | 15,325,927            |
| Long term notes receivable, less current portion                                 | 329,970                          | 374,932               |
| Deferred Income Taxes  | 2,283,571                        | 2,283,571             |
| Right of Use Assets  | 16,521,127                       | 17,236,449            |
| <b>Total Other Assets</b>  | <b>109,732,706</b>               | <b>111,512,732</b>    |
| <b>TOTAL ASSETS</b>  | <b>\$ 253,895,515</b>            | <b>\$ 252,039,201</b> |

See accompanying notes.

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**THE EASTERN COMPANY AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS**

|   | March 30,<br>2024<br>(unaudited) | December 30,<br>2023  |
|---|----------------------------------|-----------------------|
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                 |                                  |                       |
| <b>Current Liabilities</b>  |                                  |                       |
| Accounts payable  | \$ 26,971,547                    | \$ 25,319,473         |
| Accrued compensation  | 4,636,088                        | 5,379,381             |
| Other accrued expenses  | 4,874,024                        | 4,556,623             |
| Current portion of operating lease liability                                | 4,195,865                        | 4,424,369             |
| Current portion of finance lease liability                                  | 182,290                          | 182,010               |
| Current portion of long-term debt   | 2,871,870                        | 2,871,870             |
| <b>Total Current Liabilities</b>  | <b>43,731,684</b>                | <b>42,733,726</b>     |
| <b>Other long-term liabilities</b>  | <b>640,724</b>                   | <b>640,724</b>        |
| Operating lease liability, less current portion                             | 12,325,261                       | 12,812,079            |
| Finance lease liability, less current portion                               | 696,584                          | 728,100               |
| Long-term debt, less current portion  | 40,271,398                       | 41,063,865            |
| Accrued postretirement benefits   | 565,727                          | 554,758               |
| Accrued pension cost  | 21,150,758                       | 21,025,365            |
| <b>Total Liabilities</b>  | <b>119,382,136</b>               | <b>119,558,617</b>    |
| <b>Shareholders' Equity</b>   |                                  |                       |
| Voting Preferred Stock, no par value:                                       |                                  |                       |
| Authorized and unissued: 1,000,000 shares                                   |                                  |                       |
| Nonvoting Preferred Stock, no par value:                                    |                                  |                       |
| Authorized and unissued: 1,000,000 shares                                   |                                  |                       |
| Common Stock, no par value, Authorized: 50,000,000 shares                   | 34,464,595                       | 33,950,859            |
| Issued: 9,118,031 shares as of 2024 and 9,091,815 shares as of 2023         |                                  |                       |
| Outstanding: 6,233,510 shares as of 2024 and 6,217,370 shares as of 2023    |                                  |                       |
| Treasury Stock: 2,884,521 shares as of 2024 and 2,874,445 shares as of 2023 | (23,515,267)                     | (23,280,467)          |
| Retained earnings   | 146,069,675                      | 144,805,168           |
| Accumulated other comprehensive loss:                                       |                                  |                       |
| Foreign currency translation  | (1,023,599)                      | (866,599)             |
| Unrealized gain on foreign currency swap, net of tax                        | 403,016                          | -                     |
| Unrecognized net pension and postretirement benefit costs, net of tax       | (21,885,041)                     | (22,128,377)          |
| Accumulated other comprehensive loss  | (22,505,624)                     | (22,994,976)          |
| <b>Total Shareholders' Equity</b>   | <b>134,513,379</b>               | <b>132,480,584</b>    |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>                           | <b>\$ 253,895,515</b>            | <b>\$ 252,039,201</b> |

See accompanying notes.

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**THE EASTERN COMPANY AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

|   | <b>Three Months Ended</b> |                      |
|---|---------------------------|----------------------|
|   | <b>March 30,<br/>2024</b> | <b>April 1, 2023</b> |
| <b>Operating Activities</b>   |                           |                      |
| Net income  | \$ 1,947,572              | \$ 607,313           |
| Adjustments to reconcile net income to net cash provided by operating activities: |                           |                      |
| Depreciation and amortization   | 1,876,124                 | 1,814,749            |
| Reduction in carrying amount of ROU assets  | 715,322                   | 631,368              |
| Unrecognized pension and postretirement benefits                                  | 445,218                   | 880,421              |
| Loss on sale of equipment and other assets  | 37,330                    | -                    |
| Provision for doubtful accounts   | (23,000)                  | 3,269                |
| Stock compensation expense (benefit)  | 513,737                   | (49,246)             |
| Changes in operating assets and liabilities:                                      |                           |                      |
| Accounts receivable   | (5,898,945)               | (1,585,976)          |
| Inventories   | 3,415,931                 | 7,212,179            |
| Prepaid expenses and other  | (109,507)                 | (37,330)             |
| Other assets  | 21,710                    | (155,055)            |
| Accounts payable  | 3,601,059                 | (1,031,704)          |
| Accrued compensation  | (1,000,332)               | (1,104,186)          |
| Change in operating lease liability   | (715,322)                 | (639,987)            |
| Other accrued expenses  | (1,248,705)               | 314,443              |
| <b>Net cash provided by operating activities</b>                                  | <b>3,578,192</b>          | <b>6,860,258</b>     |

|  |                     |   |                      |
|--|---------------------|---|----------------------|
| <b>Investing Activities</b>                                |                     |   |                      |
| Marketable securities                                      | <b>(999,960)</b>    |   | -                    |
| Payments received from notes receivable                    |                     | - | 2,233,192            |
| Proceeds from sale of equipment                            | <b>18,000</b>       |   | -                    |
| Purchases of property, plant, and equipment                | <b>(1,776,954)</b>  |   | (1,151,205)          |
| <b>Net cash (used in) provided by investing activities</b> | <b>(2,758,914)</b>  |   | <b>1,081,987</b>     |
| <b>Financing Activities</b>                                |                     |   |                      |
| Payments on short term borrowings (revolver)               |                     | - | (268,249)            |
| Principal payments on long-term debt                       | <b>(792,467)</b>    |   | (4,858,000)          |
| Financing leases, net                                      | <b>(31,236)</b>     |   | 723,254              |
| Purchase common stock for treasury                         | <b>(234,800)</b>    |   | -                    |
| Dividends paid   | <b>(683,065)</b>    |   | (684,293)            |
| <b>Net cash used in financing activities</b>               | <b>(1,741,568)</b>  |   | <b>(5,087,288)</b>   |
| <b>Effect of exchange rate changes on cash</b>             | <b>(20,719)</b>     |   | <b>28,538</b>        |
| <b>Net change in cash and cash equivalents</b>             | <b>(943,009)</b>    |   | <b>2,883,495</b>     |
| Cash and cash equivalents at beginning of period           | <b>8,299,453</b>    |   | <b>10,187,522</b>    |
| <b>Cash and cash equivalents at end of period</b>          | <b>\$ 7,356,444</b> |   | <b>\$ 13,071,017</b> |
| <b>Supplemental disclosure of cash flow information:</b>   |                     |   |                      |
| Interest   | <b>\$ 831,462</b>   |   | <b>\$ 716,763</b>    |
| Income taxes   | <b>230,523</b>      |   | <b>(59,681)</b>      |
| <b>Non-cash investing and financing activities</b>         |                     |   |                      |
| Right of use asset   | <b>140,939</b>      |   | <b>(652,914)</b>     |
| Lease liability  | <b>(140,939)</b>    |   | <b>(328,721)</b>     |

See accompanying notes

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THE EASTERN COMPANY AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
March 30, 2024

**Note A – Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X and do not include all the information and footnotes required by generally accepted accounting principles in the United States ("GAAP") for complete financial statements. Refer to the consolidated financial statements of The Eastern Company (together with its consolidated subsidiaries, the "Company," "we," "us" or "our") and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 30, 2023, filed with the Securities and Exchange Commission on March 12, 2024 (the "2023 Form 10-K"), for additional information.

The accompanying condensed consolidated financial statements are unaudited. However, in the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the results of operations for interim periods have been reflected therein. Operating results for interim periods are not necessarily indicative of the results that may be expected for the full year. All intercompany accounts and transactions are eliminated.

The condensed consolidated balance sheet as of December 30, 2023 has been derived from the audited consolidated balance sheet at that date.

The Company's fiscal year is a 52-53-week fiscal year ending on the Saturday nearest to December 31. References to 2023, the 2023 fiscal year or fiscal 2023 mean the 52-week period ended on December 30, 2023, and references to 2024, the 2024 fiscal year or fiscal 2024 mean the 52-week period ending on December 28, 2024. In a 52-week fiscal year, each quarter has 13 weeks. References to the first quarter of 2023, the first fiscal quarter of 2023, the first quarter of fiscal 2023 or the three months ended April 1, 2023, mean the period from January 1, 2023 to April 1, 2023. References to the first quarter of 2024, the first fiscal quarter of 2024, the first fiscal quarter of 2024 or the three months ended March 30, 2024, mean the 13-week period from December 31, 2023 to March 30, 2024.

Certain amounts in the 2023 financial statements have been reclassified to conform with the 2024 presentation with no impact or change to previously reported net income or shareholders' equity.

#### **Note B – Earnings Per Share**

The denominators used to calculate earnings per share are as follows:

|  | <b>Three Months Ended</b> |                         |
|--|---------------------------|-------------------------|
|  | <b>March 30,<br/>2024</b> | <b>April 1, 2023</b>    |
| <b>Basic:</b>                              |                           |                         |
| Weighted average shares outstanding        | <b><u>6,215,673</u></b>   | <b><u>6,223,027</u></b> |
| <b>Diluted:</b>                            |                           |                         |
| Weighted average shares outstanding        | <b><u>6,215,673</u></b>   | <b><u>6,223,027</u></b> |
| Dilutive stock appreciation rights         | <b><u>39,727</u></b>      | <b><u>10,962</u></b>    |
| Denominator for diluted earnings per share | <b><u>6,255,400</u></b>   | <b><u>6,233,989</u></b> |

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#### **Note C – Fair Value of Instruments**

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The company utilizes a fair value hierarchy, which maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. The fair value hierarchy has three levels of inputs that may be used to measure fair value:

- Level 1      Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2      Quoted prices in markets that are not active; or other inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3      Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable.

The Company's financial instruments are primarily investments in marketable securities (Level 1) and pension assets, see Note L, *Retirement Benefit Plans*.

The carrying amounts of other financial instruments (cash and cash equivalents, marketable securities, accounts receivable, accounts payable and debt) as of March 30, 2024 and December 30, 2023, approximate fair value because of their short-term nature and market-based interest rates.

#### **Note D – Inventories**

Inventories consist of the following components:

|   | <b>March 30,<br/>2024</b> | <b>December<br/>30, 2023</b> |
|---|---------------------------|------------------------------|
| <b>Raw material and component parts</b> | <b>\$23,084,312</b>       | <b>\$24,500,087</b>          |
| Work in process                         | 9,381,683                 | 9,957,068                    |
| Finished goods                          | 23,381,076                | 24,815,052                   |
| <b>Total inventories</b>                | <b>\$55,847,071</b>       | <b>\$59,272,207</b>          |

#### **Note E - Goodwill**

The aggregate carrying amount of goodwill is approximately \$70.7 million as of March 30, 2024. No impairment was recognized in the first quarter of 2024.

The Company evaluates its reporting units for impairment annually in December, or more frequently if events or circumstances indicate it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Such events and circumstances could include, among other things, increased competition or unexpected loss of market share, significant adverse changes in the markets in which the Company operates, or unexpected

business disruptions. The Company tests reporting units for impairment by comparing the estimated fair value of each reporting unit with its carrying amount. If the carrying amount of a reporting unit exceeds its estimated fair value, the Company records an impairment loss based on the difference between fair value and carrying amount not to exceed the associated carrying amount of goodwill. Determining the fair value of a reporting unit involves the use of significant estimates and assumptions. The values assigned to the key assumptions represent management's assessment of future trends in the relevant industry and have been based on historical data from both external and internal sources.

#### **Note F – Leases**

The Company presents right-of-use (ROU) assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months, in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2016-02, Leases. The Company accounts for non-lease components as part of the lease component to which they relate. Lease accounting involves significant judgements, including making estimates related to the lease term, lease payments, and discount rate.

The Company has operating leases for buildings, warehouses, and office equipment. The Company determines whether an arrangement is, or contains, a lease at contract inception. An arrangement contains a lease if the Company has the right to direct the use of and obtain substantially all the economic benefits of an identified asset. ROU assets and lease liabilities are recognized at lease commencement based on the present value of lease payments over the lease term. Leases with an initial term of 12 months or less are not recorded on the balance sheet; we recognize lease expense for these leases on a straight-line basis over the lease term. Most leases include one or more options to renew. The exercise of lease renewal options is at our sole discretion. All options to extend, when it is reasonably certain the option will be exercised, have been included in the calculation of the ROU asset and lease liability.

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Currently, the Company has twenty-two operating leases with a lease liability of \$ 16.5 million and two finance leases with a lease liability of \$ 0.9 million as of March 30, 2024. The terms and conditions of the leases are determined by the individual agreements. The leases do not contain residual value guarantees, restrictions, or covenants that could cause the Company to incur additional financial obligations. There are no related party lease transactions. There are no leases that have not yet commenced that could create significant rights and obligations for the Company.

The future payments (in millions) due under non-cancelable operating and finance leases as of March 30, 2024 are as follows:

|                                     | Operating      | Finance       |
|-------------------------------------|----------------|---------------|
| 2024                                | \$ 3.2         | \$ 0.1        |
| 2025                                | 3.2            | 0.2           |
| 2026                                | 2.5            | 0.2           |
| 2027 and thereafter                 | <u>10.2</u>    | <u>0.6</u>    |
|                                     | 19.1           | 1.1           |
| Less effects of discounting         | (2.6)          | (0.2)         |
| <b>Lease liabilities recognized</b> | <b>\$ 16.5</b> | <b>\$ 0.9</b> |

As of March 30, 2024, the weighted average lease term for all operating and finance leases is 7.0 and 5.8 years, respectively. The weighted average discount rate associated with operating and finance leases was 6.3% and 6.4%, respectively.

#### **Note G - Debt**

On June 16, 2023, the Company entered into a credit agreement with TD Bank, N.A., Wells Fargo Bank, Bank of America, and M&T Bank as lenders (the "Credit Agreement"), that included a \$60 million term portion and a \$ 30 million revolving commitment portion. The proceeds of the term loan were used to repay the Company's remaining outstanding term loan and to terminate its existing credit facility with Santander Bank, N.A. (approximately \$59 million). The term loan portion of the credit facility requires quarterly principal payments of (i) \$750,000 beginning on September 30, 2023 through June 30, 2025, (ii) \$1,125,000 beginning on September 30, 2025 through June 30, 2027, and (iii) \$ 1,500,000 beginning on September 30, 2027 through March 31, 2028, with the balance of the term loan payable on the maturity date of June 16, 2028. Amounts outstanding under the revolving portion of the credit facility are generally due and payable on the expiration date of the Credit Agreement (June 16, 2028). The Company can elect to prepay some or all the outstanding balance from time to time without penalty. A commitment fee is payable on the unused portion of the revolving credit facility based on the Company's consolidated ratio of net debt to adjusted EBITDA from time to time. Currently, the commitment fee is 0.30%. The Company has no borrowings outstanding under the revolving commitment portion of the credit facility as of March 30, 2024.

The term loan bears interest at a variable rate based on the term secured overnight financing rate ("SOFR"), plus an adjustment of ten basis points, plus an applicable margin of 1.875% to 2.625%, depending on the Company's senior net leverage ratio. Borrowings under the revolving portion bear interest at a variable rate based on, at the Company's election, a base rate plus an applicable margin of 0.875% to 1.625% or term SOFR, plus an adjustment of ten basis points, plus an applicable margin of 1.875% to 2.625%, with such margins determined based on the Company's senior net leverage ratio. The Company's obligations under the Credit Agreement are secured by a lien on certain of the Company's and its subsidiaries' assets pursuant to a Pledge and Security Agreement, dated as of June 16, 2023, with TD Bank N.A., as administrative agent.

The Company's loan covenants under the Credit Agreement require the Company to maintain a senior net leverage ratio not to exceed 3.5 to 1. In addition, the Company is required to maintain a fixed charge coverage ratio to be not less than 1.25 to 1. The Company was in compliance with all its covenants under the Credit Agreement on March 30, 2024, and through the date of filing this Form 10-Q.

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**Note H - Stock Options and Awards**

On February 19, 2020, the Board of Directors of the Company (the "Board") adopted the Eastern Company 2020 Stock Incentive Plan (the "2020 Plan"), which replaced The Eastern Company 2010 Executive Stock Incentive Plan after its expiration in February 2020. On April 29, 2020, at the Company's 2020 Annual Meeting of Shareholders, the shareholders of the Company approved and adopted the 2020 Plan. The Company has no other existing plan pursuant to which equity awards may be granted.

Incentive stock options granted under the 2020 Plan must have exercise prices that are not less than 100% of the fair market value of the Company's common stock on the dates the stock options are granted. Restricted stock awards may also be granted to participants under the 2020 Plan with restrictions determined by the Compensation Committee of the Board. Under the 2020 Plan, non-qualified stock options granted to participants will have exercise prices determined by the Compensation Committee of the Board. The Company did not grant any stock awards during the first three months of fiscal 2024 and fiscal 2023. For the first three months of fiscal years 2024 and 2023, the Company used fair market value to determine the associated expense with stock awards.

The 2020 Plan also permits the issuance of Stock Appreciation Rights ("SARs"). The SARs are in the form of an option with a cashless exercise price equal to the difference between the fair value of the Company's common stock at the date of grant and the fair value as of the exercise date resulting in the issuance of the Company's common stock. The Company did not issue any SARs during the first three months of fiscal 2024 and 2023.

Stock-based compensation expense (income), including forfeitures, in connection with SARs and stock awards previously granted to employees was approximately \$434,000 and \$(184,000) in the first quarter of 2024 and the first quarter of 2023, respectively.

As of March 30, 2024, there were 879,924 shares of Company common stock reserved and available for future grant under the 2020 Plan.

The following tables set forth the outstanding SARs for the period specified:

|   | Three Months Ended<br>March 30, 2024 |  |              | Year Ended<br>December 30, 2023 |  |              |
|---|--------------------------------------|--|--------------|---------------------------------|--|--------------|
|   | Units                                | Weighted<br>Average<br>Exercise<br>Price |              | Units                           | Weighted<br>Average<br>Exercise<br>Price |              |
|   |                                      | Units                                    | \$           |                                 | Units                                    | \$           |
| <b>Outstanding at beginning of period</b> | 13,000                               | \$                                       | 24.19        | 146,166                         | \$                                       | 23.22        |
| Expired                                   | (9,000)                              |  | 26.30        | (50,833)                        |  | 24.24        |
| Exercised                                 | -                                    |  | -            | (33,333)                        |  | 21.10        |
| Forfeited                                 | -                                    |  | -            | (49,000)                        |  | 22.80        |
| <b>Outstanding at end of period</b>       | <b>4,000</b>                         | <b>\$</b>                                | <b>20.20</b> | <b>13,000</b>                   | <b>\$</b>                                | <b>24.19</b> |

**SARs Outstanding and Exercisable**

| Range of Exercise Prices | Outstanding as of March 30, 2024 | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Exercisable as of March 30, 2024 | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price |
|--------------------------|----------------------------------|---|---------------------------------|----------------------------------|---|---------------------------------|
| \$ 20.20                 | 4,000                            | 1.1   | \$ 20.20                        | 4,000                            | 1.1   | \$ 20.20                        |

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The following tables set forth the outstanding stock awards for the period specified:

|   | Three Months Ended | Year Ended December |
|---|--------------------|---------------------|
|   | March 30, 2024     | 30, 2023            |
|   | Shares             | Shares              |
| <b>Outstanding at beginning of period</b> | <b>89,400</b>      | <b>64,500</b>       |
| <b>Issued</b>                             | <b>-</b>           | <b>82,800</b>       |
| <b>Exercised</b>                          | <b>(23,734)</b>    | <b>(10,600)</b>     |
| <b>Forfeited</b>                          | <b>(1,433)</b>     | <b>(47,300)</b>     |
| <b>Outstanding at end of period</b>       | <b>64,233</b>      | <b>89,400</b>       |

As of March 30, 2024, outstanding SARs and stock awards had an intrinsic value of \$ 2,245,274.

#### Note I – Share Repurchase Program

On August 21, 2023, the Company announced that the Board of Directors of the Company had approved a new share repurchase program authorizing the Company to repurchase up to 200,000 shares of the Company's common stock through August 20, 2028. The Company's share repurchase program does not obligate it to acquire the Company's common stock at any specific cost per share. Under this program, shares may be repurchased in privately negotiated and/or open market transactions, including under plans complying with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended.

Below is a summary of the Company's shares repurchased during the first quarter of 2024 under the new share repurchase program.

| Period                                    | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that may yet be Purchased Under the Plans or Programs |
|---|----------------------------------|------------------------------|--|--|
| Balance as of December 30, 2023           | 40,000                           | \$ 18.39                     | 40,000   | 160,000  |
| <b>December 31, 2024 – March 30, 2024</b> | <b>10,076</b>                    | <b>23.30</b>                 | <b>10,076</b>  | <b>149,924</b>   |
| <b>Balance as of March 30, 2024</b>       | <b>50,076</b>                    | <b>\$ 19.38</b>              | <b>50,076</b>  | <b>149,924</b>   |

#### Note J – Revenue Recognition

The Company's revenues result from the sale of goods and services and reflect the consideration to which the Company expects to be entitled. The Company records revenues in accordance with FASB Accounting Standards Codification ("ASC") Topic 606, "Revenue from Contracts with Customers." The Company has defined purchase orders as contracts in accordance with ASC Topic 606. For its customer contracts, the Company identifies its performance obligations, which are delivering goods or services, determines the transaction price, allocates the contract transaction price to the performance obligations (when applicable), and recognizes the revenue when (or as) the performance obligation is transferred to the customer. A good or service is transferred when the customer obtains control of that good or service. The Company's revenues are recorded at a point in time from the sale of tangible products. Revenues are recognized when products are shipped.

Customer volume rebates, product returns, discount and allowance are variable considerations and are recorded as a reduction of revenue in the same period that the related sales are recorded. The Company has reviewed the overall sales transactions for variable consideration and has determined that these costs are not material.

The Company has no future performance obligations and does not capitalize costs to obtain or fulfill contracts.

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**Note K - Income Taxes**

The Company files income tax returns in the U.S. federal jurisdiction, and in various states and foreign jurisdictions. With limited exceptions, the Company is no longer subject to U.S. federal, state, and local income tax examinations by tax authorities for years before 2019 and is no longer subject to non-U.S. income tax examinations by foreign tax authorities for years prior to 2017.

The total amount of unrecognized tax benefits could increase or decrease within the next 12 months for several reasons, including the closure of federal, state, and foreign tax years by expiration of the statute of limitations and the recognition and measurement considerations under FASB ASC Topic 740, "Income Taxes." There have been no significant changes to the value of unrecognized tax benefits during the three months ended March 30, 2024. The Company believes that it is reasonably possible that the total amount of unrecognized tax benefits will not increase or decrease significantly over the next twelve months.

**Note L - Retirement Benefit Plans**

The Company has four non-contributory defined benefit pension plans covering most U.S. employees. All of these pension plans are frozen and participants in these plans have not accrued benefits since the date on which these plans were frozen. Plan benefits are generally based upon age at retirement, years of service and, for the plan covering salaried employees, the level of compensation. The Company also sponsors unfunded non-qualified supplemental retirement plans that provide certain former officers with benefits in excess of limits imposed by federal tax law.

The Company also provides health care and life insurance for retired salaried employees in the United States who meet specific eligibility requirements.

Significant disclosures relating to these benefit plans for the first quarter of fiscal years 2024 and 2023 are as follows:

|                                | <b>Pension Benefits</b>   |                      |
|--------------------------------|---------------------------|----------------------|
|                                | <b>Three Months Ended</b> |                      |
|                                | <b>March 30,<br/>2024</b> | <b>April 1, 2023</b> |
| Service cost                   | \$ 178,003                | \$ 216,153           |
| Interest cost                  | 966,702                   | 990,054              |
| Expected return on plan assets | (1,099,035)               | (1,049,016)          |
| Amortization of the net loss   | 327,365                   | 342,865              |
| Net periodic benefit cost      | \$ 373,035                | \$ 500,056           |

|                                    | <b>Other Postretirement<br/>Benefits</b> |                      |
|------------------------------------|--|----------------------|
|                                    | <b>Three Months Ended</b>                |                      |
|                                    | <b>March 30,<br/>2024</b>                | <b>April 1, 2023</b> |
| Service cost                       | \$ 3,574                                 | \$ 6,486             |
| Interest cost                      | 12,951                                   | 14,533               |
| Expected return on plan assets     | (4,684)                                  | (4,849)              |
| Amortization of prior service cost | 1,060                                    | 1,060                |
| Amortization of the net loss       | (19,567)                                 | (16,895)             |
| Net periodic benefit (gain) cost   | \$ (6,666)                               | \$ 335               |

The Company's funding policy with respect to its qualified plans is to contribute at least the minimum amount required by applicable laws and regulations.

In fiscal year 2024, the Company expects to make cash contributions to its qualified pension plans of approximately \$2,100,000 and approximately \$50,000 into its other postretirement plan. As of March 30, 2024, the Company has contributed \$ 450,000 to its pension plans and \$ 7,000 to its postretirement plan and expects to make the remaining contributions as required during the remainder of the fiscal year.

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The Company has a contributory savings plan under Section 401(k) of the Internal Revenue Code (the "401(k) Plan") covering substantially all U.S. non-union employees. The 401(k) Plan allows participants to make voluntary contributions from their annual compensation on a pre-tax basis, subject to limitations under the Internal Revenue Code. The 401(k) Plan provides for contributions by the Company at its discretion.

The Company made contributions to the 401(k) Plan as follows:

|                                    | <b>Three Months Ended</b> |                      |
|------------------------------------|---------------------------|----------------------|
|                                    | <b>March 30,<br/>2024</b> | <b>April 1, 2023</b> |
| Regular matching contribution      | \$ 285,563                | \$ 252,761           |
| Transitional credit contribution   | 28,906                    | 34,320               |
| Non-discretionary contribution     | 110,890                   | 431,950              |
| Total contributions for the period | <b>\$ 425,359</b>         | <b>\$ 719,031</b>    |

The non-discretionary contribution of \$328,953 made in the three months ended April 1, 2023, was accrued for, and expensed in the prior fiscal year.

Effective January 1, 2023, the non-discretionary contributions are being contributed on a weekly basis.

#### Note M - Recent Accounting Pronouncements

In November 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures, which amends the reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. This standard is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. We do not expect this new standard to have a significant impact on our disclosures.

In December 2023, the FASB issued ASU No. 2023-09, Income Taxes (Topic 740), which modifies the rules on income tax disclosures to require entities to disclose (1) specific categories in the rate reconciliation, (2) the income or loss from continuing operations before income tax expense or benefit disaggregated between domestic and foreign and (3) income tax expense or benefit from continuing operations disaggregated by federal, state, and foreign. The update also requires entities to disclose their income tax payments to various jurisdictions. This standard is effective for fiscal years beginning after December 15, 2024. We do not expect this new standard to have a significant impact on our disclosures.

The Company has implemented all new accounting pronouncements that are in effect and that could impact its consolidated financial statements and does not believe that there are any other new accounting pronouncements that have been issued, but are not yet effective, that might have a material impact on the consolidated financial statements of the Company.

#### Note N - Concentration of Risk

##### **Credit Risk**

Credit risk is the potential financial loss resulting from the failure of a customer or counterparty to settle its financial and contractual obligations to the Company, as and when they become due. The primary credit risk for the Company is its accounts receivable due from customers. The Company has established credit limits for customers and monitors their balances to mitigate the risk of loss. As of March 30, 2024, there was one significant concentration of credit risk with a customer, who had receivables representing 12% of our net accounts receivable. One single customer represented 12% of the Company's net accounts receivable as of December 30, 2023. The maximum exposure to credit risk is primarily represented by the carrying amount of the Company's accounts receivable.

The Company has deposits that exceed amounts up to \$ 250,000 that are insured by the Federal Deposit Insurance Corporation (FDIC), but the Company does not consider this a significant concentration of credit risk based on the strength of the financial institution.

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**Interest Rate Risk**

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's debt, which bears interest at variable rates based on term SOFR, plus an adjustment of ten basis points, plus an applicable margin of 1.875% to 2.625%, depending on the Company's senior net leverage ratio.

**Currency Exchange Rate Risk**

The Company's currency exposure is concentrated in the Canadian dollar, Mexican peso, New Taiwan dollar, Chinese RMB, and Hong Kong dollar. Because of the Company's limited exposure to any single foreign market, any exchange gains or losses have not been material and are not expected to be material in the future. As a result, the Company does not attempt to mitigate its foreign currency exposure through the acquisition of any speculative or leveraged financial instruments.

**Note O – Business Acquisition**

On June 29, 2023, the Company acquired certain assets, including accounts receivable, inventories, furniture, fixtures and equipment, intellectual property rights, and rights existing under all sales and purchase agreements, and assumed certain liabilities of Sureflex, Inc. ("Sureflex"). These assets are held in our Velvac, Inc. ("Velvac") subsidiary. We expect that Sureflex, which manufactures tractor-trailer electrical connection cable assemblies, will enable the Company to manufacture electrical products and become more competitive with respect to cost and quality.

The acquisition of Sureflex was accounted for under Business Combinations (ASC Topic 805). The acquired business is included in the consolidated operating results of the Company from the effective date of the acquisition. The excess of the cost of Sureflex over the fair market value of the net assets acquired of \$0.5 million has been recorded as goodwill.

Neither the actual results nor the pro forma effects of the Sureflex acquisition are material to the Company's financial statements.

The following discussion is intended to highlight significant changes in the financial position and results of operations of The Eastern Company (together with its consolidated subsidiaries, the "Company," "we," "us" or "our") for the three months ended March 30, 2024. This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Consolidated Financial Statements and Notes thereto for the fiscal year ended December 30, 2023 and the related Management's Discussion and Analysis of Financial Condition and Results of Operations, both of which are contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2023, which was filed with the Securities and Exchange Commission (the "SEC") on March 12, 2024 (the "2023 Form 10-K").

The Company's fiscal year is a 52-53-week fiscal year ending on the Saturday nearest to December 31. References to 2023, the 2023 fiscal year or fiscal 2023 mean the 52-week period ended on December 30, 2023, and references to 2024, the 2024 fiscal year or fiscal 2024 mean the 52-week period ending on December 28, 2024. In a 52-week fiscal year, each quarter has 13 weeks. References to the first quarter of 2023, the first fiscal quarter of 2023, the first quarter of fiscal 2023 or the three months ended April 1, 2023, mean the period from January 1, 2023 to April 1, 2023. References to the first quarter of 2024, the first fiscal quarter of 2024, the first quarter of fiscal 2024, or the three months ended March 30, 2024 mean the 13-week period from December 31, 2023 to March 30, 2024.

#### **Safe Harbor for Forward-Looking Statements**

Statements contained in this Quarterly Report on Form 10-Q of the Company that are not based on historical facts are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be identified by the use of forward-looking terminology such as "would," "should," "could," "may," "will," "expect," "believe," "estimate," "anticipate," "intend," "continue," "plan," "potential," "opportunities," or similar terms or variations of those terms or the negative of those terms. There are many factors that affect the Company's business and the results of its operations and that may cause the actual results of operations in future periods to differ materially from those currently expected or anticipated. These factors include:

- the impact of higher raw material and component costs and cost inflation, supply chain disruptions and shortages, particularly with respect to steel, plastics, scrap iron, zinc, copper, and electronic components;
- delays in delivery of our products to our customers;
- the impact of global economic conditions and rising interest rates, and more specifically conditions in the automotive, construction, aerospace, energy, oil and gas, transportation, electronic, and general industrial markets, including the impact, length and degree of economic downturns on the customers and markets we serve and demand for our products, reductions in production levels, the availability, terms and cost of financing, including borrowings under credit arrangements or agreements, the potential impact of bank failures on our ability to access financing or capital markets, and the impact of market conditions on pension plan funded status;
- restrictions on operating flexibility imposed by the agreement governing our credit facility;
- risks associated with doing business overseas, including fluctuations in exchange rates and the inability to repatriate foreign cash, the impact on cost structure and on economic conditions as a result of actual and threatened increases in trade tariffs and the impact of political, economic, and social instability;
- the inability to achieve the savings expected from global sourcing of materials;
- lower-cost competition;
- our ability to design, introduce and sell new or updated products and related components;
- market acceptance of our products;
- the inability to attain expected benefits from acquisitions or the inability to effectively integrate acquired businesses and achieve expected synergies;
- costs and liabilities associated with environmental compliance;
- the impact of climate change, natural disasters, geopolitical events, and public health crises, including pandemics (such as COVID-19) and epidemics, and any related Company or government policies or actions;
- military conflict (including the Russia/Ukraine conflict, the conflict in Israel and surrounding areas, the possible expansion of such conflicts and geopolitical consequences) or terrorist threats and the possible responses by the U.S. and foreign governments;
- failure to protect our intellectual property;
- cyberattacks; and
- materially adverse or unanticipated legal judgments, fines, penalties, or settlements.

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The Company is also subject to other risks identified and discussed in this Management's Discussion and Analysis of Financial Condition and Results of Operations, in Item 1A, *Risk Factors*, and in Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, of the 2023 Form 10-K, and that may be identified from time to time in our quarterly reports on Form 10-Q, current reports on Form 8-K and other filings we make with the SEC.

Although the Company believes it has an appropriate business strategy and the resources necessary for its operations, future revenue and margin trends cannot be reliably predicted, and the Company may alter its business strategies to address changing conditions. Also, the Company makes estimates and assumptions that may materially affect reported amounts and disclosures. These relate to valuation allowances for accounts receivable and excess and obsolete inventories, accruals for pensions and other postretirement benefits (including forecasted future cost increases and returns on plan assets), provisions for depreciation (estimating useful lives), uncertain tax positions, and, on occasion, accruals for contingent losses. The Company undertakes no obligation to update, alter, or otherwise revise any forward-looking statements, whether written or oral, that may be made from time to time, whether as a result of new information, future events, or otherwise, except as required by law.

#### **General Overview**

**Net sales** in the first quarter of 2024 decreased 6% to \$67.9 million from \$72.5 million in the corresponding period in 2023. Sales declined in the first quarter of 2024 primarily due to lower demand for truck accessories and returnable transport packaging products, partially offset by increased demand for truck mirror assemblies. Our backlog as of March 30, 2024 increased 35% to \$97.4 million from \$72.0 million as of April 1, 2023, driven by increased orders for various truck mirror assemblies.

Net sales of existing products declined 11% in the first quarter of 2024 compared to the corresponding period in 2023. Price increases and new products increased net sales by 5% in the first quarter of 2024 compared to the corresponding period in 2023. New products included various truck mirror assemblies, rotary latches, D-rings, and mirror cams.

**Cost of products sold** decreased \$5.3 million, or 9%, in the first quarter of 2024 compared to the corresponding period in 2023. The decreases in the first quarter of 2024 are primarily due to lower sales volumes. Additionally, the Company paid tariff costs on China-sourced products of approximately \$0.7 million in the first quarter of 2024 compared to \$0.6 million in the first quarter of fiscal 2023. Most tariffs on China-sourced products have been recovered through price increases.

**Gross margin** as a percentage of sales was 24% in the first quarter of 2024 compared to 21% in the first quarter of fiscal 2023. Our gross margins in the first quarter of 2024 primarily reflect the impact of price increases to customers to recover increases in raw material costs and other cost savings initiatives.

**Product development expenses** were flat in the first quarter of 2024 compared to the corresponding period in 2023 as we continue to invest in new products at Eberhard, Velvac and Big 3. As a percentage of net sales, product development costs were 2.0% for the first quarter of 2024 compared to 1.9% for the corresponding period in 2023.

**Selling, general and administrative expenses** decreased \$0.4 million, or 4%, in the first quarter of 2024 when compared to the first quarter of 2023 primarily due to lower legal, professional, and selling costs and payroll-related expenses. In the first quarter of 2023, selling, general and administrative expenses included severance and other accrued compensation expenses of \$1.8 million related to the elimination of the chief operating officer position and the departure of our previous chief executive officer.

**Interest expense** increased \$0.1 million in the first quarter of 2024 compared to the corresponding period in 2023 due to higher interest rates.

**Other income and expense** of \$0.0 million increased \$0.6 million in the first quarter of 2024 when compared to the corresponding period in 2023. The increase in other income of \$0.6 million in the first quarter of 2024 was primarily driven by an unfavorable final working capital adjustment of \$0.4 million related to the sale of the Greenwald business in the first quarter of 2023.

**Net income** for the first quarter of fiscal 2024 was \$1.9 million, or \$0.31 per diluted share compared to net income of \$0.6 million, or \$0.10 per diluted share, for the comparable period in 2023.

A more detailed analysis of the Company's results of operations and financial condition follows.

## Results of Operations

The following table shows, for the periods indicated, selected line items from the condensed consolidated statements of operations as a percentage of net sales:

|                                    | <b>Three Months Ended</b> |                      |
|------------------------------------|---------------------------|----------------------|
|                                    | <b>March 30,<br/>2024</b> | <b>April 1, 2023</b> |
| Net sales                          | 100.0%                    | 100.0%               |
| Cost of products sold              | 76.2%                     | 78.6%                |
| Gross margin                       | 23.8%                     | 21.4%                |
| Product development expense        | 2.0%                      | 1.9%                 |
| Selling and administrative expense | 16.9%                     | 16.5%                |
| Operating Profit                   | 4.9%                      | 3.0%                 |

The following table shows the change in sales and operating profit for the first quarter of 2024 compared to the first quarter of 2023 (dollars in thousands):

|                         | <b>Three<br/>Months<br/>Ended<br/>March 30,<br/>2024</b> |
|-------------------------|--|
| <b>Net Sales</b>        | \$ (4,566)   |
| Volume                  | -11.0%   |
| Price                   | 2.0%   |
| New products            | 2.7%   |
|                         | -6.3%  |
| <b>Operating Profit</b> | \$ 1,178   |

## Liquidity and Sources of Capital

The Company generated \$3.6 million of cash from operations during the first three months of fiscal 2024 compared to generating \$6.9 million during the first three months of fiscal 2023. Cash flow from operations in the first three months of 2024 was lower when compared to the corresponding period in 2023 primarily due to increases in accounts receivable and lower reductions in inventory, partially offset by increases in accounts payable.

Additions to property, plant, and equipment were \$1.8 million and \$1.2 million for the first three months of 2024 and 2023, respectively. As of March 30, 2024, there was approximately \$3.0 million of outstanding commitments for capital expenditures.

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The following table shows key financial ratios at the end of each specified period:

|  | <b>First<br/>Quarter<br/>2024</b> | <b>First<br/>Quarter<br/>2023</b> | <b>Fiscal<br/>Year<br/>2023</b> |
|--|-----------------------------------|-----------------------------------|---------------------------------|
| Current ratio                              | 2.6                               | 2.7                               | 2.6                             |
| Average days' sales in accounts receivable | 58                                | 57                                | 48                              |
| Inventory turnover                         | 3.5                               | 4.0                               | 3.5                             |
| Total debt to shareholders' equity         | 32.1%                             | 46.6%                             | 33.2%                           |

The following table shows important liquidity measures as of the balance sheet date for each specified period or for the period, as applicable (in millions):

|   | <b>First<br/>Quarter<br/>2024</b> | <b>First<br/>Quarter<br/>2023</b> | <b>Fiscal<br/>Year<br/>2023</b> |
|---|-----------------------------------|-----------------------------------|---------------------------------|
| Cash and cash equivalents   |                                   |                                   |                                 |
| - Held in the United States   | \$ 6.0                            | \$ 9.7                            | \$ 7.0                          |
| - Held by a foreign subsidiary  | 1.4                               | 3.4                               | 1.3                             |
|   | 7.4                               | 13.1                              | 8.3                             |
| Working capital   | 71.3                              | 76.7                              | 69.5                            |
| Net cash provided by operating activities                                 | 3.6                               | 6.9                               | 26.5                            |
| Change in working capital impact on net cash used in operating activities | (1.2)                             | 3.6                               | 9.7                             |
| Net cash (used in) provided by investing activities                       | (2.8)                             | 1.1                               | (5.4)                           |
| Net cash used in financing activities                                     | (1.7)                             | (5.1)                             | (22.9)                          |

Inventories of \$55.8 million as of March 30, 2024 declined by \$3.4 million, or 5.8%, when compared to \$59.3 million at the end of fiscal year 2023 and declined \$1.8 million, or 3.1%, when compared to \$57.7 million at the end of the first quarter of fiscal 2023. Accounts receivable, less allowances, were \$42.9 million as of March 30, 2024, as compared to \$37.1 million at 2023 fiscal year end and \$44.5 million at the end of the first quarter of fiscal 2023.

On June 16, 2023, the Company entered into a credit agreement with TD Bank, N.A., Wells Fargo Bank, Bank of America, and M&T Bank as lenders (the "Credit Agreement"), and incurred indebtedness under the Credit Agreement in the aggregate principal amount of \$60 million in the form of a term loan, the proceeds of which were used to repay the Company's remaining outstanding term loan and to terminate its existing credit facility with Santander

Bank. See Note G for additional information regarding the terms of the Credit Agreement, including repayment terms, interest rates and applicable loan covenants. Under the terms of the Credit Agreement, the Company is subject to restrictive covenants that limit our ability to, among other things, incur additional indebtedness, pay dividends, or make other distributions, and consolidate, merge, sell or otherwise dispose of assets, as well as financial covenants that require us to maintain a fixed charge coverage ratio and a maximum senior net leverage ratio. These covenants may limit how we conduct our business, and in the event of certain defaults, our repayment obligations may be accelerated. We were in compliance with all our covenants as of March 30, 2024 and had no outstanding borrowings under the revolving commitment portion of the credit facility as of this date.

Cash, cash flow from operating activities and funds available under the revolving credit portion of the Credit Agreement are expected to be sufficient to cover future foreseeable working capital requirements in the short-term (i.e., the next 12 months from March 30, 2024) and separately in the long-term (i.e., beyond the next 12 months). However, the Company cannot provide any assurances of the availability of future financing or the terms on which it might be available. In addition, the interest rate on borrowings under the Credit Agreement varies based on our senior net leverage ratio, and the Credit Agreement requires us to maintain a senior net leverage ratio not to exceed 3.50 to 1 and a fixed charge coverage ratio to be not less than 1.25 to 1. A decrease in earnings due to the impact of current economic conditions and inflationary pressures or the resulting harm to the financial condition of our customers, or an increase in indebtedness incurred to offset such a decrease in earnings, would have a negative impact on our senior net leverage ratio and our fixed charge coverage ratio, which in turn would increase the cost of borrowing under the Credit Agreement and could cause us to fail to comply with the covenants under our Credit Agreement.

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In addition to funding capital requirements, we may use available cash to pay down our indebtedness, to make investments, which may include investments in publicly traded securities, or to make acquisitions that we believe will complement or expand our existing businesses.

As of the end of the first quarter of 2024, the Company does not have any off-balance sheet arrangements that have or are reasonably likely to have a material current or future effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

### **Critical Accounting Estimates**

The preparation of financial statements in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") requires

management to make judgments, estimates and assumptions regarding uncertainties that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. For a full description of our critical accounting estimates, refer to Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of the 2023 Form 10-K. While there have been no material changes to our critical accounting estimates, we continue to monitor the methodologies and assumptions underlying such critical accounting estimates.

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**Non-GAAP Financial Measures**

The non-GAAP financial measures we provide in this report should be viewed in addition to, and not as an alternative for, results prepared in accordance with U.S. GAAP.

To supplement the consolidated financial statements prepared in accordance with U.S. GAAP, we have presented Adjusted Net Income, Adjusted Earnings Per Share and Adjusted EBITDA, which are considered non-GAAP financial measures. The non-GAAP financial measures presented may differ from similarly titled non-GAAP financial measures presented by other companies, and other companies may not define these non-GAAP financial measures in the same way. These measures are not substitutes for their comparable U.S. GAAP financial measures, such as net sales, net income, diluted earnings per share, or other measures prescribed by U.S. GAAP, and there are limitations to using non-GAAP financial measures.

Adjusted Net Income is defined as net income excluding, when incurred, gains or losses that we do not believe reflect our ongoing operations, including, for example, the impacts of impairment losses, gains/losses on the sale of subsidiaries, property and facilities, transaction expenses primarily relating to acquisitions and divestitures, factory start-up costs, factory relocation expenses, executive severance, and restructuring costs. Adjusted Net Income is a tool that can assist management and investors in comparing our performance on a consistent basis across periods by removing the impact of certain items that management believes do not directly reflect our underlying operating performance.

Adjusted Earnings Per Share is defined as earnings per share excluding, when incurred, certain per share gains or losses that we do not believe reflect our ongoing operations, including, for example, the impacts of impairment losses, gains/losses on the sale of subsidiaries, property and facilities, transaction expenses primarily relating to acquisitions and divestitures, factory start-up costs, factory relocation expenses, executive severance, and restructuring costs. We believe that Adjusted Earnings Per Share provides important comparability of underlying operational results, allowing investors and management to access operating performance on a consistent basis from period to period.

Adjusted EBITDA is defined as net income before interest expense, provision for income taxes, and depreciation and amortization and excluding, when incurred, the impacts of certain losses or gains that we do not believe reflect our ongoing operations, including, for example, impairment losses, gains/losses on sale of subsidiaries, property and facilities, transaction expenses primarily relating to acquisitions and divestitures, factory start-up costs, factory relocation expenses, executive severance, and restructuring expenses. Adjusted EBITDA is a tool that can assist management and investors in comparing our performance on a consistent basis by removing the impact of certain items that management believes do not directly reflect our underlying operations.

Management uses such measures to evaluate performance period over period, to analyze the underlying trends in our business, to assess our performance relative to our competitors, and to establish operational goals and forecasts that are used in allocating resources. These financial measures should not be considered in isolation from, or as a replacement for, U.S. GAAP financial measures.

We believe that presenting non-GAAP financial measures in addition to U.S. GAAP financial measures provides investors greater transparency to the information used by our management for its financial and operational decision-making. We further believe that providing this information better enables our investors to understand our operating performance and to evaluate the methodology used by management to evaluate and measure such performance.

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**Reconciliation of Non-GAAP Measures**

**Adjusted Net Income and Adjusted Earnings per Share Calculation**

**For the Three Months ended March 30, 2024 and April 1, 2023**

(\$000's)

|   | <b>Three Months Ended</b> |                      |
|---|---------------------------|----------------------|
|   | <b>March 30,<br/>2024</b> | <b>April 1, 2023</b> |
| Net income as reported per generally accepted accounting principles (GAAP)            | \$ 1,948                  | \$ 607               |
| Earnings per share as reported under generally accepted accounting principles (GAAP): |                           |                      |
| Basic   | \$ 0.31                   | \$ 0.10              |
| Diluted   | \$ 0.31                   | \$ 0.10              |
| Adjustments:  |                           |                      |
| Severance and accrued compensation  | -                         | 1,799a               |
| Greenwald final sale adjustment   | -                         | 390b                 |
| Non-GAAP tax impact of adjustments (1)  | -                         | (547)                |
| Total adjustments (non-GAAP)  | \$ -                      | \$ 1,642             |
| Adjusted net income   | <u>\$ 1,948</u>           | <u>\$ 2,249</u>      |
| Adjusted earnings per share (non-GAAP):   |                           |                      |
| Basic   | \$ 0.31                   | \$ 0.36              |
| Diluted   | \$ 0.31                   | \$ 0.36              |

(1) We estimate the tax effect of the items identified to determine a non-GAAP annual effective tax rate applied to the pre-tax amount in order to calculate the non-GAAP provision for income taxes

a) Severance expenses associated with accrued compensation and severance related to the elimination of the Chief Operating Officer position and the departure of the Chief Executive Officer

b) Final settlement of working capital adjustment associated with Greenwald sale

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**Reconciliation of Non-GAAP Measures**

**Adjusted EBITDA Calculation**

**For the Three Months ended March 30, 2024 and April 1, 2023**

(\$000's)

|  | <b>Three Months Ended</b> |                      |
|--|---------------------------|----------------------|
|  | <b>March 30,<br/>2024</b> | <b>April 1, 2023</b> |
| Net income as reported per generally accepted accounting principles (GAAP) | \$ 1,948                  | \$ 607               |
| Interest expense   | 845                       | 726                  |
| Provision for income taxes   | 555                       | 195                  |
| Depreciation and amortization  | 1,876                     | 1,815                |
| Severance and accrued compensation   | -                         | 1,799a               |
| Greenwald final sale adjustment  | -                         | 390b                 |
| Adjusted EBITDA  | <b>\$ 5,224</b>           | <b>\$ 5,532</b>      |

a) Severance expenses associated with accrued compensation and severance related to the elimination of the Chief Operating Officer position and the departure of the Chief Executive Officer

b) Final settlement of working capital adjustment associated with Greenwald sale

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**ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

As a result of the Company's status as a smaller reporting company pursuant to Rule 12b-2 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Company is not required to provide information under this Item 3.

**ITEM 4 – CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures:**

As of March 30, 2024, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Chief Executive Officer (the "CEO") and the Chief Financial Officer (the "CFO"), of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) pursuant to Exchange Act Rule 13a-15. As defined in Exchange Act Rules 13a-15(e) and 15d-15(e), "the term disclosure controls and procedures means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act (15 U.S.C. 78a et seq.) is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure."

The Company believes that a controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. The Company's disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives, and the CEO and CFO have concluded that these controls and procedures are effective at the "reasonable assurance" level as of March 30, 2024.

## **Changes in Internal Control Over Financial Reporting :**

During the period covered by this Quarterly Report on Form 10-Q, there were no changes in the Company's internal control over financial reporting that have materially affected or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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### **PART II – OTHER INFORMATION**

#### **ITEM 1 – LEGAL PROCEEDINGS**

The Company is a party to various legal proceedings from time to time related to its normal business operations. As of the end of the quarter ended March 30, 2024, the Company does not have any material pending legal proceedings, other than as set forth in Part I, Item 3, *Legal Proceedings*, of the 2023 Form 10-K, or any material legal proceedings known to be contemplated by governmental authorities.

#### **ITEM 1A – RISK FACTORS**

The Company's business is subject to several risks, some of which are beyond its control. In addition to the other information set forth in this Quarterly Report on Form 10-Q, the Company's shareholders should carefully consider the risk factors discussed in Part I, Item 1A, *Risk Factors* of the 2023 Form 10-K. These risk factors could have a material adverse effect on the Company's business, results of operations, financial condition and/or liquidity and could cause our operating results to vary significantly from period to period. As of March 30, 2024, there have been no material changes to the risk factors disclosed in the 2023 Form 10-K. The Company may disclose changes to such risk factors or disclose additional risk factors from time to time in its future filings with the SEC. Additional risks and uncertainties not currently known to the Company or that it currently deems to be immaterial also may materially adversely affect its business, financial condition, or operating results.

#### **ITEM 2 – UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

On May 2, 2023, the Company's existing share purchase program expired, under which the Company repurchased a total of 139,716 shares of Company common stock. On August 21, 2023, the Company announced that the Board of Directors of the Company had approved a new share repurchase program authorizing the Company to repurchase up to 200,000 shares of the Company's common stock through August 20, 2028. The Company's new share repurchase program does not obligate it to acquire the Company's common stock at any specific cost per share. Under this program, shares may be repurchased in privately negotiated and/or open market transactions, including under plans complying with Rule 10b5-1 under the Exchange Act. Below is a summary of the Company's share repurchases during the first quarter of 2024 under the new share repurchase program.

| Period                               | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that may yet be Purchased Under the Plans or Programs |
|--------------------------------------|----------------------------------|------------------------------|--|--|
| December 31, 2023 - February 3, 2024 | 7,174                            | \$ 22.99                     | 7,174  | 152,826  |
| February 4, 2024 - March 2, 2024     | 2,072                            | 24.10                        | 2,072  | 150,754  |
| March 3, 2024 - March 30, 2024       | 830                              | 24.01                        | 830  | 149,924  |
| <b>Total</b>                         | <b>10,076</b>                    | <b>\$ 23.30</b>              | <b>10,076</b>  | <b>149,924</b>   |

#### **ITEM 3 – DEFAULTS UPON SENIOR SECURITIES**

None.

#### **ITEM 4 – MINE SAFETY DISCLOSURES**

Not applicable.

#### **ITEM 5 – OTHER INFORMATION**

(a) None.

(b) None.

(c) During the fourth quarter of 2023, no director or officer of the Company adopted or terminated a "Rule 10b5-1trading arrangement" or "non-Rule 10b5-1trading arrangement," as each term is defined in Item 408(a) of Regulation S-K.

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**ITEM 6 – EXHIBITS**

|      |  |
|------|--|
| 3.1) | <a href="#">Restated Certificate of Incorporation of the Company, as amended (conformed copy) (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q filed on May 6, 2020).</a>  |
| 3.2) | <a href="#">Amended and Restated By-Laws of the Company, as amended through March 11, 2022 (incorporated by reference to Exhibit 3(ii) to the Company's Current Report on Form 8-K filed on March 11, 2022).</a>   |
| 31)  | <a href="#">Certifications required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*</a>   |
| 32)  | <a href="#">Certifications pursuant to Rule 13a-14(b) and 18 USC 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**</a>  |
| 101) | The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended March 30, 2024, formatted in Inline XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Statements of Income (Unaudited) for the three months ended March 30, 2024 and April 1, 2023; (ii) Condensed Consolidated Statements of Comprehensive Income (Unaudited) for the three months ended March 30, 2024, and April 1, 2023; (iii) Condensed Consolidated Balance Sheets (Unaudited) as of March 30, 2024 and December 30, 2023; (iv) Condensed Consolidated Statements of Cash Flows (Unaudited) for the three months ended March 30, 2024 and April 1, 2023; and (iv) Notes to the Condensed Consolidated Financial Statements (Unaudited).** |
| 104) | Cover Page Interactive Data File (formatted as Inline XBRL and included in Exhibit 101). **  |

\* Filed herewith.

\*\* Furnished herewith



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

**THE EASTERN COMPANY**  
(Registrant)

DATE: May 6, 2024

/s/Mark Hernandez

Mark Hernandez  
President and Chief Executive Officer

DATE: May 6, 2024

/s/Nicholas Vlahos

Nicholas Vlahos  
Vice President and Chief Financial Officer

**CERTIFICATIONS**

I, Mark Hernandez, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of The Eastern Company.
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, which involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 6, 2024

/s/Mark Hernandez  
Mark Hernandez  
CEO

**CERTIFICATIONS**

I, Nicholas Vlahos, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of The Eastern Company.
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b) any fraud, whether or not material, which involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 6, 2024

/s/Nicholas Vlahos  
Nicholas Vlahos  
CFO

**CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND  
CHIEF FINANCIAL OFFICER  
Pursuant to 18 United States Code Section 1350,  
as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, Mark Hernandez, the Chief Executive Officer of The Eastern Company (the "Company") and Nicholas Vlahos, the Chief Financial Officer of the Company, hereby certify that, to the best of their knowledge:

- 1) The Company's Quarterly Report on Form 10-Q for the Period ended March 30, 2024, and to which this certification is attached as Exhibit 32 (the "Periodic Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and
- 2) The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

In Witness Whereof, the undersigned have set their hands hereto as of the 6<sup>th</sup> day of May 2024.

By: /s/Mark Hernandez  
Mark Hernandez  
CEO

By: /s/Nicholas Vlahos  
Nicholas Vlahos  
CFO

A signed original of this written statement required by Section 906 has been provided to The Eastern Company and will be retained by The Eastern Company and furnished to the Securities and Exchange Commission or its staff upon request.

This certification "accompanies" the Form 10-Q to which it relates, is not deemed filed with the SEC and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q, irrespective of any general incorporation language contained in such filing).